

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

**Basic Financial Statements**  
**For the Year Ended December 31, 2005**





**Auditor of State  
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the City of Lima, Allen County, prepared by Rea & Associates, Inc., for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY  
Auditor of State

August 16, 2006

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**City of Lima, Ohio**  
**General Purpose Financial Statements**  
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*We're Ready For Your Future*

June 5, 2006

Mayor and Members of Council  
City of Lima  
Lima, Ohio

**Independent Auditor's Opinion**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lima, Ohio (the City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lima, Ohio, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General and CDBG funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2006 on our consideration of the City of Lima's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 11 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Rea & Associates, Inc.*

**CITY OF LIMA – ALLEN COUNTY**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*  
*(Unaudited)*

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The discussion and analysis of the City of Lima's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

***Financial Highlights***

Key financial highlights for 2005 are as follows:

- ❑ General Revenues accounted for \$22.5 million in revenue or 43% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$30.1 million or 57% of total revenues of \$52.6 million.
- ❑ Total program expenses were \$49.9 million, \$30.2 million in governmental activities and \$19.7 million in business-type activities.
- ❑ In total, net assets increased \$2,594,587. Net assets of governmental activities increased \$2,212,809, which represents a 7 % increase from 2004. Net assets of business-type activities increased \$381,778 or 0.8% from 2004.
- ❑ Outstanding debt increased from \$24,165,649 to \$31,167,110 due to the issuance of \$8,900,000 in bond anticipation notes. \$8.4 million of these notes are recorded in the business type activities and will be used to fund sewer system improvements. \$500,000 of the bond anticipation notes are accounted for in the governmental type activities and were used for street reconstruction and traffic signal improvements.

***Using this Annual Financial Report***

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

The Statement of Net Assets and the Statement of Changes in Net Assets provide information from a summary perspective showing the effects of the operations for the year 2005 and how they affected the operations of the City as a whole.

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

*Statement of Net Assets and the Statement of Activities*

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

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A question typically asked about the City's finances is "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

*Fund Financial Statements*

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

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, CDBG fund and



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EDA Grant fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

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

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

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

**The City of Lima as a Whole**

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

Table 1 provides a summary of the City's net assets for 2005 compared to 2004:

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

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Assets</b>						
Current and Other Assets	\$ 27,755,454	\$ 24,385,668	\$ 27,857,923	\$ 22,760,361	\$ 55,613,377	\$ 47,146,029
Capital Assets	24,111,520	22,217,757	49,451,941	47,203,295	73,563,461	69,421,052
Total Assets	<u>51,866,974</u>	<u>46,603,425</u>	<u>77,309,864</u>	<u>69,963,656</u>	<u>129,176,838</u>	<u>116,567,081</u>
<b>Liabilities</b>						
Long-Term Liabilities	5,915,925	5,648,776	29,693,216	22,829,436	35,609,141	28,478,212
Other Liabilities	12,043,633	9,260,042	1,783,625	1,682,975	13,827,258	10,943,017
Total Liabilities	<u>17,959,558</u>	<u>14,908,818</u>	<u>31,476,841</u>	<u>24,512,411</u>	<u>49,436,399</u>	<u>39,421,229</u>
<b>Net Assets</b>						
Invested in Capital Assets Net of Debt	21,826,132	20,246,756	29,123,515	25,150,647	50,949,647	45,397,403
Restricted	6,223,509	5,369,189	0	0	6,223,509	5,369,189
Unrestricted	<u>5,857,775</u>	<u>6,078,662</u>	<u>16,709,508</u>	<u>20,300,598</u>	<u>22,567,283</u>	<u>26,379,260</u>
Total Net Assets	<u>\$ 33,907,416</u>	<u>\$ 31,694,607</u>	<u>\$ 45,833,023</u>	<u>\$ 45,451,245</u>	<u>\$ 79,740,439</u>	<u>\$ 77,145,852</u>

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Total assets increased by \$12.6 million with governmental assets increasing \$5.3 million and business-type assets increasing \$7.3 million. An increase of approximately \$4.2 million in total capital assets reflects additional purchases exceeding depreciation.

Total liabilities increased by \$10 million with business-type liabilities increasing \$6.9 million and governmental activities liabilities increasing \$3.1 million. The increase in business-type liabilities was the result of the issuance of \$8.4 million in bond anticipation notes used to finance sewer system improvements. The increase in governmental activities liabilities was due to an increase in deferred revenue of \$2.6 million and the issuance of \$500,000 in bond anticipation notes that were used for street reconstruction and traffic signal improvements.

Total net assets increased by \$2.6 million. This number reflects an increase in governmental activities of \$2.2 million and an increase in the net assets of the business-type activities of \$381,778.

Table 2 shows the changes in net assets for fiscal year 2005. This table also compares changes in net assets between 2005 and 2004. This will enable the reader to draw further conclusion about the City's financial status and possibly project future issues.

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
<b>Revenues</b>						
<i>Program Revenues:</i>						
Charges for Services	\$ 5,958,147	\$ 5,835,744	\$ 19,796,867	\$ 18,549,180	\$ 25,755,014	\$ 24,384,924
Operating Grants	3,074,659	2,624,730	143,276	0	3,217,935	2,624,730
Capital Grants	962,234	5,966,543	132,531	482,075	1,094,765	6,448,618
<i>General Revenue:</i>						
Property Taxes	1,287,563	1,281,963	0	0	1,287,563	1,281,963
Income Taxes	15,484,632	14,109,075	0	0	15,484,632	14,109,075
Other Local Taxes	95,272	91,575	0	0	95,272	91,575
Grants and Entitlements	4,593,340	5,326,138	0	0	4,593,340	5,326,138
(Loss) on Sale of Capital Assets	(409)	25,742	(30,337)	150	(30,746)	25,892
Investments	938,324	497,949	24,894	15,000	963,218	512,949
Miscellaneous	78,730	124,651	0	0	78,730	124,651
<b>Total Revenues</b>	<b>32,472,492</b>	<b>35,884,110</b>	<b>20,067,231</b>	<b>19,046,405</b>	<b>52,539,723</b>	<b>54,930,515</b>
<b>Program Expenses</b>						
General Government	7,922,440	7,502,945	0	0	7,922,440	7,502,945
Security of Persons and Property	15,151,801	15,001,403	0	0	15,151,801	15,001,403
Transportation	2,855,787	2,308,539	0	0	2,855,787	2,308,539
Community Environment	3,105,672	2,883,303	0	0	3,105,672	2,883,303
Leisure Time Activities	1,094,057	1,048,009	0	0	1,094,057	1,048,009
Interest and Fiscal Charges	129,926	122,420	0	0	129,926	122,420
<i>Enterprise Operations:</i>						
Water	0	0	9,245,102	8,326,624	9,245,102	8,326,624
Sewer	0	0	8,257,352	8,066,360	8,257,352	8,066,360
Refuse	0	0	2,182,999	1,935,801	2,182,999	1,935,801
<b>Total Program Expenses</b>	<b>30,259,683</b>	<b>28,866,619</b>	<b>19,685,453</b>	<b>18,328,785</b>	<b>49,945,136</b>	<b>47,195,404</b>
Increase in Net Assets Before Transfers and Contributions	2,212,809	7,017,491	381,778	717,620	2,594,587	7,735,111
<b>Increase in Net Assets</b>	<b>\$ 2,212,809</b>	<b>\$ 7,017,491</b>	<b>\$ 381,778</b>	<b>\$ 717,620</b>	<b>\$ 2,594,587</b>	<b>\$ 7,735,111</b>

**CITY OF LIMA – ALLEN COUNTY**  
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**Governmental Activities**

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

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

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

Police and fire represent the largest expense of the Governmental Activities. This expense of \$15,151,801 represents 50 percent of the total governmental services expenses. These two departments operate out of the General fund.

General government expenses equaled \$7,922,440 or 26% of the total government services expenses. This category includes expenses associated with those City departments not associated with the other cost centers.

Our Transportation Department employs 32 full time employees who provide the City and its citizens many services that include public road salting, leaf and debris pickup, paint striping and alley profiling. This department operates out of both the General fund and the Street Repair Special Revenue fund. This department had expenses of \$2,855,787 or 9 percent of the total governmental services expenses.

The City's Community Development Department accounts for the Community Environment expenses. This department provides services such as code enforcement, home repair assistance, some economic development work and other community environment related services. Community Environment expenses equaled \$3,105,672 in 2005. This is 10 percent of total governmental services expenses.

The City also maintains 12 parks (leisure time activities) within the City. Leisure time activities also accounts for the City sponsored recreational activities. This area had expenses of \$1,094,057 in 2005 equaling 4 percent of the total governmental services expenses.

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**Business-Type Activities**

Business-type activities include water, sewer and refuse operations. The revenues are generated primarily from charges for services. In 2005, charges for services of \$19,796,867 accounted for 98 percent of the revenues. The total expenses for the utilities were \$19,685,453, thus leaving an increase in net assets of \$381,778 for the business-type activities.

***The City's Funds***

Information about the City's governmental funds begins on page 14. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$32,442,214 and expenditures of \$32,101,737. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

Information about the proprietary funds starts on page 22. These funds are accounted for on an accrual basis. All business type funds had operating revenues of \$19,796,867, which exceeded operating expenses of \$18,542,277 by \$1,254,590 or 6.3 percent of operating revenues. The City is consistent with reviews of these funds, and the necessary adjustments are made to ensure strength in our enterprise funds.

***General Fund Budgeting Highlights***

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

During the course of 2005, the City amended its general fund budget on several occasions. All recommendations for appropriation changes come to Council from the City Finance Director. The Finance Committee of Council reviews them, and they make their recommendation to the Council as a whole.

For the general fund, budget basis actual revenue was \$25.6 million, over the final budget estimates of \$25.2 million. Of this \$400,000 favorable variance, \$673,000 was attributable to higher than anticipated income tax revenue, \$112,000 higher than expected intergovernmental revenue and \$387,000 more in investment revenue than anticipated. There were lower than expected revenues from fines and forfeitures, \$123,000, and miscellaneous revenue of \$604,000.

Actual expenditures of \$27 million were \$2.3 million lower than the final appropriations of \$29.3 million. Despite the favorable variances in both actual revenue and actual expenditures, general fund expenditures exceeded revenues resulting in a net decrease in fund balance of \$1,131,433.

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(Unaudited)

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of year 2005, the City had \$73.6 million invested in land, buildings, equipment, infrastructure and vehicles. A total of \$24.1 million of this was for governmental activities with the remainder of \$49.5 million attributable to business-type activities. Table 4 shows fiscal year 2005 balances compared with 2004.

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

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 4,745,196	\$ 4,713,708	\$ 1,598,447	\$ 1,750,247	\$ 6,343,643	\$ 6,463,955
Construction in Progress	\$ 4,414,172	\$ 6,765,713	\$ 364,665	\$ 3,639,607	\$ 4,778,837	\$ 10,405,320
Buildings and Improvements	7,913,495	7,938,669	26,034,848	22,205,558	33,948,343	30,144,227
Furniture and Equipment	1,022,750	1,075,391	5,632,157	6,051,485	6,654,907	7,126,876
Vehicles	511,563	706,443	993,365	803,797	1,504,928	1,510,240
Intangible Assets	0	0	0	63,597	0	63,597
Capitalized Interest	0	0	1,216,174	1,419,199	1,216,174	1,419,199
Infrastructure	5,504,344	1,017,833	13,612,285	11,269,805	19,116,629	12,287,638
<b>Totals</b>	<b>\$ 24,111,520</b>	<b>\$ 22,217,757</b>	<b>\$ 49,451,941</b>	<b>\$ 47,203,295</b>	<b>\$ 73,563,461</b>	<b>\$ 69,421,052</b>

The \$4.1 million increase in capital assets was attributable to increases in infrastructure in both governmental and business-type activities. Governmental activities infrastructure increased \$4.5 million due to several large infrastructure projects started in prior years and completed in 2005. Business-type activities buildings and improvements increased \$3.8 million due to construction of a new Field Services building that was started in 2004 and completed in 2005. In addition, business type activities infrastructure increased \$2.3 million as the result of a meter upgrade project that was conducted in 2005. A decrease in furniture and equipment (\$472,000) is the result of depreciation exceeding the additions made in those areas. Construction in process decreased \$5.6 million over all due to the projects mentioned previously that were completed in 2005. Note 8 provides capital asset activity during the 2005 year.

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**Debt Administration**

The outstanding debt for the City as of December 31, 2005 was \$31,167,110. This balance reflects an increase of \$7,001,461 from the previous year's balance of \$24,165,649, an increase of 29 percent. Table 5 summarizes outstanding debt.

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

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	\$ 1,780,951	\$ 1,971,001	\$ 11,628,118	\$ 12,705,657	\$ 13,409,069	\$ 14,676,658
Special Assessment Bonds	69,000	142,000	0	0	69,000	142,000
OWDA Loans	0	0	6,284,908	6,789,509	6,284,908	6,789,509
Bresler Termination Agreement	0	0	2,415,400	2,557,482	2,415,400	2,557,482
Notes Payable	504,437	0	8,484,296	0	8,988,733	0
<i>Total</i>	<u>\$ 2,354,388</u>	<u>\$ 2,113,001</u>	<u>\$ 28,812,722</u>	<u>\$ 22,052,648</u>	<u>\$ 31,167,110</u>	<u>\$ 24,165,649</u>

The general obligation bonds are composed of (1) Municipal Center Refunding – a 1999 unvoted debt issue repaid from general governmental activities revenue; (2) 1999 Parking Facility unvoted issue for the construction of downtown parking garage repaid from general governmental activities revenue; (3) 2004 unvoted debt issue for improvements to a City owned parking lot; (4) 1999 Water and Sewer Bond Refunding unvoted issue for the purpose of refinancing a portion of the water and sewer revenue bonds to be repaid from business-type activities charges for services revenue; (5) 2004 Water and Sewer Bond Refunding unvoted issue for the purpose of refinancing the remaining portion of the water and sewer revenue bonds to be repaid from business-type activities charges for services revenue; (6) 2004 Sewer system screen project unvoted issue to be repaid from business-type activities charges for services revenue; (7) 2004 Wastewater Treatment Laboratory construction and renovation unvoted issue to be repaid from business-type activities charges for services revenue.

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

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

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

The notes payable are bond anticipation notes used for the following: (1) 2005 bond anticipation notes for street reconstruction projects repaid from general governmental activities revenue; (2) 2005 bond anticipation notes for sewer system improvements to be repaid from business-type charges for services revenue

Additional information concerning the City's debt can be found in Note 13 to the basic financial statements.

***Current Financial Issues***

The City administration is currently working with businesses to occupy several industrial parks within the City limits. Extension of City utilities to new areas is an ongoing process. In addition, the City's Utilities department is in the preliminary planning stages of a new reservoir to serve the anticipated needs of a new power generating facility. The power generating facility broke ground in 2005 and is expected to be online by mid 2008.

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

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

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

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



**City of Lima - Allen County**  
*Statement of Net Assets*  
December 31, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 10,106,663	\$ 23,193,534	\$ 33,300,197
Cash and Cash Equivalents:			
In Segregated Accounts	299,016	649,097	948,113
With Fiscal Agents and Escrow Agents	15,641	0	15,641
Taxes Receivable	4,141,643	0	4,141,643
Accounts Receivable	289,391	3,239,478	3,528,869
Intergovernmental Receivable	8,866,766	0	8,866,766
Special Assessments Receivable	2,281,064	0	2,281,064
Accrued Interest Receivable	141,814	889	142,703
Materials and Supplies Inventory	66,966	92,072	159,038
Notes Receivable	1,596,085	0	1,596,085
Prepaid Items	75,997	95,048	171,045
Unamortized Bond Issuance Costs	8,648	194,392	203,040
Internal Balances	(134,240)	134,240	0
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	0	259,173	259,173
Nondepreciable Capital Assets	9,159,368	1,963,112	11,122,480
Depreciable Capital Assets, Net	14,952,152	47,488,829	62,440,981
<i>Total Assets</i>	<u>51,866,974</u>	<u>77,309,864</u>	<u>129,176,838</u>
<b>Liabilities</b>			
Accounts Payable	429,503	536,625	966,128
Contracts Payable	208,864	313,704	522,568
Accrued Wages	618,756	191,375	810,131
Retainage Payable	6,209	24,104	30,313
Intergovernmental Payable	396,613	169,006	565,619
Deferred Revenue	9,880,870	0	9,880,870
Accrued Interest Payable	21,283	289,638	310,921
Claims Payable	481,535	0	481,535
Payable from Restricted Assets:			
Refundable Deposits	0	259,173	259,173
Long-Term Liabilities:			
Due Within One Year	1,447,277	10,243,627	11,690,904
Due In More Than One Year	4,468,648	19,449,589	23,918,237
<i>Total Liabilities</i>	<u>17,959,558</u>	<u>31,476,841</u>	<u>49,436,399</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	21,826,132	29,123,515	50,949,647
Restricted for:			
Capital Projects	82,226	0	82,226
Debt Service	388,768	0	388,768
Other Purposes	5,752,515	0	5,752,515
Unrestricted	5,857,775	16,709,508	22,567,283
<i>Total Net Assets</i>	<u>\$ 33,907,416</u>	<u>\$ 45,833,023</u>	<u>\$ 79,740,439</u>

See accompanying notes to the basic financial statements

**City of Lima - Allen County**  
*Statement of Activities*  
For the Year Ended December 31, 2005

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest		Primary Government		
			Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
<b>Governmental Activities:</b>							
Security of Persons and Property	\$ 15,151,801	\$ 349,543	\$ 344,183	\$ 23,000	\$ (14,435,075)	\$ 0	\$ (14,435,075)
Leisure Time Activities	1,094,057	84,460	14,929	0	(994,668)	0	(994,668)
Community Environment	3,105,672	279,714	1,956,801	270,101	(599,056)	0	(599,056)
Transportation	2,855,787	148,972	758,746	669,133	(1,278,936)	0	(1,278,936)
General Government	7,922,440	5,095,458	0	0	(2,826,982)	0	(2,826,982)
Interest and Fiscal Charges	129,926	0	0	0	(129,926)	0	(129,926)
<i>Total Governmental Activities</i>	<u>30,259,683</u>	<u>5,958,147</u>	<u>3,074,659</u>	<u>962,234</u>	<u>(20,264,643)</u>	<u>0</u>	<u>(20,264,643)</u>
<b>Business-Type Activities:</b>							
Water	9,245,102	9,143,796	997	132,531	0	32,222	32,222
Sewer	8,257,352	8,165,955	984	0	0	(90,413)	(90,413)
Refuse	2,182,999	2,487,116	141,295	0	0	445,412	445,412
<i>Total Business-Type Activities</i>	<u>19,685,453</u>	<u>19,796,867</u>	<u>143,276</u>	<u>132,531</u>	<u>0</u>	<u>387,221</u>	<u>387,221</u>
<i>Totals</i>	<u>49,945,136</u>	<u>25,755,014</u>	<u>3,217,935</u>	<u>1,094,765</u>	<u>(20,264,643)</u>	<u>387,221</u>	<u>(19,877,422)</u>
<b>General Revenues</b>							
Property Taxes Levied for:							
General Purposes					1,287,563	0	1,287,563
Income Tax Levied for:							
General Purposes					15,484,632	0	15,484,632
Other Local Taxes					95,272	0	95,272
Intergovernmental Revenue					4,593,340	0	4,593,340
Gain (Loss) on Sale of Capital Asset					(409)	(30,337)	(30,746)
Investment Earnings					938,324	24,894	963,218
Miscellaneous					78,730	0	78,730
<i>Total General Revenues</i>					<u>22,477,452</u>	<u>(5,443)</u>	<u>22,472,009</u>
Change in Net Assets					2,212,809	381,778	2,594,587
<i>Net Assets Beginning of Year</i>					<u>31,694,607</u>	<u>45,451,245</u>	<u>77,145,852</u>
<i>Net Assets End of Year</i>					<u>\$ 33,907,416</u>	<u>\$ 45,833,023</u>	<u>\$ 79,740,439</u>

See accompanying notes to the basic financial statements

**CITY OF LIMA - ALLEN COUNTY**

*Balance Sheet  
Governmental Funds  
December 31, 2005*

	General	CDBG Special Revenue	EDA Grant Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 3,895,825	\$ 293	\$ 0	\$ 5,292,210	\$ 9,188,328
Cash and Cash Equivalents:					
In Segregated Accounts	0	0	0	299,016	299,016
With Fiscal and Escrow Agents	0	0	0	15,641	15,641
Receivables:					
Taxes	4,118,384	0	0	23,259	4,141,643
Accounts	286,448	0	0	2,943	289,391
Intergovernmental	1,078,558	2,571,073	2,352,770	2,864,365	8,866,766
Special Assessments	0	654,099	0	1,626,965	2,281,064
Accrued Interest	141,433	0	0	381	141,814
Interfund Receivable	224,574	0	0	27,590	252,164
Materials and Supplies Inventory	0	0	0	12,563	12,563
Due From Other Funds	0	0	0	46,140	46,140
Notes Receivable	0	330,967	0	1,265,118	1,596,085
Prepaid Items	75,997	0	0	0	75,997
<i>Total Assets</i>	<u>9,821,219</u>	<u>3,556,432</u>	<u>2,352,770</u>	<u>11,476,191</u>	<u>27,206,612</u>
<b>Liabilities</b>					
Accounts Payable	187,412	29,696	0	96,465	313,573
Contracts Payable	12,579	196,285	0	0	208,864
Interfund Payable	0	0	0	320,374	320,374
Accrued Wages	580,312	11,219	0	27,225	618,756
Retainage Payable	6,209	0	0	0	6,209
Intergovernmental Payable	363,005	9,567	0	24,041	396,613
Deferred Revenue	3,831,602	2,925,379	2,352,770	4,302,604	13,412,355
Due To Other Funds	0	0	0	136,510	136,510
<i>Total Liabilities</i>	<u>4,981,119</u>	<u>3,172,146</u>	<u>2,352,770</u>	<u>4,907,219</u>	<u>15,413,254</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	790,711	353,508	0	286,895	1,431,114
Reserved for Notes Receivable	0	330,967	0	1,265,118	1,596,085
Reserved for Inventory	0	0	0	12,563	12,563
Reserved for Prepays	75,997	0	0	0	75,997
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	3,973,392	0	0	0	3,973,392
Special Revenue Funds	0	(300,189)	0	3,744,729	3,444,540
Debt Service Funds	0	0	0	388,768	388,768
Capital Projects Funds	0	0	0	870,899	870,899
<i>Total Fund Balances</i>	<u>4,840,100</u>	<u>384,286</u>	<u>0</u>	<u>6,568,972</u>	<u>11,793,358</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 9,821,219</u>	<u>\$ 3,556,432</u>	<u>\$ 2,352,770</u>	<u>\$ 11,476,191</u>	<u>\$ 27,206,612</u>

See accompanying notes to the basic financial statements

**CITY OF LIMA - ALLEN COUNTY**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2005*

<b>Total Governmental Funds Balances</b>		\$ 11,793,358
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		24,111,520
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds:		
Property Taxes	\$ 143,026	
Income Tax	1,556,550	
Intergovernmental	1,831,909	
Unamortized Bond Issuance Costs	<u>8,648</u>	
Total		3,540,133
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		
Net Assets	375,273	
Internal Balances	<u>24,340</u>	
Total		399,613
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.		(469,605)
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds	(1,780,951)	
Special Assessment Bonds	(69,000)	
Bond Anticipation Notes	(504,437)	
Compensated Absences	(2,874,334)	
Judgments Payable	(217,598)	
Accrued Interest Payable	<u>(21,283)</u>	
Total		<u>(5,467,603)</u>
<i>Net Assets of Governmental Activities</i>		<u>\$ 33,907,416</u>

See accompanying notes to the basic financial statements

**CITY OF LIMA - ALLEN COUNTY**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2005*

	General	CDBG Special Revenue	EDA Grant Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$ 1,268,392	\$ 0	\$ 0	\$ 0	\$ 1,268,392
Municipal Income Taxes	15,421,710	0	0	0	15,421,710
Other Local Taxes	0	0	0	95,272	95,272
Intergovernmental	3,251,031	1,535,521	0	4,126,313	8,912,865
Charges for Services	2,637,679	44,245	0	373,081	3,055,005
Fees, Licenses and Permits	906,103	0	0	0	906,103
Fines and Forfeitures	1,035,958	0	0	442,788	1,478,746
Special Assessments	0	0	0	150,083	150,083
Investment Income	881,266	8,736	0	112,153	1,002,155
Miscellaneous	64,105	3,445	0	84,333	151,883
<i>Total Revenues</i>	<u>25,466,244</u>	<u>1,591,947</u>	<u>0</u>	<u>5,384,023</u>	<u>32,442,214</u>
<b>Expenditures</b>					
Current:					
Security of Persons and Property	14,305,530	0	0	492,499	14,798,029
Leisure Time Activities	930,150	0	0	55,114	985,264
Community Development	816,049	1,624,620	0	468,870	2,909,539
Transportation	1,914,793	0	0	1,790,029	3,704,822
General Government	7,364,655	0	0	87,502	7,452,157
Capital Outlay	632,679	0	0	1,239,693	1,872,372
Debt Service:					
Principal Retirement	0	0	0	263,060	263,060
Interest and Fiscal Charges	61	0	0	116,433	116,494
<i>Total Expenditures</i>	<u>25,963,917</u>	<u>1,624,620</u>	<u>0</u>	<u>4,513,200</u>	<u>32,101,737</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(497,673)</u>	<u>(32,673)</u>	<u>0</u>	<u>870,823</u>	<u>340,477</u>
<b>Other Financing Sources (Uses)</b>					
Premium on General Obligation Bonds	4,437	0	0	0	4,437
Proceeds of Bonds	500,000	0	0	0	500,000
Operating Transfers - In	0	0	0	398,420	398,420
Operating Transfers - Out	(271,503)	0	0	(126,917)	(398,420)
<i>Total Other Financing Sources (Uses)</i>	<u>232,934</u>	<u>0</u>	<u>0</u>	<u>271,503</u>	<u>504,437</u>
<i>Net Change in Fund Balances</i>	<u>(264,739)</u>	<u>(32,673)</u>	<u>0</u>	<u>1,142,326</u>	<u>844,914</u>
<i>Fund Balances Beginning of Year</i>	<u>5,104,839</u>	<u>416,959</u>	<u>0</u>	<u>5,426,646</u>	<u>10,948,444</u>
<i>Fund Balances End of Year</i>	<u>\$ 4,840,100</u>	<u>\$ 384,286</u>	<u>\$ 0</u>	<u>\$ 6,568,972</u>	<u>\$ 11,793,358</u>

See accompanying notes to the basic financial statements

**CITY OF LIMA - ALLEN COUNTY**

*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2005*

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$</b>	<b>844,914</b>
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*Amounts reported for governmental activities in the  
statement of activities are different because*

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

Capital Outlay	\$	2,929,279	
Depreciation		(1,035,516)	
Total			1,893,763

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

Property Taxes		19,171	
Income Tax		62,922	
Intergovernmental		(51,416)	
Total			30,677

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

Bond Anticipation Note			(500,000)
Premium on Bond Anticipation Note			(4,437)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

263,060

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

(12,257)

In the statement of activities, interest expense is reduced for bond issuance costs, whereas in governmental funds these costs are expensed in the year incurred.

(1,165)

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

Compensated Absences		(96,521)	
Pension Obligation		(15,143)	
Judgments Payable		85,902	
Total			(25,762)

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

Change in Net Assets		(355,777)	
Internal Balances		79,793	
Total			(275,984)

*Change in Net Assets of Governmental Activities*

\$ 2,212,809

See accompanying notes to the basic financial statements

**CITY OF LIMA - ALLEN COUNTY**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP) and Actual*  
*General Fund*  
*For the Year Ended December 31, 2005*

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$ 1,271,700	\$ 1,271,700	\$ 1,268,392	\$ (3,308)
Municipal Income Taxes	14,850,000	14,850,000	15,523,209	673,209
Intergovernmental	3,173,332	3,173,332	3,285,216	111,884
Charges for Services	2,666,953	2,666,953	2,640,547	(26,406)
Fees, Licenses and Permits	924,000	924,000	906,103	(17,897)
Fines and Forfeitures	1,195,000	1,195,000	1,071,651	(123,349)
Investment Income	500,000	500,000	887,423	387,423
Miscellaneous	137,500	667,500	63,465	(604,035)
<i>Total Revenues</i>	<u>24,718,485</u>	<u>25,248,485</u>	<u>25,646,006</u>	<u>397,521</u>
<b>Expenditures</b>				
Current:				
Security of Persons and Property	14,697,269	14,985,872	14,365,541	620,331
Leisure Time Activities	1,028,982	1,040,155	951,826	88,329
Community Development	850,031	889,241	821,234	68,007
Transportation	2,148,991	2,176,800	2,058,611	118,189
General Government	8,841,497	8,649,136	7,731,324	917,812
Capital Outlay	233,508	1,279,056	1,081,776	197,280
Debt Service:				
Principal Retirement	190,000	190,000	0	190,000
Interest and Fiscal Charges	99,273	99,273	61	99,212
<i>Total Expenditures</i>	<u>28,089,551</u>	<u>29,309,533</u>	<u>27,010,373</u>	<u>2,299,160</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,371,066)</u>	<u>(4,061,048)</u>	<u>(1,364,367)</u>	<u>2,696,681</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds of Bonds	0	500,000	504,437	4,437
Proceeds from Disposition of Fixed Assets	20,000	20,000	0	(20,000)
Operating Transfers - Out	(200,000)	(38,536)	(271,503)	(232,967)
<i>Total Other Financing Sources (Uses)</i>	<u>(180,000)</u>	<u>481,464</u>	<u>232,934</u>	<u>(248,530)</u>
<i>Net Change in Fund Balance</i>	(3,551,066)	(3,579,584)	(1,131,433)	2,448,151
<i>Fund Balance Beginning of Year</i>	3,952,371	3,952,371	3,952,371	0
Prior Year Encumbrances Appropriated	380,322	380,322	380,322	0
<i>Fund Balance End of Year</i>	<u>\$ 781,627</u>	<u>\$ 753,109</u>	<u>\$ 3,201,260</u>	<u>\$ 2,448,151</u>

See accompanying notes to the basic financial statements

**CITY OF LIMA - ALLEN COUNTY**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP) and Actual*  
*CDBG Fund*  
*For the Year Ended December 31, 2005*

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$ 0	\$ 0	\$ 0	\$ 0
Municipal Income Taxes	0		0	0
Intergovernmental	2,750,000	2,750,000	1,388,266	(1,361,734)
Charges for Services	0	0	44,245	44,245
Revolving Loan Payments	0	0	107,488	107,488
Fees, Licenses and Permits	0		0	0
Special Assessments	0		0	0
Investment Income	0	0	8,874	8,874
Miscellaneous	0	0	3,094	3,094
<b>Total Revenues</b>	<b>2,750,000</b>	<b>2,750,000</b>	<b>1,551,967</b>	<b>(1,198,033)</b>
<b>Expenditures</b>				
<b>Current:</b>				
Security of Persons and Property	0	0	0	0
Leisure Time Activities	0	0	0	0
Community Development	2,481,210	2,481,210	1,885,256	595,954
Transportation			0	0
General Government			0	0
Capital Outlay	268,200	268,200	196,250	71,950
<b>Debt Service:</b>				
Principal Retirement	0	0	0	0
Interest and Fiscal Charges	0	0	0	0
<b>Total Expenditures</b>	<b>2,749,410</b>	<b>2,749,410</b>	<b>2,081,506</b>	<b>667,904</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>590</b>	<b>590</b>	<b>(529,539)</b>	<b>(530,129)</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds of Bonds	0	0	0	0
Operating Transfers - In	0	0	0	0
Operating Transfers - Out	0	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Change in Fund Balance</b>	<b>590</b>	<b>590</b>	<b>(529,539)</b>	<b>(530,129)</b>
<b>Fund Balance Beginning of Year</b>	<b>(325,783)</b>	<b>(325,783)</b>	<b>(325,783)</b>	<b>0</b>
<b>Prior Year Encumbrances Appropriated</b>	<b>226,323</b>	<b>226,323</b>	<b>226,323</b>	<b>0</b>
<b>Fund Balance End of Year</b>	<b>\$ (98,870)</b>	<b>\$ (98,870)</b>	<b>\$ (628,999)</b>	<b>\$ (530,129)</b>

See accompanying notes to the basic financial statements



**CITY OF LIMA - ALLEN COUNTY**

*Statement of Net Assets*

*Proprietary Funds*

*December 31, 2005*

	Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Total	
<b>Assets</b>					
<i>Current Assets:</i>					
Equity in Pooled Cash and Cash Equivalents	\$ 7,530,781	\$ 15,207,635	\$ 455,118	\$ 23,193,534	\$ 918,335
Cash and Cash Equivalents in Segregated Accounts	588,437	60,660	0	649,097	0
Receivables:					
Accounts	1,261,877	1,427,203	550,398	3,239,478	0
Accrued Interest	806	83	0	889	0
Interfund Receivable	61,887	6,323	0	68,210	0
Materials and Supplies Inventory	65,443	26,629	0	92,072	54,403
Due from Other Funds	81,945	8,425	0	90,370	0
Prepaid Items	47,798	47,250	0	95,048	0
Unamortized Bond Issuance Costs	60,036	134,356	0	194,392	0
<i>Total Current Assets</i>	<u>9,699,010</u>	<u>16,918,564</u>	<u>1,005,516</u>	<u>27,623,090</u>	<u>972,738</u>
<i>Noncurrent Assets:</i>					
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	259,173	0	0	259,173	0
Capital Assets:					
Land	1,131,130	831,982	0	1,963,112	0
Depreciable Capital Assets, Net	19,727,363	27,761,466	0	47,488,829	0
<i>Total Noncurrent Assets</i>	<u>21,117,666</u>	<u>28,593,448</u>	<u>0</u>	<u>49,711,114</u>	<u>0</u>
<i>Total Assets</i>	<u>\$ 30,816,676</u>	<u>\$ 45,512,012</u>	<u>\$ 1,005,516</u>	<u>\$ 77,334,204</u>	<u>\$ 972,738</u>

See accompanying notes to the basic financial statements

**CITY OF LIMA - ALLEN COUNTY**

*Statement of Net Assets*

*Proprietary Funds*

*December 31, 2005*

	Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Total	
<b>Liabilities</b>					
<i>Current Liabilities:</i>					
Accounts Payable	\$ 218,585	\$ 151,765	\$ 166,275	\$ 536,625	\$ 115,930
Contracts Payable	254,260	59,444	0	313,704	0
Accrued Wages	102,894	86,226	2,255	191,375	0
Retainage Payable	0	24,104	0	24,104	0
Intergovernmental Payable	113,418	53,886	1,702	169,006	0
Accrued Interest Payable	12,269	277,369	0	289,638	0
Claims Payable	0	0	0	0	481,535
Bond Anticipation Notes	0	8,484,296	0	8,484,296	0
OWDA Loans Payable	0	515,352	0	515,352	0
Bresler Reservoir Termination Agreement	142,082	0	0	142,082	0
General Obligation Bonds Payable (Net, where applicable, of unamortized discount and accounting loss)	432,043	669,854	0	1,101,897	0
<i>Total Current Liabilities</i>	<u>1,275,551</u>	<u>10,322,296</u>	<u>170,232</u>	<u>11,768,079</u>	<u>597,465</u>
<i>Current Liabilities Payable from Restricted Assets:</i>					
Refundable Deposits	259,173	0	0	259,173	0
<i>Total Current Liabilities Payable from Restricted Assets</i>	<u>259,173</u>	<u>0</u>	<u>0</u>	<u>259,173</u>	<u>0</u>
<i>Long-Term Liabilities:</i>					
Compensated Absences Payable (net of current portion)	497,082	368,152	15,261	880,495	0
OWDA Loans Payable (Net of Current Portion)	0	5,769,555	0	5,769,555	0
Bresler Reservoir Termination Agreement	2,273,318	0	0	2,273,318	0
General Obligation Bonds Payable (Net of Current Portion, and where applicable, of unamortized discount and accounting loss)	2,878,346	7,647,875	0	10,526,221	0
<i>Total Long-Term Liabilities</i>	<u>5,648,746</u>	<u>13,785,582</u>	<u>15,261</u>	<u>19,449,589</u>	<u>0</u>
<i>Total Liabilities</i>	<u>7,183,470</u>	<u>24,107,878</u>	<u>185,493</u>	<u>31,476,841</u>	<u>597,465</u>
<b>Net Assets</b>					
Invested in Capital Assets, Net of Related Debt	15,132,704	13,990,811	0	29,123,515	0
Unrestricted	8,500,502	7,413,323	820,023	16,733,848	375,273
<i>Total Net Assets</i>	<u>\$ 23,633,206</u>	<u>\$ 21,404,134</u>	<u>\$ 820,023</u>	<u>45,857,363</u>	<u>\$ 375,273</u>
Net assets reported for business-type activities in the statement of net assets are different because they include accumulated overpayments to the internal service funds:				(24,340)	
Net assets of business-type activities				<u>\$ 45,833,023</u>	

See accompanying notes to the basic financial statements

**CITY OF LIMA - ALLEN COUNTY**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2005*

	Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Total	
<b>Operating Revenues</b>					
Charges for Services	\$ 8,526,471	\$ 8,162,389	\$ 2,487,116	\$ 19,175,976	\$ 5,495,397
Other Operating Revenues	617,325	3,566	0	620,891	810,820
<i>Total Operating Revenues</i>	<u>9,143,796</u>	<u>8,165,955</u>	<u>2,487,116</u>	<u>19,796,867</u>	<u>6,306,217</u>
<b>Operating Expenses</b>					
Salaries	2,446,976	1,948,955	61,023	4,456,954	0
Fringe Benefits	1,169,118	889,289	24,723	2,083,130	0
Claims Expense	0	0	0	0	5,797,078
Other Services and Charges	4,155,178	2,794,393	2,096,171	9,045,742	864,916
Depreciation	1,255,039	1,701,412	0	2,956,451	0
<i>Total Operating Expenses</i>	<u>9,026,311</u>	<u>7,334,049</u>	<u>2,181,917</u>	<u>18,542,277</u>	<u>6,661,994</u>
<i>Operating Income</i>	<u>117,485</u>	<u>831,906</u>	<u>305,199</u>	<u>1,254,590</u>	<u>(355,777)</u>
<b>Non-Operating Revenues (Expenses)</b>					
Gain on Disposal of Fixed Assets	0	(30,337)	0	(30,337)	0
EMA Grant Proceeds	997	984	141,295	143,276	0
Tap-in Fees	132,531	0	0	132,531	0
Investment Income	22,582	2,312	0	24,894	0
Interest and Fiscal Charges	(174,992)	(888,391)	0	(1,063,383)	0
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(18,882)</u>	<u>(915,432)</u>	<u>141,295</u>	<u>(793,019)</u>	<u>0</u>
<i>Change in Net Assets</i>	98,603	(83,526)	446,494	461,571	(355,777)
<i>Net Assets Beginning of Year</i>	<u>23,534,603</u>	<u>21,487,660</u>	<u>373,529</u>		<u>731,050</u>
<i>Net Assets End of Year</i>	<u>\$ 23,633,206</u>	<u>\$ 21,404,134</u>	<u>\$ 820,023</u>		<u>\$ 375,273</u>

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

(79,793)

Change in net assets of business-type activities

\$ 381,778

See accompanying notes to the basic financial statements

**City of Lima - Allen County**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Year Ended December 31, 2005

	Enterprise Funds				Internal Service Funds
	Water	Sewer	Refuse	Total	
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	\$ (2,158,177)	\$ 6,684,784	\$ 455,118	\$ 4,981,725	\$ (204,768)
<b>Cash Flows from Operating Activities</b>					
Cash Received from Customers	8,443,139	8,097,788	2,484,456	19,025,383	0
Cash Received from Interfund Services Provided	0	0	0	0	5,495,397
Other Cash Receipts	617,325	3,566	0	620,891	810,820
Cash Payments to Employees for Services	(2,437,009)	(1,935,426)	(60,993)	(4,433,428)	0
Cash Payments for Employee Benefits	(1,081,795)	(874,254)	(23,374)	(1,979,423)	0
Cash Payments for Other Services and Charges	(4,130,446)	(3,026,154)	(2,086,266)	(9,242,866)	(895,492)
Cash Payments for Claims	0	0	0	0	(5,615,493)
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>1,411,214</u>	<u>2,265,520</u>	<u>313,823</u>	<u>3,990,557</u>	<u>(204,768)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Cash Received from Tap-in Fees	132,531	0	0	132,531	0
Cash Received from EMA Grant	997	984	141,295	143,276	0
Proceeds from Sale of Bond Anticipation Notes	0	8,484,296	0	8,484,296	0
Principal Paid on OWDA Debt	0	(504,602)	0	(504,602)	0
Principal Paid on General Obligation Bonds	(425,000)	(665,000)	0	(1,090,000)	0
Principal Paid on Bresler Reservoir Termination Agreement	(142,082)	0	0	(142,082)	0
Amortization of Bond Discount	9,180	7,703	0	16,883	0
Amortization of Bond Premium	(1,524)	(2,898)	0	(4,422)	0
Interest Paid on Debt Obligation	(164,295)	(643,949)	0	(808,244)	0
Payments for Capital Acquisitions	(2,978,212)	(2,226,885)	0	(5,205,097)	0
<i>Net Cash Provided by (Used in) Capital and Related Financing Activities</i>	<u>(3,568,405)</u>	<u>4,449,649</u>	<u>141,295</u>	<u>1,022,539</u>	<u>0</u>
<b>Cash Flows from Investing Activities</b>					
(Loss) on Sale of Assets	0	(30,337)	0	(30,337)	0
Proceeds from Sale of Investments	53,398	5,504	0	58,902	0
Purchase of Investments	(76,454)	(7,811)	0	(84,265)	0
Interest on Investments	22,070	2,259	0	24,329	0
<i>Net Cash Used by Investing Activities</i>	<u>(986)</u>	<u>(30,385)</u>	<u>0</u>	<u>(31,371)</u>	<u>0</u>
<i>Net (Decrease) in Cash and Cash Equivalents</i>	<u>(2,158,177)</u>	<u>6,684,784</u>	<u>455,118</u>	<u>4,981,725</u>	<u>(204,768)</u>
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>10,536,568</u>	<u>8,583,511</u>	<u>0</u>	<u>19,120,079</u>	<u>1,123,103</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 8,378,391</u>	<u>\$ 15,268,295</u>	<u>\$ 455,118</u>	<u>\$ 24,101,804</u>	<u>\$ 918,335</u>

(continued)

See accompanying notes to the basic financial statements

**City of Lima - Allen County**  
*Statement of Cash Flows*  
*Proprietary Funds (continued)*  
For the Year Ended December 31, 2005

	Enterprise Funds				Internal Service Funds
	Water	Sewer	Refuse	Total	
<b>Reconciliation of Operating Gain to Net Cash Provided by Operating Activities</b>					
Operating Gain	\$ 117,485	\$ 831,906	\$ 305,199	\$ 1,254,590	\$ (355,777)
Adjustments:					
Depreciation	1,255,039	1,701,412	0	2,956,451	0
(Increase) Decrease in Assets:					
Accounts Receivable	(84,409)	(64,601)	(2,660)	(151,670)	0
Materials and Supplies Inventory	(5,548)	(14,117)	0	(19,665)	(54,403)
Prepaid Items	(1,819)	(1,271)	0	(3,090)	0
Increase (Decrease) in Liabilities:					
Accounts Payable	41,413	(19,403)	38,735	60,745	23,827
Contracts Payable	37,545	(173,837)	0	(136,292)	0
Interfund Payable	0	0	(29,162)	(29,162)	0
Accrued Wages	9,967	13,529	30	23,526	0
Compensated Absences Payable	87,323	15,035	1,349	103,707	0
Retainage Payable	(59,710)	(35,605)	0	(95,315)	0
Intergovernmental Payable	12,851	12,472	332	25,655	0
Increase in Claims Payable	0	0	0	0	181,585
Increase in Refundable Deposits	1,077	0	0	1,077	0
<i>Net Cash Provided by (Used In) Operating Activities</i>	<u>\$ 1,411,214</u>	<u>\$ 2,265,520</u>	<u>\$ 313,823</u>	<u>\$ 3,990,557</u>	<u>\$ (204,768)</u>

See accompanying notes to the basic financial statements

**CITY OF LIMA - ALLEN COUNTY**  
*Combining Statement of Assets and Liabilities*  
*Agency Funds*  
*December 31, 2005*

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	<u>Agency</u>
<b>Assets</b>	
Equity Pooled in Cash and Cash Equivalents	\$ 179,719
Cash and Cash Equivalents in Segregated Accounts	314,484
Accounts Receivable	<u>2,761,000</u>
<i>Total Assets</i>	<u><u>3,255,203</u></u>
<b>Liabilities</b>	
Intergovernmental Payable	8,448
Undistributed Monies	3,065,484
Deposits Held and Due to Others	<u>181,271</u>
<i>Total Liabilities</i>	<u><u>\$ 3,255,203</u></u>

See accompanying notes to the basic financial statements

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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**NOTE 1: REPORTING ENTITY**

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

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations which are fiscally dependent on the City in that the City approves the budget, the levying of taxes or the issuance of debt. There are no component units included in the reporting entity of the City.

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

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

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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

***A. Basis of Presentation***

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

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

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

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



**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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

***B. Fund Accounting***

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

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

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

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

***Economic Development Agency Grant Capital Projects Fund*** The economic development agency grant proceeds will be used to facilitate construction of infrastructure for an agri-business park. The primary tenant will be an ethanol producing plant.

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

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

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

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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

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

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

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

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

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

***C. Measurement Focus***

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

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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

revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary fund activities.

***D. Basis of Accounting***

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

***Revenues - Exchange and Non-Exchange Transactions*** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty-one days after year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6.) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

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

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

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

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

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

Investments, except for repurchase agreements and non-negotiable certificates of deposit, are reported at fair value, which is based on quoted market prices. Repurchase agreements and non-negotiable certificates of deposit are reported at cost. STAROhio is an investment pool, managed by the Ohio State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's shared price, which is the price the investment could be sold for at December 31, 2005.

The City records all investment income in the General Fund except for interest earned on monies held by trustee in accordance with the bond covenants and federal grants. Investment income credited to the General Fund during 2005 amounted to \$881,266, which includes \$779,507 assigned from other City funds.

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

***F. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

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

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

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

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

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

***H. Notes Receivable***

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

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

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

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

The city has utility deposits from customers that are classified as restricted cash and cash equivalents on the balance sheet because their use is limited to the payment of unpaid utility bills or the refunding of the deposit to the customer.

***K. Capital Assets***

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

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

**CITY OF LIMA – ALLEN COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2005**

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

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

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

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

***Capitalization of Interest***

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The City’s policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from temporary investment of the debt proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. The City did not capitalize any additional interest in 2005.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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

***L. Interfund Balances***

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

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

***M. Compensated Absences***

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

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

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



**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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

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

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

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

***O. Net Assets***

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

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

***P. Fund Balance Reserves***

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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

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

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

***R. Contributions of Capital***

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

***S. Interfund Activity***

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

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

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

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2005.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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

***U. Estimates***

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

***V. Budgetary Data***

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

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

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

***W. Implementation of GASB Statement No. 40***

The City has adopted GASB No. 40, *Deposit and Investment Risk Disclosure*, for fiscal year 2005. Implementation of this provision had no material effect on the City's financial statements.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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**NOTE 3: BUDGETARY BASIS OF ACCOUNTING**

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

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

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

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

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**NOTE 3: BUDGETARY BASIS OF ACCOUNTING (Continued)**

**Net Change in Fund Balance**

	General	CDBG	EDA
GAAP Basis	\$ 22,576	\$ (32,673)	\$ 0
Revenue accruals	(107,553)	(39,980)	0
Expenditure accruals	(137,278)	73,329	0
Encumbrances	(909,178)	(530,215)	0
Budget Basis	<u>\$ (1,131,433)</u>	<u>\$ (529,539)</u>	<u>\$ 0</u>

**NOTE 4: DEPOSITS AND INVESTMENTS**

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

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

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

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

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

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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**NOTE 4: DEPOSITS AND INVESTMENTS (Continued)**

Interim monies may be invested in the following:

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**NOTE 4: DEPOSITS AND INVESTMENTS (Continued)**

the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

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

***Deposits with Financial Institutions***

Custodial credit risk is the risk that, in the event of a bank failure, the City’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

At fiscal year-end, the carrying amount of the City’s deposits was \$12,306,543. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures,” as of December 31, 2005, \$13,782,463 of the City’s bank balance of \$14,082,463 was exposed to custodial risk as discussed above, while \$300,000 was covered by Federal Deposit Insurance Corporation.

**Investments**

As of December 31, 2005, the City had the following investments and maturities:

<u>Investment</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		6 Months or Less	7 to 12 Months
Federal Home Loan Mortgage Corporation	\$ 2,979,660	\$ 1,989,340	\$ 990,320
Federal Home Loan Bank	7,149,408	4,677,208	2,472,200
Federal National Mortgage Corporation	2,480,325	2,480,325	0
Repurchase Agreements	4,525,629	4,525,629	0
Huntington Bank Money Market Accounts	2,740,172	2,740,172	0
Fifth Third Bank Money Market Account	2,706,526	2,706,526	0
STAR Ohio	129,064	129,064	0
	<u>\$ 22,710,784</u>	<u>\$ 19,248,264</u>	<u>\$ 3,462,520</u>

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**NOTE 4: DEPOSITS AND INVESTMENTS (Continued)**

**Interest Rate Risk.** To limit its exposure to fair value losses arising from rising interest rates and in keeping with its investment policy, the City does not invest in any security with a remaining term to final maturity of more than five years.

**Credit Risk.** The City's repurchase agreement is an unrated investment. As of June 30, 2005, the City's investment in STAR Ohio was rated AAAM by Standard & Poor's. As of December 31, 2005, the City's investment in Federal Home Loan Mortgage Corporation securities was rated AAA by Standard & Poor's, Aaa by Moody's Investors Service and AAA by Fitch, Inc. The City's investment in Federal Home Loan Bank securities was rated Aaa by Moody's Investors Service and AAA by Fitch, Inc. The City's investment in Federal National Mortgage Corporation securities was rated AAA by Fitch, Inc., Aaa by Moody's Investors Service and AAA by Standard & Poor's.

**Concentration of Credit Risk.** The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the City at December 31, 2005.

Investment	Fair Value	Percentage of Total
Federal Home Loan Mortgage Corporation	\$ 2,979,660	13.12%
Federal Home Loan Bank	7,149,408	31.48%
Federal National Mortgage Corporation	2,480,325	10.92%
Repurchase Agreements	4,525,629	19.93%
Huntington Bank Money Market Accounts	2,740,172	12.06%
Fifth Third Bank Money Market Account	2,706,526	11.92%
STAR Ohio	129,064	0.57%
	\$ 22,710,784	100.00%

**NOTE 5: INCOME TAX**

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



**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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**NOTE 6: PROPERTY TAXES**

Property taxes include amounts levied against all real and public property, and tangible personal property located in the City. Real property tax revenues received in 2005 represent the collection of 2004 taxes. For 2005, real property taxes were levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. These taxes will be collected in and are intended to finance 2005 operations. Assessed values for real property taxes are established by the State statute at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 2004. Real property taxes are payable annually or semiannually. The first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property were levied after October 1, 2004, on the assessed values as of December 31, 2004, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2005 (other than public utility property) represent the collection of 2005 taxes. For 2005, tangible personal property taxes were levied after October 1, 2004, on the value as of December 31, 2004, the lien date. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. The first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real, public utility, and tangible personal property taxes which are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2005 operations.

**CITY OF LIMA – ALLEN COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2005**

**NOTE 6: PROPERTY TAXES (Continued)**

The full tax rate for all City operations for the year ended December 31, 2005 was 3.90 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$ 223,812,610
Commercial/Industrial	116,593,900
Tangible Personal	38,654,835
Public Utility Real	182,790
Public Utility Personal	19,857,320
Total	\$ 399,101,455

**NOTE 7: RECEIVABLES**

Receivables at December 31, 2005 consisted of taxes, utility accounts, intergovernmental receivables arising from grants, entitlements and shared revenues, special assessments, interest on investments, and notes. All receipts are considered to be fully collectible including utility services. A summary of utility accounts receivable is as follows:

Water	\$ 1,261,877
Sewer	1,427,203
Refuse	550,398
Total	\$ 3,239,478

Notes receivable represent low interest notes for development projects and home improvements granted to eligible City residents and businesses under the Federal Community Development Block Grant, the Community Housing Improvement Program, and the Urban Development Action Grant. The notes bear interest at an annual rate of 7 to 8 percent. The notes are to be repaid over periods ranging from five to fifteen years. The gross notes receivable are \$1,943,646 with uncollectible of \$347,562 at December 31, 2005. The notes are recorded net of an allowance for uncollectibles in the amount of \$1,596,085.

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

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**NOTE 7: RECEIVABLES (Continued)**

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Property Tax Refund	\$ 696
Receivable from Shawnee Twp	55
Receivable from Lima City Schools	468
GHSO Traffic Signage Grant	9,772
Homestead and Rollback	51,784
Local Government	1,020,545
Motor Vehicle License Tax	134,400
Gasoline Excise Tax	487,400
Permissive Tax	128,500
Home Program Grant	1,457,711
Community Development	
Block Grant (CDBG)	2,571,073
Weed and Seed FY01 Grant	252,070
Byrne Pace Grants	10,049
2001 JAIBG Grant	2,707
2004 Law Enforcement Overtime Grant	25,970
2005 EDA Grant	2,352,770
Fire Prevention FEMA Grant	651
2003 JAIBG Grant	3,159
Weed and Seed FY02 Grant	225,445
State Issue II Grant	19,193
2003 Safe Streets Grant	19,145
FEMA Ice Storm Cleanup Grant	87,756
Court Watch Grants	5,447
	5,447
Total Intergovernmental Receivable	\$ 8,866,766

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 8: CAPITAL ASSETS**

A summary of changes in capital assets during 2005 follows:

	Balance 12/31/2004	Additions	Deletions	Balance 12/31/2005
<b>Governmental Activities:</b>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 4,713,708	\$ 31,488	\$ 0	\$ 4,745,196
Construction in progress	6,765,713	1,933,829	(4,285,370)	4,414,172
<i>Total Capital Assets Not Being Depreciated</i>	11,479,421	1,965,317	(4,285,370)	9,159,368
<i>Capital Assets, Being Depreciated:</i>				
Buildings	11,362,469	13,600	0	11,376,069
Improvements	552,165	251,805	0	803,970
Machinery and equipment	3,401,999	195,958	(24,990)	3,572,967
Furniture and fixtures	44,185	8,321	0	52,506
Vehicles	4,467,815	9,800	0	4,477,615
Infrastructure:				
Roads	1,081,142	2,644,467	0	3,725,609
Sidewalks	0	303,129	0	303,129
Bridges	0	1,395,016	0	1,395,016
Curbs	39,082	430,506	0	469,588
<i>Total Capital Assets, Being Depreciated</i>	20,948,857	5,252,602	(24,990)	26,176,469
<i>Less Accumulated Depreciation:</i>				
Buildings	3,841,183	251,662	0	4,092,845
Improvements	134,782	38,917	0	173,699
Machinery and equipment	2,351,472	253,563	(24,581)	2,580,454
Furniture and fixtures	19,321	2,948	0	22,269
Vehicles	3,761,372	204,680	0	3,966,052
Infrastructure:				
Roads	102,391	254,758	0	357,149
Sidewalks	0	5,730	0	5,730
Bridges	0	17,050	0	17,050
Curbs	0	9,069	0	9,069
<i>Total Accumulated Depreciation</i>	10,210,521	1,038,377	(24,581)	11,224,317
<i>Total capital assets being depreciated, net</i>	10,738,336	4,214,225	(409)	14,952,152
<i>Total Governmental Activities Capital Assets, Net</i>	<u>\$ 22,217,757</u>	<u>\$ 6,179,542</u>	<u>\$ (4,285,779)</u>	<u>\$ 24,111,520</u>

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 8: CAPITAL ASSETS (Continued)**

	Balance 12/31/2004	Additions	Deletions	Balance 12/31/2005
<b>Business-Type Activities:</b>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 1,750,247	\$ 0	\$ (151,800)	\$ 1,598,447
Construction in progress	3,639,607	3,668,528	(6,943,470)	364,665
<i>Total Capital Assets Not Being Depreciated</i>	5,389,854	3,668,528	(7,095,270)	1,963,112
<i>Capital Assets, Being Depreciated:</i>				
Improvements	2,358,069	9,585	0	2,367,654
Buildings	37,441,555	4,772,945	0	42,214,500
Machinery and equipment	17,246,352	387,353	0	17,633,705
Furniture and fixtures	26,347	0	0	26,347
Vehicles	3,112,501	537,179	0	3,649,680
Capitalized Interest	3,137,768	0	0	3,137,768
Intangible Assets	317,988	0	0	317,988
Sewer lines	17,005,131	367,508	0	17,372,639
Water lines	15,806,097	2,581,037	(23,768)	18,363,366
<i>Total Capital Assets, Being Depreciated</i>	96,451,808	8,655,607	(23,768)	105,083,647
<i>Less Accumulated Depreciation:</i>				
Improvements	554,418	98,542	0	652,960
Buildings	17,039,648	854,698	0	17,894,346
Machinery and equipment	11,204,505	805,930	0	12,010,435
Furniture and fixtures	16,709	751	0	17,460
Vehicles	2,308,704	347,611	0	2,656,315
Capitalized Interest	1,718,569	203,024	0	1,921,593
Intangible Assets	254,391	63,598	0	317,989
Sewer lines	13,136,801	157,696	0	13,294,497
Water lines	8,404,622	448,369	(23,768)	8,829,223
<i>Total Accumulated Depreciation</i>	54,638,367	2,980,219	(23,768)	57,594,818
<i>Total capital assets being depreciated, net</i>	41,813,441	5,675,388	0	47,488,829
<i>Total Business-Type Capital Assets, Net</i>	<u>\$ 47,203,295</u>	<u>\$ 9,343,916</u>	<u>\$ (7,095,270)</u>	<u>\$ 49,451,941</u>

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**NOTE 8: CAPITAL ASSETS (Continued)**

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 124,091
Security of Persons and Property	267,638
Leisure Time Activities	85,250
Community Development	8,916
Transportation	<u>552,482</u>
Total	<u><u>\$ 1,038,377</u></u>

**NOTE 9: RISK MANAGEMENT**

*A. Self Insurance Program*

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

Claims payable is based on the requirements of the Governmental Accounting Standards Board Statement No. 30 "Risk Financing Omnibus," which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated claim adjustment expenses. Claims payable at December 31, 2005, are estimated based on past experience in payment of claims at \$481,535.

		Beginning of Year Liability	Claims and Changes in Estimates	Claims Payments	End of Year Liability
	\$	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
2004		\$ 513,715	\$ 4,257,163	\$ 4,470,928	\$ 299,950
2005		299,950	5,797,078	5,615,493	481,535

**CITY OF LIMA – ALLEN COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2005**

**NOTE 9: RISK MANAGEMENT (Continued)**

*B. Other Insurance Coverage*

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2005 the City contracted with a third party for insurance as follows:

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

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

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

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

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

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**NOTE 10: DEFINED BENEFIT PENSION PLANS**

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

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

Unpaid compensated absences at year end are reported on the Statement of Net Assets, Governmental Activities in the amount of \$2,846,747 due within more than one year and \$27,587 due within one year. Unpaid compensated absences for Business-Type Activities as of year end are reported on the Statement of Net Assets as \$880,494 due within more than one year.

**NOTE 11: DEFINED BENEFIT PENSION PLANS**

*A. Public Employees Retirement System*

The City contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple employer defined benefit plan administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. The report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

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

The 2005 employer contribution rate for state employers was 13.31% of covered payroll. For local government employer units the rate was 13.55% of covered payroll. The 2005 employer contribution rate for both the law enforcement and public safety division was 16.70% of covered payroll. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to PERS



**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

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**NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)**

for the years ended December 31, 2005, 2004 and 2003 were \$1,646,707, \$1,553,674, and, \$1,396,707 respectively.

*B. Ohio Police and Fire Pension Fund*

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

Plan members are required to contribute 10% of their annual covered salary, while employers are required to contribute 19.5% for police and 24.0% for firefighters. Contributions are authorized by state statute. The City's contributions to the OP&F for the years ending December 31, 2005, 2004 and 2003 were \$1,780,604, \$1,794,912, and \$1,643,861, respectively, equal to the required contributions for each year.

**NOTE 12: POSTEMPLOYMENT BENEFITS**

*A. Public Employees Retirement System*

In addition to providing pension benefits through Public Employees Retirement System of Ohio (System), the System provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by state statute. The Ohio Revised Code provides statutory authority for employer contributions. The PERS law enforcement program was separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2005 employer contribution rate for state employers was 13.31% of covered payroll; 4.00% was the portion that was used to fund health care for the year. For local government employer units the rate was 13.55% of covered payroll; 4.00% was the portion used to fund health care for the year. The 2005 employer rate was 16.70% and 4.00% was used to fund health care for both the law enforcement and public safety divisions. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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**NOTE 12:      POSTEMPLOYMENT BENEFITS (Continued)**

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually plus an additional factor ranging from 1% to 6% for the next 8 years. Health care costs were assumed to increase at 4% in year 9 and beyond.

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

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively. As of December 31, 2004, the unaudited estimated net assets available for future OPEB payments were \$10.8 billion. The number of active contributing participants was 376,109.

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

*B.      Ohio Police and Fire Pension Fund*

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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**NOTE 12:     POSTEMPLOYMENT BENEFITS (Continued)**

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment benefits were \$634,736. The OP&F's total health care expenses for the year ended December 31, 2004 (the latest information available) were \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004 was 13,812 for police and 10,528 for firefighters.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 13: LONG-TERM OBLIGATIONS**

The changes in the City's long-term obligations during 2005 were as follows:

	Interest Rate %	Outstanding 01/01/05	Additions	(Reductions)	Outstanding 12/31/05	Amounts Due Within One Year
<b>Governmental Activities</b>						
Special Assessment Bonds:						
1987 Industry Avenue	7.25	72,000	0	(18,000)	54,000	18,000
1995 Elm/Woodlawn/Pine Street	5.20	40,000	0	(40,000)	0	0
1996 Market/Collett/Elmwood	5.80	30,000	0	(15,000)	15,000	15,000
Total Special Assessment Bonds		<u>142,000</u>	<u>0</u>	<u>(73,000)</u>	<u>69,000</u>	<u>33,000</u>
Unvoted General Obligation Bonds:						
1999 Various Purpose Refunding Bonds	4.00-5.80					
Municipal Center Refunding		1,040,000	0	(155,000)	885,000	160,000
Parking Facility		730,000	0	(25,000)	705,000	25,000
2004 - YMCA Parking Lot Project	2.00-4.5	200,000	0	(10,000)	190,000	10,000
Unamortized Premium		1,001	0	(50)	951	50
Total Unvoted General Obligation Bonds		<u>1,971,001</u>	<u>0</u>	<u>(190,050)</u>	<u>1,780,951</u>	<u>195,050</u>
Bond Anticipation Notes:						
Metcalf St Reconstruction	4.00	0	500,000	0	500,000	500,000
Unamortized Premium		0	4,437	0	4,437	4,437
Total Bond Anticipation Notes		<u>0</u>	<u>504,437</u>	<u>0</u>	<u>504,437</u>	<u>504,437</u>
Other Long-Term Obligations:						
Compensated Absences		2,777,813	2,874,334	(2,777,813)	2,874,334	27,587
Intergovernmental Payables		454,462	469,605	(454,462)	469,605	469,605
Judgement Payable		303,500	0	(85,902)	217,598	217,598
Total Other Long-Term Obligations		<u>3,535,775</u>	<u>3,343,939</u>	<u>(3,318,177)</u>	<u>3,561,537</u>	<u>714,790</u>
Total Governmental Activities		<u>5,648,776</u>	<u>3,848,376</u>	<u>(3,581,227)</u>	<u>5,915,925</u>	<u>1,447,277</u>

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 13: LONG-TERM OBLIGATIONS (Continued)**

	Interest Rate %	Outstanding 01/01/05	Additions	(Reductions)	Outstanding 12/31/05	Due Within One Year
<b>Business-Type Activities</b>						
Water Refunding - 1999 Issue	4.00-5.30	\$ 2,075,000	\$ 0	\$ (130,000)	\$ 1,945,000	\$ 135,000
Unamortized Accounting Loss		(117,167)	7,341	0	(109,826)	(7,623)
Unamortized Discount		(29,349)	1,839	0	(27,510)	(1,910)
Total Water Refunding - 1999 Issue		1,928,484	9,180	(130,000)	1,807,664	125,467
Water Refunding - 2004 Issue	2.00-4.50	1,790,000	0	(295,000)	\$ 1,495,000	305,000
Unamortized Premium		9,249	0	(1,524)	\$ 7,725	1,576
Total Water Refunding - 2004 Issue		1,799,249	0	(296,524)	1,502,725	306,576
Total Water General						
Obligation Bonds		3,727,733	9,180	(426,524)	3,310,389	432,043
Sewer Refunding - 1999 Issue	4.00-5.30	2,410,000	0	(105,000)	2,305,000	110,000
Unamortized Accounting Loss		(141,466)	6,164	0	(135,302)	(6,457)
Unamortized Discount		(35,334)	1,539	0	(33,795)	(1,613)
Total Sewer Refunding - 1999 Issue		2,233,200	7,703	(105,000)	2,135,903	101,930
Sewer - 2004 Issue	2.00-4.50	6,710,000	0	(560,000)	6,150,000	565,000
Unamortized Premium		34,724	0	(2,898)	31,826	2,924
Total Sewer Refunding - 2004 Issue		6,744,724	0	(562,898)	6,181,826	567,924
Total Sewer General						
Obligation Bonds		8,977,924	7,703	(667,898)	8,317,729	669,854
Total Unvoted General						
Obligation Bonds		12,705,657	16,883	(1,094,422)	11,628,118	1,101,897
<b>Bond Anticipation Notes:</b>						
Sewer System Improvements	4.00	0	8,400,000	0	8,400,000	8,400,000
Unamortized Premium		0	84,296	0	84,296	84,296
Total Bond Anticipation Notes		0	8,484,296	0	8,484,296	8,484,296
<b>Other Long-Term Obligations:</b>						
Bresler Termination Agreement	0.0	2,557,482	0	(142,082)	2,415,400	142,082
OWDA Loan	5.50	441,123	0	(220,564)	220,559	220,562
OWDA Loan	3.75	6,348,386	0	(284,038)	6,064,348	294,790
Compensated Absences		776,788	103,707	0	880,495	0
Total Other Long-Term Obligations		10,123,779	103,707	(646,684)	9,580,802	657,434
Total Business-Type Activities		22,829,436	8,604,886	(1,741,106)	29,693,216	10,243,627
Totals		\$ 28,478,212	\$ 12,453,262	\$ (5,322,333)	\$ 35,609,141	\$ 11,690,904

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

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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**NOTE 13: LONG-TERM OBLIGATIONS (Continued)**

***Special Assessment Bonds*** – Special assessment bonds are payable from the proceeds of assessments levied against the specific property owners who primarily benefited from the project. Special assessment monies will be received and the debt will be retired through the Special Assessment Bond Retirement Debt Service Fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments. The City also issues special assessments between funds. These assessments due in one year are included in Interfund Receivables/Payables, and the amounts due in excess of one year are included in Due to/from Other Funds. The Debt Service Fund made principal payments in the amount of \$93,390 towards these interfund assessments.

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

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

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

***Bond Anticipation Notes*** – The bond anticipation notes represent short-term amounts borrowed by the City to pay for improvements in anticipation of issuing new bonds. During 2005, \$500,000 in bond anticipation notes were issued for street reconstruction. \$8,400,000 in bond anticipation notes were issued for sewer system improvements.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 13: LONG-TERM OBLIGATIONS (Continued)**

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

	General Obligation		Special Assessments		Total	
	(Gross)		Principal	Interest	Principal	Interest
	Principal	Interest				
2006	195,000	90,613	33,000	4,785	228,000	95,398
2007	205,000	81,483	18,000	2,610	223,000	84,093
2008	210,000	71,725	18,000	1,305	228,000	73,030
2009	225,000	61,600	0	0	225,000	61,600
2010	235,000	50,500	0	0	235,000	50,500
2011-2015	305,000	165,838	0	0	305,000	165,838
2016-2019	405,000	59,745	0	0	405,000	59,745
<b>Total</b>	<b>\$1,780,000</b>	<b>\$ 581,504</b>	<b>\$ 69,000</b>	<b>\$ 8,700</b>	<b>\$1,849,000</b>	<b>\$ 590,204</b>

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

	Bresler		General Obligation		OWDA Loans		Total	
	Termination Agreement		(Gross)		Principal	Interest	Principal	Interest
	Principal	Interest	Principal	Interest				
2006	142,082	0	1,115,000	507,465	515,354	233,773	1,772,436	741,238
2007	142,082	0	1,155,000	473,955	305,948	213,517	1,603,030	687,472
2008	142,082	0	1,195,000	433,385	317,529	201,937	1,654,611	635,322
2009	142,082	0	1,230,000	388,030	329,547	189,917	1,701,629	577,947
2010	142,082	0	1,290,000	337,630	342,021	177,443	1,774,103	515,073
2011-2015	710,410	0	3,395,000	893,458	1,914,380	682,943	6,019,790	1,576,401
2016-2020	710,410	0	1,275,000	473,195	2,305,235	292,141	4,290,645	765,336
2021-2024	284,170	0	1,240,000	151,985	254,894	4,779	1,779,064	156,764
<b>Total</b>	<b>\$ 2,415,400</b>	<b>\$ 0</b>	<b>\$ 11,895,000</b>	<b>\$ 3,659,103</b>	<b>\$ 6,284,908</b>	<b>\$ 1,996,450</b>	<b>\$ 20,595,308</b>	<b>\$ 5,655,553</b>

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**NOTE 14: INTERFUND TRANSACTIONS**

***A. Interfund Transactions***

As of December 31, 2005, balance sheet receivable and payables that resulted from cash advances were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>
General	\$ 224,574	\$ 0	\$ 0	\$ 0
Other Governmental Funds:				
G-TV 2		1,593		
Weed/Seed 2005 Site 3	0	7,764	0	0
Weed/Seed 2005 Site 2	0	9,831	0	0
2001 Weed and Seed	0	49,055	0	0
2001 JB	0	3,736	0	0
GHSO Traffic Signage	0	9,022	0	0
LEOP	0	19,617	0	0
Fire/EMW	0	39	0	0
ODOD Brownfield		109,931		
2002 JB	0	13,986	0	0
Debt Service	27,590		0	46,140
Capital Projects	0	95,800	136,510	0
Business-Type Activities				
Water	61,887	0	0	81,945
Sewer	6,323	0	0	8,425
Totals	<u>\$ 320,374</u>	<u>\$ 320,374</u>	<u>\$ 136,510</u>	<u>\$ 136,510</u>



**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**NOTE 14: INTERFUND TRANSACTIONS (Continued)**

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

	Transfers In	Transfers Out
General	\$ 0	\$ 271,503
Other Governmental Funds:		
Weed/Property Cleanup	0	0
Street Repair	0	0
Debt Service	305,030	93,390
Capital Projects	93,390	33,527
	\$ 398,420	\$ 398,420
Totals		

**NOTE 15: DEFERRED REVENUE**

Deferred revenue at December 31, 2005 consisted of the following:

	Statement of Net Assets	Balance Sheet
Property Taxes Receivable	\$ 1,259,586	\$ 1,402,612
Income Taxes Receivable	0	1,556,550
Grants Receivable	6,340,220	8,172,129
Special Assessments Receivable	2,281,064	2,281,064
	\$ 9,880,870	\$ 13,412,355
Deferred Revenue		

**CITY OF LIMA – ALLEN COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2005**

**NOTE 16: CONTRACTUAL COMMITMENTS**

As of December 31, 2005, the City had contractual commitments for the following projects:

	Contractual Commitment	Expended	Balance 12/31/2005
MWA Constructors - CSO Control Structures Sluice Gates	\$ 1,545,000	\$ 0	\$ 1,545,000
Smeal Fire Apratus - Ladder Truck	726,995	0	726,995
Shelly Company - 2005 State Issue II Street Resurfacing	514,522	0	514,522
Lutz Concrete, Inc - 2005 Combined Sidewalk Project	141,352	125,497	15,855
Shelly Company - Metcalf St Reconstruction	781,880	481,213	300,667
Bluffton Paving, Inc - 2005 CDBG Street Resurfacing	305,512	198,607	106,905
Miller Cable Company - Market St Signal Improvements	173,750	0	173,750
Bluffton Paving, Inc - Widen Faurot/Lincoln Bikepath	57,418	54,337	3,081
ITS Group - Fiber Optic Cable Installation Project	20,000	0	20,000
Totals	\$ 4,266,429	\$ 859,654	\$ 3,406,775

**NOTE 17: CONTINGENT LIABILITIES**

***A. Grants***

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City at December 31, 2005.

***B. Litigation***

As of December 31, 2005, the City was a party to various legal proceedings seeking damages or injunctive relief, arising in the course of ordinary business. The ultimate disposition of these proceedings is not presently determinable, but will not, in the opinion of the City Attorney, have a material adverse effect on the overall financial condition of the City.

In addition to the above, the City has been notified by the United States Environmental Protection Agency (USEPA) that it is required to eliminate wastewater contamination to the Ottawa River, Allen County, Ohio. As of the date of these financial statements, no judicial complaint has been filed. The City is presently engaged in ongoing discussions to determine an acceptable compliance strategy, including projected costs, on a going forward basis. The ultimate cost of the strategy could have a material effect on the City's financial statements.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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**NOTE 18: ACCOUNTABILITY & COMPLIANCE**

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

<u>Fund</u>	<u>Deficit Cash Balance</u>
G-TV 2	\$ 1,593
Weed/Seed Site 3	7,764
Weed/Seed Site 2	9,831
Fire/EMW	39
2001-WS-QX-0157 Weed/Seed 2	49,055
2001-JB-013-A049	3,736
ODOD Brownfield	109,931
2002-JB-013-A049 JAIBG	13,986
LEOP	19,617
GHSO Traffic Signage	9,022

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

Mayor and Members of Council  
City of Lima  
Lima, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lima, Ohio (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated June 5, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated June 5, 2006.

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

*Rea & Associates, Inc.*

June 5, 2006

*We're Ready For Your Future*

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

Mayor and Members of Council  
City of Lima  
Lima, Ohio

Compliance

We have audited the compliance of the City of Lima, Ohio (the City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005. However, we noted other matters involving compliance, which we have reported to management of the City in a separate letter dated June 5, 2006.

Internal Control over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated June 5, 2006.

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

*Rea & Associates, Inc.*

June 5, 2006

**CITY OF LIMA, OHIO**  
**Schedule of Expenditures of Federal Awards**  
**Year ended December 31, 2005**

Federal Grantor/ Program Title	CFDA Number	Agency or Pass-Through Number	Federal Receipts	Federal Disbursements
<b>U. S. Department of Housing and Urban Development</b>				
Direct Programs:				
Community Development Block Grant	14.218	MC-39-0014	\$ 1,367,858	\$ 1,367,570
HOME Renewal Program	14.239	MC-39-0219	148,765	96,242
Total U.S. Department of Housing and Urban Development			<u>1,516,623</u>	<u>1,463,812</u>
<b>U.S. Department of Justice</b>				
Direct Programs:				
Asset for Forfeiture	16.000		0	1,957
Juvenile Accountability and Incentive Block Grant	16.523	2002-JB-013-A049	0	2,504
Juvenile Accountability and Incentive Block Grant	16.523	2003-JB-013-A049	12,800	0
<i>Total Juvenile Accountability and Incentive Block Grant</i>			<u>12,800</u>	<u>2,504</u>
Weed and Seed	16.595	2001-WS-QX-0157	229,902	62,122
Weed and Seed	16.595	2003-WS-QX-007	330,000	36,854
Weed and Seed	16.595	2005-WS-Q5-0047	0	7,764
Weed and Seed	16.595	2005-WS-q5-0048	1,200	11,034
<i>Total Weed and Seed</i>			<u>561,102</u>	<u>117,774</u>
Secure Schools	16.710	2002-CKWX-0276	18,144	0
Law Enforcement Block Grant	16.592	2003-LB-BX-1700	0	9,800
Total Direct Programs			592,046	132,035
Pass through Programs:				
Ohio Department of Justice Byrne Grant	16.579	2003-DG-B02-7341	15,126	5,779
Ohio Department of Justice Byrne Grant	16.579	2003-DB-B01-7087	4,514	0
Ohio Department of Justice Byrne Grant	16.579	2004-DG-B02-7341	25,927	16,047
Ohio Department of Justice Byrne Grant	16.579	2004-DG-B01-7087	14,729	12,068
<i>Total Byrne Grant</i>			<u>60,296</u>	<u>33,894</u>
Ohio Department of Justice-Collaborative Electronic Project	16.609	PS-PSN-314	33,355	31,137
Total Pass through Programs			<u>93,651</u>	<u>65,031</u>
Total U.S. Department of Justice			<u>685,697</u>	<u>197,066</u>
<b>U.S. Department of Transportation</b>				
Pass through Programs:				
State and Community Highway Safety	20.600		35,119	33,012
Total U.S. Department of Transportation			<u>35,119</u>	<u>33,012</u>
<b>U.S. Department of Homeland Security</b>				
Direct Programs:				
Fire Prevention and Safety Program	97.044		144,487	144,526
Pass through Programs:				
Disaster Assistance	97.036		739,196	577,962
Total U.S. Department of Homeland Security			<u>883,683</u>	<u>722,488</u>
<b>Total Federal Financial Assistance</b>			<u>\$ 3,121,122</u>	<u>\$ 2,416,378</u>

See accompanying independent auditors' report.

See accompanying notes to schedule of expenditures of federal awards

## **CITY OF LIMA, OHIO**

### Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

**(1) General**

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

**(2) Basis of Accounting**

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



**CITY OF LIMA, OHIO**

Part III – Schedule of Findings and Questioned Costs

Year ended December 31, 2005

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

(a) Type of report issued on the basic financial statements	<b>Unqualified</b>
(b) Reportable conditions in internal control were disclosed by the audit of the financial statements	<b>No</b>
Material weaknesses	<b>No</b>
(c) Noncompliance which is material to the basic financial statements	<b>No</b>
(d) Reportable conditions in internal controls over major programs	<b>No</b>
Material weaknesses	<b>No</b>
(e) Type of report issued on compliance for major programs	<b>Unqualified</b>
(f) Any audit findings which are required to be reported under Section 510(s) of OMB Circular A-133	<b>No</b>
(g) Major Programs	<b>Public Assistance Grant CFDA #97.036</b>
	<b>Firefighter Assistance Grant CFDA #97.044</b>
(h) Dollar threshold used to distinguish between Type A and Type B programs	<b>\$300,000</b>
(i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133	<b>Yes</b>

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

None

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

None

**CITY OF LIMA, OHIO**

Part IV – Summary Schedule of Prior Audit Findings

Year ended December 31, 2005

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2004-01	Section 5705.39 of the Ohio Revised Code states the total appropriations from each fund should not exceed the total estimated revenues of the fund. Several funds had appropriations in excess of estimated resources plus available balances for the year ended December 31, 2004.	Yes	
2004-02	Section 5705.10 of the Ohio Revised Code states that money paid into any fund shall be used only for the purposes for which such fund was established. The existence of a deficit cash balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund or funds carrying the deficit cash balance.	No	The amounts in question are no longer material, and have been cited in the management letter.



**Auditor of State  
Betty Montgomery**

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**CITY OF LIMA**

**ALLEN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 29, 2006**