



**City of Lima
Allen County**
Basic Financial Statements

For the Year Ended December 31, 2008



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.



Mary Taylor, CPA
Auditor of State

Mayor and Members of Council
City of Lima
50 Town Square
Lima, Ohio 45801

We have reviewed the *Independent Auditor's Report* of the City of Lima, Allen County, prepared by Rea & Associates, Inc., for the audit period January 1, 2008 through December 31, 2008. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 10, 2009

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Basic Financial Statements
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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

June 12, 2009

To the Mayor and Members of Council
City of Lima
Lima, Ohio

INDEPENDENT AUDITOR'S REPORT

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, as of and for the year ended December 31, 2008, 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 of Lima'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, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for and the respective changes budgetary comparisons for the General Fund and CDBG Fund 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 12, 2009 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 are 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, 2008

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, 2008. 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 2008 are as follows:

- General Revenues accounted for \$23.6 million in revenue or 41 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$33.6 million or 59 percent of total revenues of \$57.2 million.
- Total program expenses were \$54.5 million, \$34.3 million in governmental activities and \$20.2 million in business-type activities.
- In total, net assets increased \$2,662,504. Net assets of governmental activities increased \$1,974,462, which represents a 3.7 percent increase from 2007. Net assets of business-type activities increased \$688,042 or 1.5 percent from 2007.
- Outstanding debt decreased from \$32,689,854 to \$30,685,753. The City did rollover \$14,110,000 in bond anticipation notes originally issued in 2005, 2006 and 2007. \$13.4 million of these notes are recorded in the business type activities. \$8.4 million will be used to fund sewer system improvements, \$5 million will be used for water system improvements. \$710,000 of the bond anticipation notes are accounted for in the governmental type activities and were used for street reconstruction and traffic signal improvements and to purchase a new ladder truck for the fire department. These notes are accounted for in the governmental type activities. Other than the bond anticipation note rollovers, the City did not issue new debt in 2008.

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 2008 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

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2008

presented in total in one column. In the case of the City of Lima, the general fund is by far the most significant fund.

A question typically asked about the City's finances "How did we do financially during fiscal year 2008?" 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 special assessment debt service fund.

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 additional services or 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

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2008

Special Assessment Debt Service 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 2008 compared to 2007:

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Current and Other Assets	\$ 33,050,394	\$ 31,822,864	\$ 19,929,086	\$ 24,056,449	\$ 52,979,480	\$ 55,879,313
Capital Assets	42,776,665	41,847,350	59,400,511	56,655,039	102,177,176	98,502,389
Total Assets	75,827,059	73,670,214	79,329,597	80,711,488	155,156,656	154,381,702
Liabilities						
Long-Term Liabilities	4,683,602	5,110,605	29,594,043	31,324,989	34,277,645	36,435,594
Other Liabilities	15,979,674	15,370,288	1,976,178	2,315,165	17,955,852	17,685,453
Total Liabilities	20,663,276	20,480,893	31,570,221	33,640,154	52,233,497	54,121,047
Net Assets						
Invested in Capital Assets Net of Debt	40,891,497	39,603,772	44,045,884	39,670,190	84,937,381	79,273,962
Restricted	6,898,418	8,069,692	0	0	6,898,418	8,069,692
Unrestricted	7,373,868	5,515,857	3,713,492	7,401,144	11,087,360	12,917,001
Total Net Assets	\$ 55,163,783	\$ 53,189,321	\$ 47,759,376	\$ 47,071,334	\$ 102,923,159	\$ 100,260,655

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2008

Total assets increased by \$774,954 with governmental assets increasing \$2.2 million and business-type assets decreasing \$1.4 million. The increase of \$1.2 million in governmental activities Current and Other Assets is the result of an increase in the cash balances of \$2.2 million, an increase in special assessments receivable of \$1.3 million and a decrease in intergovernmental receivables of \$2.1 million. The increase in special assessments receivable is the result of property maintenance charges, demolition charges and sidewalk replacement assessments placed on the property tax bills in 2009. The decrease in intergovernmental receivables is the result of grant funds being received in 2008 that were recorded as receivable in 2007. The \$929,315 increase to capital assets is discussed in the capital asset section of the MD & A. The \$4.1 million decrease in business-type activities Current and Other Assets is due to a decrease in the cash balances of \$4.6 million in the utility funds and an increase of \$314,185 in accounts receivable. The materials and supplies balance also increased \$49,182 and the internal balance total increased \$116,100. The \$2.7 million increase to business-type activities capital assets is also discussed later in this MD & A.

Total liabilities decreased by \$1.9 million, with business-type liabilities decreasing \$2.1 million and governmental activities liabilities increasing \$182,383. The decrease in business-type liabilities was the result of the decrease of outstanding debt by \$1.7 million. The increase to governmental activities liabilities was caused by an increase in deferred revenue of \$229,960. This deferred revenue is related to several capital project related grants received by the City in 2008.

Total net assets increased by \$2.66 million. This number reflects an increase in governmental activities of \$1.97 million and an increase in the net assets of the business-type activities of \$688,042.

Table 2 shows the changes in net assets for fiscal year 2008. This table also compares changes in net assets between 2008 and 2007. This will enable the reader to draw further conclusion about the City's financial status and possibly project future issues.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2008

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
<i>Program Revenues:</i>						
Charges for Services	\$ 7,944,128	\$ 6,999,361	\$ 20,304,358	\$ 19,763,947	\$ 28,248,486	\$ 26,763,308
Operating Grants	2,240,916	2,390,610	0	0	2,240,916	2,390,610
Capital Grants	2,598,125	6,000,196	518,034	66,592	3,116,159	6,066,788
<i>General Revenue:</i>						
Property Taxes	1,317,502	1,528,122	0	0	1,317,502	1,528,122
Income Taxes	15,421,494	15,745,829	0	0	15,421,494	15,745,829
Other Local Taxes	133,697	106,714	0	0	133,697	106,714
Grants and Entitlements	5,587,915	4,299,920	0	0	5,587,915	4,299,920
Gain on Sale of Capital Assets	8,078	49,961	16,541	117,304	24,619	167,265
Investments	981,926	1,606,077	26,808	41,943	1,008,734	1,648,020
Miscellaneous	82,102	58,909	0	0	82,102	58,909
Total Revenues	36,315,883	38,785,699	20,865,741	19,989,786	57,181,624	58,775,485
Program Expenses						
General Government	7,990,138	9,131,888	0	0	7,990,138	9,131,888
Security of Persons and Property	16,217,669	15,475,457	0	0	16,217,669	15,475,457
Transportation	5,460,764	4,691,638	0	0	5,460,764	4,691,638
Community Environment	3,331,755	3,042,188	0	0	3,331,755	3,042,188
Leisure Time Activities	1,231,283	1,162,245	0	0	1,231,283	1,162,245
Interest and Fiscal Charges	109,812	128,003	0	0	109,812	128,003
<i>Enterprise Operations:</i>						
Water	0	0	9,466,922	8,735,236	9,466,922	8,735,236
Sewer	0	0	7,841,434	7,545,247	7,841,434	7,545,247
Refuse	0	0	2,869,343	2,089,167	2,869,343	2,089,167
Total Program Expenses	34,341,421	33,631,419	20,177,699	18,369,650	54,519,120	52,001,069
Increase in Net Assets	\$ 1,974,462	\$ 5,154,280	\$ 688,042	\$ 1,620,136	\$ 2,662,504	\$ 6,774,416

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2008

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 effect 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 sources of revenues very closely for fluctuations.

Police and fire represent the largest expense of the Governmental Activities. This expense of \$16,217,669 represents 47.2 percent of the total governmental services expenses. These two departments operate out of the General fund.

General government expenses equaled \$7,990,138 or 23.3 percent 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 30 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 \$5,460,764 or 15.9 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 \$3,331,755 in 2008. This is 9.7 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 \$1,231,283 in 2008 equaling 3.6 percent of the total governmental services expenses.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2008

Business-Type Activities

Business-type activities include water, sewer and refuse operations. The revenues are generated primarily from charges for services. In 2008, charges for services of \$20,304,358 accounted for 97.5 percent of the revenues. The total expenses for the utilities were \$20,177,699, leaving an increase in net assets of \$688,042 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 \$37,644,446, an increase of \$300,399 or less than 1 percent over 2007. All governmental funds also had expenditures of \$36,881,668, a decrease of \$2,193,007 or 5.6 percent under 2007. 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 20. These funds are accounted for on an accrual basis. All enterprise funds had operating revenues of \$20,304,358, an increase of \$540,411 or 2.7 percent from 2007. Enterprise funds operating expenses totaled \$19,257,033, an increase of \$2,021,274 or 11.7 percent over 2007. 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 2008, 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 \$29.2 million, even with the final budget estimates of \$29.2 million. Property tax and municipal income tax revenues were under the projected amounts by \$61,971 and \$488,966 respectively. Intergovernmental revenues exceeded projections by \$919,519. The large variance in Intergovernmental revenue is due to a larger than normal inheritance tax settlement in 2008. Also coming in under projections were Fees, Licenses and Permits revenue by \$99,475 and Fines and Forfeitures revenues by \$198,606. Investment income was also lower than estimated by \$497,535

Actual expenditures of \$28.4 million were \$2.1 million lower than the final appropriations of \$30.5 million. All of the City's departments came in under budget in 2008 largely due to a hiring freeze instituted in 2007 and lifted in the second half of 2008. Higher than estimated revenues and lower than estimated expenditures, caused the general fund balance to increase by \$514,484.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2008

Capital Assets and Debt Administration

Capital Assets

At the end of year 2008, the City had \$102 million invested in land, buildings, equipment, infrastructure and vehicles. A total of \$42.8 million of this was for governmental activities with the remainder of \$59.4 million attributable to business-type activities. Table 3 shows fiscal year 2008 balances compared with 2007.

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

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 6,588,080	\$ 5,905,909	\$ 4,603,395	\$ 3,848,039	\$ 11,191,475	\$ 9,753,948
Construction in Progress	692,781	2,067,599	3,835,722	2,537,353	4,528,503	4,604,952
Buildings and Improvements	8,784,616	9,040,530	23,457,609	24,440,365	32,242,225	33,480,895
Furniture and Equipment	1,174,825	1,265,963	6,583,342	7,150,097	7,758,167	8,416,060
Vehicles	1,155,311	901,944	984,956	828,243	2,140,267	1,730,187
Capitalized Interest	0	0	607,103	810,127	607,103	810,127
Infrastructure	24,381,052	22,665,405	19,328,384	17,040,815	43,709,436	39,706,220
Totals	\$ 42,776,665	\$ 41,847,350	\$ 59,400,511	\$ 56,655,039	\$ 102,177,176	\$ 98,502,389

Total capital assets increased by \$3.67 million in 2008. Governmental activities capital assets increased \$929,315. Infrastructure assets increased by \$1.7 million due to road construction work completed in 2008. There were fewer projects in progress at years end decreasing the construction in progress in the governmental activities by \$1.4 million. Business-Type activities saw an increase in capital assets of \$2.75 million. Land assets increased by \$755,356 primarily due to purchases associated with the construction of a new reservoir on the west side of Lima. Infrastructure assets increased \$2.3 million in 2008 due to several water line replacement projects being completed. Note 8 provides capital asset activity during the 2008 year.

Debt Administration

The outstanding debt for the City as of December 31, 2008 was \$30,685,753. This balance reflects an increase and decrease of \$2,004,101 from the previous year's balance of \$32,689,854, a decrease of 6.1 percent. Other than rolling over the prior year's bond anticipation notes, the City did not issue new debt in 2008. Table 4 summarizes outstanding debt.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2008

(Table 4)
Outstanding Debt, at December 31

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds	\$ 1,170,801	\$ 1,380,851	\$ 8,219,393	\$ 9,390,007	\$ 9,390,194	\$ 10,770,858
Special Assessment Bonds	0	18,000	0	0	0	18,000
OWDA Loans	0	0	5,146,078	5,463,606	5,146,078	5,463,606
Bresler Termination Agreement	0	0	1,989,154	2,131,236	1,989,154	2,131,236
Notes Payable	714,367	862,727	13,445,960	13,443,427	14,160,327	14,306,154
<i>Total</i>	<u>\$ 1,885,168</u>	<u>\$ 2,261,578</u>	<u>\$ 28,800,585</u>	<u>\$ 30,428,276</u>	<u>\$ 30,685,753</u>	<u>\$ 32,689,854</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 loan is issued by the Ohio Water Development Administration to finance improvements at the City's wastewater treatment plant. This loan is to be repaid from business-type activities charges for services revenue.

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) 2008 bond anticipation notes for street reconstruction projects repaid from general governmental activities revenue; (2) 2008 bond anticipation notes for the purchase of a ladder truck for the fire department repaid from general governmental activities revenue, (3) 2008 bond anticipation notes for sewer system improvements to be

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2008

repaid from business-type charges for services revenue, (4) 2008 bond anticipation notes for water 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 for future economic development

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 45801.

CITY OF LIMA - ALLEN COUNTY
Statement of Net Assets
December 31, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 11,744,379	\$ 14,475,212	\$ 26,219,591
Cash and Cash Equivalents:			
In Segregated Accounts	331,581	704,215	1,035,796
With Fiscal Agents and Escrow Agents	15,641	0	15,641
Taxes Receivable	4,154,413	0	4,154,413
Accounts Receivable	554,289	3,527,913	4,082,202
Intergovernmental Receivable	10,570,169	0	10,570,169
Special Assessments Receivable	4,249,835	0	4,249,835
Accrued Interest Receivable	537,628	880	538,508
Materials and Supplies Inventory	46,158	160,669	206,827
Notes Receivable	1,187,686	0	1,187,686
Prepaid Items	85,678	79,556	165,234
Unamortized Bond Issuance Costs	7,283	127,014	134,297
Internal Balances	(434,346)	434,346	0
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	0	419,281	419,281
Nondepreciable Capital Assets	7,280,861	8,439,117	15,719,978
Depreciable Capital Assets, Net	35,495,804	50,961,394	86,457,198
Total Assets	75,827,059	79,329,597	155,156,656
Liabilities			
Accounts Payable	442,567	710,094	1,152,661
Contracts Payable	88,548	166,708	255,256
Accrued Wages	857,539	226,082	1,083,621
Intergovernmental Payable	995,849	210,535	1,206,384
Deferred Revenue	13,277,016	0	13,277,016
Accrued Interest Payable	18,114	243,478	261,592
Claims Payable	300,041	0	300,041
Payable from Restricted Assets:			
Refundable Deposits	0	419,281	419,281
Long-Term Liabilities:			
Due Within One Year	1,058,392	15,117,751	16,176,143
Due In More Than One Year	3,625,210	14,476,292	18,101,502
Total Liabilities	20,663,276	31,570,221	52,233,497
Net Assets			
Invested in Capital Assets, Net of Related Debt	40,891,497	44,045,884	84,937,381
Restricted for:			
Capital Projects	142,829	0	142,829
Debt Service	434,498	0	434,498
Other Purposes	6,321,091	0	6,321,091
Unrestricted	7,373,868	3,713,492	11,087,360
Total Net Assets	\$ 55,163,783	\$ 47,759,376	\$ 102,923,159

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY

Balance Sheet

Governmental Funds

December 31, 2008

	General	CDBG Special Revenue	Special Assessment Debt Service	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 4,117,471	\$ 3,159	\$ 3,171	\$ 5,675,131	\$ 9,798,932
Cash and Cash Equivalents:					
In Segregated Accounts	0	0	331,581	0	331,581
With Fiscal and Escrow Agents	0	0	15,641	0	15,641
Receivables:					
Taxes	4,126,293	0	0	28,120	4,154,413
Accounts	554,289	0	0	0	554,289
Intergovernmental	1,131,516	2,018,110	0	7,420,543	10,570,169
Special Assessments	0	957,387	3,215,025	77,423	4,249,835
Accrued Interest	537,273	0	355	0	537,628
Interfund Receivable	0	0	14,285	0	14,285
Materials and Supplies Inventory	0	0	0	6,504	6,504
Due From Other Funds	0	0	69,465	0	69,465
Notes Receivable	0	187,540	0	1,000,146	1,187,686
Prepaid Items	55,728	0	0	29,950	85,678
Advances to Other Funds	661,724	0	0	0	661,724
Total Assets	\$ 11,184,294	\$ 3,166,196	\$ 3,649,523	\$ 14,237,817	\$ 32,237,830
Liabilities					
Accounts Payable	\$ 224,053	\$ 11,230	\$ 0	\$ 89,659	\$ 324,942
Contracts Payable	52,068	30,247	0	6,233	88,548
Interfund Payable	0	0	0	49,600	49,600
Accrued Wages	787,384	17,179	0	52,976	857,539
Compensated Absences Payable	8,975	0	0	0	8,975
Intergovernmental Payable	948,812	11,996	0	35,041	995,849
Deferred Revenue	3,871,410	2,867,207	3,215,025	7,317,298	17,270,940
Due To Other Funds	0	0	0	242,640	242,640
Advances from Other Funds	0	0	0	661,724	661,724
Total Liabilities	5,892,702	2,937,859	3,215,025	8,455,171	20,500,757
Fund Balances					
Reserved for Encumbrances	166,310	185,435	0	1,238,681	1,590,426
Reserved for Notes Receivable	0	187,540	0	1,000,146	1,187,686
Reserved for Inventory	0	0	0	6,504	6,504
Reserved for Prepays	55,728	0	0	29,950	85,678
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	5,069,554	0	0	0	5,069,554
Special Revenue Funds	0	(144,638)	0	4,068,998	3,924,360
Debt Service Funds	0	0	434,498	0	434,498
Capital Projects Funds	0	0	0	(561,633)	(561,633)
Total Fund Balances	5,291,592	228,337	434,498	5,782,646	11,737,073
Total Liabilities and Fund Balances	\$ 11,184,294	\$ 3,166,196	\$ 3,649,523	\$ 14,237,817	\$ 32,237,830

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, 2008*

Total Governmental Funds Balances	\$11,737,073
 <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	42,776,665
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes	\$178,402
Income Tax	1,493,059
Intergovernmental	2,322,463
Unamortized Bond Issuance Costs	<u>7,283</u>
Total	4,001,207
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	1,567,435
Internal Balances	<u>(225,856)</u>
Total	1,341,579
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	(1,170,801)
Bond Anticipation Notes	(714,367)
Compensated Absences	(2,679,459)
Judgements Payable	(110,000)
Accrued Interest Payable	<u>(18,114)</u>
Total	<u>(4,692,741)</u>
 <i>Net Assets of Governmental Activities</i>	 <u><u>\$55,163,783</u></u>

CITY OF LIMA - ALLEN COUNTY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2008

	General	CDBG Special Revenue	Special Assessment Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$ 1,380,229	\$ 0	\$ 0	\$ 0	\$ 1,380,229
Municipal Income Taxes	15,598,533	0	0	0	15,598,533
Other Local Taxes	0	0	0	133,697	133,697
Intergovernmental	4,255,063	1,339,464	0	5,771,503	11,366,030
Charges for Services	4,789,365	22,444	0	479,333	5,291,142
Fees, Licenses and Permits	782,025	0	0	0	782,025
Fines and Forfeitures	984,555	0	0	459,329	1,443,884
Special Assessments	0	0	100,861	0	100,861
Contribution for Infrastructure	396,604	0	0	0	396,604
Investment Income	896,378	4,645	10,844	119,111	1,030,978
Miscellaneous	46,933	3,517	0	70,013	120,463
<i>Total Revenues</i>	<u>29,129,685</u>	<u>1,370,070</u>	<u>111,705</u>	<u>7,032,986</u>	<u>37,644,446</u>
Expenditures					
Current:					
Security of Persons and Property	15,664,555	0	0	393,700	16,058,255
Leisure Time Activities	1,042,632	0	0	79,405	1,122,037
Community Development	880,449	1,374,036	0	1,033,900	3,288,385
Transportation	1,728,660	0	0	2,233,961	3,962,621
General Government	7,747,663	0	0	140,378	7,888,041
Capital Outlay	120,459	55,000	0	3,179,226	3,354,685
Debt Service:					
Principal Retirement	860,000	0	18,000	210,000	1,088,000
Interest and Fiscal Charges	34,819	0	13,100	71,725	119,644
<i>Total Expenditures</i>	<u>28,079,237</u>	<u>1,429,036</u>	<u>31,100</u>	<u>7,342,295</u>	<u>36,881,668</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,050,448</u>	<u>(58,966)</u>	<u>80,605</u>	<u>(309,309)</u>	<u>762,778</u>
Other Financing Sources (Uses)					
Premium on General Obligation Bonds	627	0	0	0	627
Proceeds of Bonds	710,000	0	0	0	710,000
Proceeds from Sale of Capital Assets	7,278	0	0	0	7,278
Operating Transfers - In	0	0	86,800	483,689	570,489
Operating Transfers - Out	(330,299)	0	(153,390)	(86,800)	(570,489)
<i>Total Other Financing Sources (Uses)</i>	<u>387,606</u>	<u>0</u>	<u>(66,590)</u>	<u>396,889</u>	<u>717,905</u>
<i>Net Change in Fund Balances</i>	1,438,054	(58,966)	14,015	87,580	1,480,683
<i>Fund Balances Beginning of Year</i>	3,853,538	287,303	420,483	5,695,066	10,256,390
<i>Fund Balances End of Year</i>	<u>\$ 5,291,592</u>	<u>\$ 228,337</u>	<u>\$ 434,498</u>	<u>\$ 5,782,646</u>	<u>\$ 11,737,073</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
General Fund
For the Year Ended December 31, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$ 1,442,200	\$ 1,442,200	\$ 1,380,229	\$ (61,971)
Municipal Income Taxes	16,420,000	16,420,000	15,931,034	(488,966)
Intergovernmental	3,308,850	3,308,850	4,228,369	919,519
Charges for Services	4,526,300	4,526,300	4,705,926	179,626
Fees, Licenses and Permits	881,500	881,500	782,025	(99,475)
Fines and Forfeitures	1,195,000	1,195,000	996,394	(198,606)
Contributions for Infrastructure	0	0	396,604	396,604
Investment Income	1,250,000	1,250,000	752,465	(497,535)
Miscellaneous	180,000	180,000	46,933	(133,067)
Total Revenues	<u>29,203,850</u>	<u>29,203,850</u>	<u>29,219,979</u>	<u>16,129</u>
Expenditures				
Current:				
Security of Persons and Property	16,129,370	16,363,517	15,526,074	837,443
Leisure Time Activities	1,034,800	1,058,972	983,776	75,196
Community Development	914,285	949,546	874,682	74,864
Transportation	1,774,859	1,855,986	1,725,005	130,981
General Government	8,681,360	8,767,796	8,176,116	591,680
Capital Outlay	225,000	332,658	250,905	81,753
Debt Service:				
Principal Retirement	1,070,000	1,070,000	860,000	210,000
Interest and Fiscal Charges	106,641	106,641	34,819	71,822
Total Expenditures	<u>29,936,315</u>	<u>30,505,116</u>	<u>28,431,377</u>	<u>2,073,739</u>
Excess of Revenues Over (Under) Expenditures	<u>(732,465)</u>	<u>(1,301,266)</u>	<u>788,602</u>	<u>2,089,868</u>
Other Financing Sources (Uses)				
Proceeds of Bonds	760,000	760,000	710,627	(49,373)
Proceeds from Disposition of Fixed Assets	20,000	20,000	7,278	(12,722)
Operating Transfers - Out	(200,000)	(58,650)	(330,299)	(271,649)
Advances - In	0	(673,907)	(661,724)	12,183
Total Other Financing Sources (Uses)	<u>580,000</u>	<u>47,443</u>	<u>(274,118)</u>	<u>(321,561)</u>
Net Change in Fund Balance	(152,465)	(1,253,823)	514,484	1,768,307
Fund Balance Beginning of Year	2,860,576	2,860,576	2,860,576	0
Prior Year Encumbrances Appropriated	<u>404,681</u>	<u>404,681</u>	<u>404,681</u>	<u>0</u>
Fund Balance End of Year	<u>\$ 3,112,792</u>	<u>\$ 2,011,434</u>	<u>\$ 3,779,741</u>	<u>\$ 1,768,307</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, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 3,096,137	\$ 3,096,137	\$ 1,316,127	\$ (1,780,010)
Charges for Services	0	0	22,444	22,444
Revolving Loan Payments	0	0	50,482	50,482
Investment Income	0	0	4,671	4,671
Miscellaneous	0	0	3,612	3,612
<i>Total Revenues</i>	<u>3,096,137</u>	<u>3,096,137</u>	<u>1,397,336</u>	<u>(1,698,801)</u>
Expenditures				
Current:				
Community Development	2,653,583	2,653,583	1,560,787	1,092,796
Capital Outlay	55,000	55,000	55,000	0
<i>Total Expenditures</i>	<u>2,708,583</u>	<u>2,708,583</u>	<u>1,615,787</u>	<u>1,092,796</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>387,554</u>	<u>387,554</u>	<u>(218,451)</u>	<u>(606,005)</u>
<i>Net Change in Fund Balance</i>	387,554	387,554	(218,451)	(606,005)
<i>Fund Balance Beginning of Year</i>	(209,435)	(209,435)	(209,435)	0
Prior Year Encumbrances Appropriated	<u>208,583</u>	<u>208,583</u>	<u>208,583</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 386,702</u>	<u>\$ 386,702</u>	<u>\$ (219,303)</u>	<u>\$ (606,005)</u>

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY

Statement of Net Assets

Proprietary Funds

December 31, 2008

	Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Total	
Assets					
<i>Current Assets:</i>					
Equity in Pooled Cash and Cash Equivalents	\$ 4,645,424	\$ 9,295,952	\$ 533,836	\$ 14,475,212	\$ 1,945,447
Cash and Cash Equivalents in Segregated Accounts	638,395	65,820	0	704,215	0
<i>Receivables:</i>					
Accounts	1,272,492	1,654,625	600,796	3,527,913	0
Accrued Interest	798	82	0	880	0
Interfund Receivable	32,042	3,273	0	35,315	0
Materials and Supplies Inventory	128,206	32,463	0	160,669	39,654
Due from Other Funds	157,121	16,054	0	173,175	0
Prepaid Items	39,778	39,778	0	79,556	0
Unamortized Bond Issuance Costs	32,087	94,927	0	127,014	0
Total Current Assets	6,946,343	11,202,974	1,134,632	19,283,949	1,985,101
<i>Noncurrent Assets:</i>					
<i>Restricted Assets:</i>					
Equity in Pooled Cash and Cash Equivalents	419,281	0	0	419,281	0
<i>Capital Assets:</i>					
Nondepreciable Capital Assets	5,127,337	3,311,780	0	8,439,117	0
Depreciable Capital Assets, Net	22,251,682	28,709,712	0	50,961,394	0
Total Noncurrent Assets	27,798,300	32,021,492	0	59,819,792	0
Total Assets	34,744,643	43,224,466	1,134,632	79,103,741	1,985,101

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY

Statement of Net Assets

Proprietary Funds

December 31, 2008

Liabilities

Current Liabilities:

Accounts Payable	\$ 262,356	\$ 248,653	\$ 199,085	\$ 710,094	\$ 117,625
Contracts Payable	63,788	102,920	0	166,708	0
Accrued Wages	129,025	93,120	3,937	226,082	0
Compensated Absences Payable	1,037	660	188	1,885	0
Intergovernmental Payable	145,980	61,904	2,651	210,535	0
Accrued Interest Payable	91,582	151,896	0	243,478	0
Claims Payable	0	0	0	0	300,041
Bond Anticipation Notes	5,019,500	8,426,460	0	13,445,960	0
OWDA Loans Payable	0	329,546	0	329,546	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)	<u>476,518</u>	<u>721,760</u>	<u>0</u>	<u>1,198,278</u>	<u>0</u>

Total Current Liabilities

<u>6,331,868</u>	<u>10,136,919</u>	<u>205,861</u>	<u>16,674,648</u>	<u>417,666</u>
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Current Liabilities Payable from Restricted Assets:

Refundable Deposits	<u>419,281</u>	<u>0</u>	<u>0</u>	<u>419,281</u>	<u>0</u>
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Total Current Liabilities Payable from Restricted Assets

<u>419,281</u>	<u>0</u>	<u>0</u>	<u>419,281</u>	<u>0</u>
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Long-Term Liabilities:

Compensated Absences Payable (Net of Current Portion)	447,426	328,960	15,187	791,573	0
OWDA Loans Payable (Net of Current Portion)	0	4,816,532	0	4,816,532	0
Bresler Reservoir Termination Agreement	1,847,072	0	0	1,847,072	0
General Obligation Bonds Payable (Net of Current Portion, and where applicable, of unamortized discount and accounting loss)	<u>1,494,782</u>	<u>5,526,333</u>	<u>0</u>	<u>7,021,115</u>	<u>0</u>

Total Long-Term Liabilities

<u>3,789,280</u>	<u>10,671,825</u>	<u>15,187</u>	<u>14,476,292</u>	<u>0</u>
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Total Liabilities

<u>10,540,429</u>	<u>20,808,744</u>	<u>221,048</u>	<u>31,570,221</u>	<u>417,666</u>
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Net Assets

Invested in Capital Assets, Net of Related Debt	23,418,563	20,627,321	0	44,045,884	0
Unrestricted	<u>785,651</u>	<u>1,788,401</u>	<u>913,584</u>	<u>3,487,636</u>	<u>1,567,435</u>

Total Net Assets

<u>\$ 24,204,214</u>	<u>\$ 22,415,722</u>	<u>\$ 913,584</u>	<u>47,533,520</u>	<u>\$ 1,567,435</u>
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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:

225,856

Net Assets of Business-Type Activities

\$ 47,759,376

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, 2008*

	Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Total	
Operating Revenues					
Charges for Services	\$ 8,645,072	\$ 8,469,397	\$ 2,441,942	\$ 19,556,411	\$ 6,288,340
Other Operating Revenues	720,675	27,272	0	747,947	432,191
Total Operating Revenues	9,365,747	8,496,669	2,441,942	20,304,358	6,720,531
Operating Expenses					
Salaries	2,639,458	1,797,817	79,459	4,516,734	0
Fringe Benefits	1,179,087	857,391	31,633	2,068,111	0
Claims Expense	0	0	0	0	4,833,990
Other Services and Charges	4,298,321	2,825,469	2,760,331	9,884,121	1,292,503
Depreciation	1,133,394	1,654,673	0	2,788,067	0
Total Operating Expenses	9,250,260	7,135,350	2,871,423	19,257,033	6,126,493
Operating Income	115,487	1,361,319	(429,481)	1,047,325	594,038
Non-Operating Revenues (Expenses)					
Gain on Disposal of Fixed Assets	5,624	10,917	0	16,541	0
Intergovernmental Revenue	263,296	125,972	0	389,268	0
Tap-in Fees	63,445	0	0	63,445	0
Donated Capital Assets	0	65,321	0	65,321	0
Investment Income	24,323	2,485	0	26,808	0
Interest and Fiscal Charges	(287,673)	(761,190)	0	(1,048,863)	0
Total Non-Operating Revenues (Expenses)	69,015	(556,495)	0	(487,480)	0
Change in Net Assets	184,502	804,824	(429,481)	559,845	594,038
Net Assets Beginning of Year	24,019,712	21,610,898	1,343,065		973,397
Net Assets End of Year	\$ 24,204,214	\$ 22,415,722	\$ 913,584		\$ 1,567,435

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.

128,197

Change in Net Assets of Business-Type Activities

\$ 688,042

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, 2008

	Enterprise Funds				Internal Service Funds
	Water	Sewer	Refuse	Total	
Cash Flows from Operating Activities					
Cash Received from Customers	\$ 8,656,054	\$ 8,229,390	\$ 2,425,487	\$ 19,310,931	\$ 0
Cash Received from Interfund Services Provided	0	0	0	0	6,288,340
Other Cash Receipts	720,675	27,272	0	747,947	432,191
Cash Payments to Employees for Services	(2,616,845)	(1,777,718)	(78,572)	(4,473,135)	0
Cash Payments for Employee Benefits	(1,248,935)	(889,132)	(33,299)	(2,171,366)	0
Cash Payments for Other Services and Charges	(4,657,124)	(2,839,811)	(2,719,913)	(10,216,848)	(1,245,985)
Cash Payments for Claims	0	0	0	0	(4,812,842)
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>853,825</u>	<u>2,750,001</u>	<u>(406,297)</u>	<u>3,197,529</u>	<u>661,704</u>
Cash Flows from Capital and Related Financing Activities					
Cash Received from Tap-in Fees	63,445	0	0	63,445	0
Proceeds from Sale of Bond Anticipation Notes	5,019,500	8,426,460	0	13,445,960	0
Principal Paid on OWDA Debt	0	(317,528)	0	(317,528)	0
Principal Paid on General Obligation Bonds	(470,000)	(725,000)	0	(1,195,000)	0
Principal Paid on Bresler Reservoir Termination Agreement	(142,082)	0	0	(142,082)	0
Principal Paid on Bond Anticipation Notes	(5,000,000)	(8,400,000)	0	(13,400,000)	0
Interest Paid on Debt Obligation	(339,988)	(884,894)	0	(1,224,882)	0
Proceeds from State Subsidy	263,296	125,972	0	389,268	0
Payments for Capital Acquisitions	(3,503,858)	(1,964,360)	0	(5,468,218)	0
<i>Net Cash Provided by (Used in) Capital and Related Financing Activities</i>	<u>(4,109,687)</u>	<u>(3,739,350)</u>	<u>0</u>	<u>(7,849,037)</u>	<u>0</u>
Cash Flows from Investing Activities					
Gain on Sale of Assets	5,624	10,917	0	16,541	0
Proceeds from Sale of Investments	99,090	10,124	0	109,214	0
Purchase of Investments	(88,115)	(9,002)	0	(97,117)	0
Interest on Investments	24,512	2,504	0	27,016	0
<i>Net Cash Provided by Investing Activities</i>	<u>41,111</u>	<u>14,543</u>	<u>0</u>	<u>55,654</u>	<u>0</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	<u>(3,214,751)</u>	<u>(974,806)</u>	<u>(406,297)</u>	<u>(4,595,854)</u>	<u>661,704</u>
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>8,917,851</u>	<u>10,336,578</u>	<u>940,133</u>	<u>20,194,562</u>	<u>1,283,743</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 5,703,100</u>	<u>\$ 9,361,772</u>	<u>\$ 533,836</u>	<u>\$ 15,598,708</u>	<u>\$ 1,945,447</u>

See accompanying notes to the basic financial statements

(continued)

CITY OF LIMA - ALLEN COUNTY
Statement of Cash Flows
Proprietary Funds (continued)
For the Year Ended December 31, 2008

	Enterprise Funds				Internal Service Funds
	Water	Sewer	Refuse	Total	
Reconciliation of Operating Gain to Net Cash Provided by Operating Activities					
Operating Gain (Loss)	\$ 115,487	\$ 1,361,319	\$ (429,481)	\$ 1,047,325	\$ 594,038
Adjustments:					
Depreciation	1,133,394	1,654,673	0	2,788,067	0
(Increase) Decrease in Assets:					
Accounts Receivable	(57,723)	(240,007)	(16,455)	(314,185)	0
Materials and Supplies Inventory	(43,586)	(5,596)	0	(49,182)	14,334
Prepaid Items	(5,562)	(5,606)	0	(11,168)	0
Increase (Decrease) in Liabilities:					
Accounts Payable	156,988	156,420	39,755	353,163	32,184
Contracts Payable	(501,911)	(175,589)	0	(677,500)	0
Accrued Wages	22,613	20,099	887	43,599	0
Compensated Absences Payable	(69,848)	(31,741)	(1,666)	(103,255)	0
Retainage Payable	0	0	0	0	0
Intergovernmental Payable	35,268	16,029	663	51,960	0
Increase in Claims Payable	0	0	0	0	21,148
Increase in Refundable Deposits	68,705	0	0	68,705	0
<i>Net Cash Provided by (Used In) Operating Activities</i>	<u>\$ 853,825</u>	<u>\$ 2,750,001</u>	<u>\$ (406,297)</u>	<u>\$ 3,197,529</u>	<u>\$ 661,704</u>

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY
Combining Statement of Assets and Liabilities
Agency Funds
December 31, 2008

	<u>Agency</u>
Assets	
Equity Pooled in Cash and Cash Equivalents	\$ 214,182
Cash and Cash Equivalents in Segregated Accounts	486,375
Accounts Receivable	<u>2,450,830</u>
<i>Total Assets</i>	<u><u>\$ 3,151,387</u></u>
Liabilities	
Intergovernmental Payable	11,866
Undistributed Monies	2,937,205
Deposits Held and Due to Others	<u>202,316</u>
<i>Total Liabilities</i>	<u><u>\$ 3,151,387</u></u>

See accompanying notes to the basic financial statements

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

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 City has elected not to apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds. 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, 2008

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, 2008

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.

Special Assessment Debt Service Fund The Special Assessment Debt Service fund accounts for all debt related to special assessments. The special assessment debt service fund balance is available to the City to retire any existing or future special assessment debt.

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, 2008

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. The internal service fund accounts for the City's self-insured health insurance and gasoline provided to department of the City.

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.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, 2008

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, 2008, but which were levied to finance fiscal year 2009 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, 2008

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, 2008.

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 2008 amounted to \$896,378 which includes \$772,172 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, 2008, 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, 2008

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, 2008**

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 2008.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

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, 2008

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, notes receivable and prepaids.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

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 2008.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

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 the enterprise funds. The legal level of control is also set at the object level for several special revenue funds, the Street Repair fund, Recreational Activity fund and the CDBG fund. The level of control is at the fund 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.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

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, 2008**

NOTE 3: BUDGETARY BASIS OF ACCOUNTING (Continued)

Net Change in Fund Balance

	General	CDBG
GAAP Basis	\$ 1,438,054	\$ (58,966)
Revenue accruals	90,294	27,266
Expenditure accruals	(756,163)	35,711
Encumbrances	(257,701)	(222,462)
 Budget Basis	 \$ 514,484	 \$ (218,451)

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, 2008**

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, 2008

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 \$23,316,099. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2008, \$19,416,845 of the City's bank balance of \$23,716,959 was exposed to custodial risk as discussed above, while \$4,300,114 was covered by Federal Deposit Insurance Corporation.

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 4: DEPOSITS AND INVESTMENTS (Continued)

Investments

As of December 31, 2008, the City had the following investments and maturities:

Investment	Fair Value	Investment Maturities		
		6 Months or Less	7 to 12 Months	12 to 24 Months
Repurchase Agreements	\$ 2,017,385	\$ 2,017,385	\$ 0	\$ 0
Huntington Bank Money Market Accounts	96,188	96,188	0	0
Fifth Third Bank Money Market Account	1,291,521	1,291,521	0	0
STAR Ohio	1,669,673	1,669,673	0	0
	<u>\$ 5,074,767</u>	<u>\$ 5,074,767</u>	<u>\$ 0</u>	<u>\$ 0</u>

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, 2008, the City's investment in STAR Ohio was rated AAAM 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, 2008.

Investment	Fair Value	Percentage of Total
Repurchase Agreements	\$ 2,017,385	39.75%
Huntington Bank Money Market Accounts	96,188	1.90%
Fifth Third Bank Money Market Account	1,291,521	25.45%
STAR Ohio	1,669,673	32.90%
	<u>\$ 5,074,767</u>	<u>100.00%</u>

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

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.

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 2008 represent the collection of 2007 taxes. For 2008, real property taxes were levied after October 1, 2007, on the assessed value as of January 1, 2007, the lien date. These taxes will be collected in and are intended to finance 2008 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, 2007, on the assessed values as of December 31, 2007, 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 2008 (other than public utility property) represent the collection of 2008 taxes. For 2008, tangible personal property taxes were levied after April 1, 2007, on the value as of December 31, 2007, the lien date. For 2008, tangible personal property is assessed at 6.25% for property including inventory. This percentage will be reduced to zero for 2009. 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.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year.

**CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2008**

NOTE 6: PROPERTY TAXES (Continued)

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 2008 operations.

The full tax rate for all City operations for the year ended December 31, 2008 was 3.30 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2007 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$ 241,431,010
Commercial/Industrial	127,404,540
Tangible Personal	7,145,620
Public Utility Real	132,920
Public Utility Personal	16,173,920
Total	\$ 392,288,010

NOTE 7: RECEIVABLES

Receivables at December 31, 2008 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	\$ 1,272,492
Sewer	1,654,625
Refuse	600,796
Total	\$ 3,527,913

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 7: RECEIVABLES (Continued)

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 \$1,343,578 with uncollectible of \$155,892 at December 31, 2008. The notes are recorded net of an allowance for uncollectibles in the amount of \$1,187,686.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities:	
Indigent Defense Reimbursement	\$ 28,195
Homestead and Rollback	82,054
Local Government	1,021,267
Motor Vehicle License Tax	134,000
Gasoline Excise Tax	548,700
Permissive Tax	141,300
Home Program Grant	1,019,667
Community Development	
Block Grant (CDBG)	2,018,110
2006 Byrne/JAG Grant	17,655
2007 DJ BX 03330 JAG	67,066
2007 PS AGI 314	225,574
EMW 2008 FO 05605	60,425
2008 DJ BS 0308	21,014
EDA 06 78 05329	235,277
ALL-Lima Bikepath Grant	72,911
ODOD JRS Grant	1,931,415
ALL-Lima Grade Separation Grant	2,223,955
ALL-Lima Bellefontaine Signal Grant	35,233
ECDD Roadwork Development	500,000
Ottawa River Bikeway Phase IV	99,000
Natureworks Grant ODNR	32,221
ALL Market St PID 82136	55,130
Total Intergovernmental Receivable	<u>\$ 10,570,169</u>

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 8: CAPITAL ASSETS

A summary of changes in capital assets during 2008 follows:

	<u>12/31/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2008</u>
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 5,905,909	\$ 682,171	\$ 0	\$ 6,588,080
Construction in progress	<u>2,067,599</u>	<u>1,022,671</u>	<u>(2,397,489)</u>	<u>692,781</u>
<i>Total Capital Assets Not Being Depreciated</i>	7,973,508	1,704,842	(2,397,489)	7,280,861
<i>Capital Assets, Being Depreciated:</i>				
Buildings	13,194,874	88,743	0	13,283,617
Improvements	2,148,575	37,222	0	2,185,797
Machinery and equipment	4,221,884	168,497	(15,288)	4,375,093
Furniture and fixtures	52,506	1,284	0	53,790
Vehicles	5,211,374	649,630	(503,766)	5,357,238
Infrastructure:				
Roads	25,416,076	2,492,015	0	27,908,091
Sidewalks	1,130,976	47,681	0	1,178,657
Bridges	5,187,077	358,296	0	5,545,373
Signals and Traffic Lights	3,527,194	841,763	0	4,368,957
Curbs	6,504,821	69,583	0	6,574,404
Rail Sidings	<u>1,443,375</u>	<u>0</u>	<u>0</u>	<u>1,443,375</u>
<i>Total Capital Assets, Being Depreciated</i>	<u>68,038,732</u>	<u>4,754,714</u>	<u>(519,054)</u>	<u>72,274,392</u>
<i>Less Accumulated Depreciation:</i>				
Buildings	5,267,627	289,294	0	5,556,921
Improvements	1,035,292	92,585	0	1,127,877
Machinery and equipment	2,980,266	256,841	(14,188)	3,222,919
Furniture and fixtures	28,161	2,978	0	31,139
Vehicles	4,309,430	396,263	(503,766)	4,201,927
Infrastructure:				
Roads	14,752,267	1,560,607	0	16,312,874
Sidewalks	236,571	29,285	0	265,856
Bridges	762,992	78,111	0	841,103
Signals and Traffic Lights	2,368,845	189,703	0	2,558,548
Curbs	2,417,425	163,816	0	2,581,241
Rail Sidings	<u>6,014</u>	<u>72,169</u>	<u>0</u>	<u>78,183</u>
<i>Total Accumulated Depreciation</i>	<u>34,164,890</u>	<u>3,131,652</u>	<u>(517,954)</u>	<u>36,778,588</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>33,873,842</u>	<u>1,623,062</u>	<u>(1,100)</u>	<u>35,495,804</u>
<i>Total Governmental Activities Capital Assets, Net</i>	<u>\$ 41,847,350</u>	<u>\$ 3,327,904</u>	<u>\$ (2,398,589)</u>	<u>\$ 42,776,665</u>

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 8: CAPITAL ASSETS (Continued)

	Balance 12/31/2007	Additions	Deletions	Balance 12/31/2008
Business-Type Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 3,848,039	\$ 755,356	\$ 0	\$ 4,603,395
Construction in progress	2,537,353	1,588,702	(290,333)	3,835,722
<i>Total Capital Assets Not Being Depreciated</i>	6,385,392	2,344,058	(290,333)	8,439,117
<i>Capital Assets, Being Depreciated:</i>				
Improvements	2,385,134	5,563	0	2,390,697
Buildings	42,587,475	52,056	(41,429)	42,598,102
Machinery and equipment	20,705,430	370,674	(160,647)	20,915,457
Furniture and fixtures	49,164	1,283	(3,850)	46,597
Vehicles	3,753,819	445,507	(56,427)	4,142,899
Capitalized Interest	3,137,768	0	0	3,137,768
Intangible Assets	317,988	0	0	317,988
Sewer lines	19,724,756	1,038,518	0	20,763,274
Water lines	20,561,593	1,856,543	(27,977)	22,390,159
<i>Total Capital Assets, Being Depreciated</i>	113,223,127	3,770,144	(290,330)	116,702,941
<i>Less Accumulated Depreciation:</i>				
Improvements	851,211	99,778	0	950,989
Buildings	19,681,033	900,702	(1,534)	20,580,201
Machinery and equipment	13,583,693	856,824	(82,392)	14,358,125
Furniture and fixtures	20,804	2,029	(2,246)	20,587
Vehicles	2,925,576	288,794	(56,427)	3,157,943
Capitalized Interest	2,327,641	203,024	0	2,530,665
Intangible Assets	317,989	0	0	317,989
Sewer lines	13,530,893	190,169	0	13,721,062
Water lines	9,714,640	417,323	(27,977)	10,103,986
<i>Total Accumulated Depreciation</i>	62,953,480	2,958,643	(170,576)	65,741,547
<i>Total Capital Assets Being Depreciated, Net</i>	50,269,647	811,501	(119,754)	50,961,394

**CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2008**

NOTE 8: CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

General Government	\$	132,160
Security of Persons and Property		428,782
Leisure Time Activities		112,914
Community Development		7,724
Transportation		2,450,072
Total	\$	3,131,652

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 \$100,000 for each individual. The City purchases stop-loss coverage for claims in excess of \$100,000 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, 2008, are estimated based on past experience in payment of claims at \$300,041.

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	End of Year Liability
2007	\$ 547,895	\$ 4,537,439	\$ 4,806,441	\$ 278,893
2008	278,893	4,833,990	4,812,842	300,041

**CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2008**

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 2008 the City contracted with a third party for insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
Stolly 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, 2008

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 \$2,679,460 due within more than one year and \$8,975 due within one year. Unpaid compensated absences for Business-Type Activities as of year end are reported on the Statement of Net Assets as \$791,573 due within more than one year and \$1,885 due within 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) 222-5601 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 10% 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 10.1%.

The 2008 employer contribution rate for state employers was 14% of covered payroll. For local government employer units the rate was 14% of covered payroll. The 2008 employer contribution rate for both the law enforcement and public safety division was 17.4% 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, 2008**

NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)

for the years ended December 31, 2008, 2007 and 2006 were \$1,735,567, \$1,703,079, and \$1,643,497 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, 2008, 2007 and 2006 were \$1,909,732, \$1,822,464, and \$1,808,008, 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 2008 employer contribution rate for state employers was 14% of covered payroll. For local government employer units the rate was 14.0% of covered payroll. The 2008 employer rate for public safety and law enforcement was 17.4%. The portion of employer contributions, for all employers, allocated to health care was 7.0% for 2008. 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, 2008

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, 2007, include a return on investments of 6.50%, 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 .50% to 4.00% for the next 7 years. Health care costs were assumed to increase at 4% in year 8 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 \$29.8 billion and \$17.0 billion, respectively. As of December 31, 2007, the unaudited estimated net assets available for future OPEB payments were \$12.8 billion. The number of active contributing participants was 363,503.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004 is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2007 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2008, and January 1, 2008, which will allow additional funds to be allocated to the health care plan.

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, 2008

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 6.75% of covered payroll was applied to the postemployment health care program during 2008. 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 2008 that were used to fund postemployment benefits were \$590,343. The OP&F's total health care expenses for the year ended December 31, 2007 (the latest information available) were \$93,205,319, which was net of member contributions of \$56,031,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2007 was 14,295 for police and 10,583 for firefighters.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 13: LONG-TERM OBLIGATIONS

The changes in the City's long-term obligations during 2008 were as follows:

	Interest Rate %	Outstanding 1/1/2008	Additions	(Reductions)	Outstanding 12/31/2008	Amounts Due Within One Year
Governmental Activities						
Special Assessment Bonds:						
1987 Industry Avenue	7.25	\$ 18,000	\$ 0	\$ (18,000)	\$ 0	\$ 0
Total Special Assessment Bonds		<u>18,000</u>	<u>0</u>	<u>(18,000)</u>	<u>0</u>	<u>0</u>
Unvoted General Obligation Bonds:						
1999 Various Purpose Refunding Bonds	4.00-5.80					
Municipal Center Refunding		555,000	0	(175,000)	380,000	185,000
Parking Facility		655,000	0	(25,000)	630,000	30,000
2004 - YMCA Parking Lot Project	2.00-4.5	170,000	0	(10,000)	160,000	10,000
Unamortized Premium		851	0	(50)	801	50
Total Unvoted General Obligation Bonds		<u>1,380,851</u>	<u>0</u>	<u>(210,050)</u>	<u>1,170,801</u>	<u>225,050</u>
Bond Anticipation Notes:						
Metcalf St Reconstruction	2.75	431,606	350,000	(431,606)	350,000	350,000
Purchase Fire Truck	2.75	428,394	360,000	(428,394)	360,000	360,000
Unamortized Premium		2,727	4,367	(2,727)	4,367	4,367
Total Bond Anticipation Notes		<u>862,727</u>	<u>714,367</u>	<u>(862,727)</u>	<u>714,367</u>	<u>714,367</u>
Other Long-Term Obligations:						
Compensated Absences		2,739,027	2,688,434	(2,739,027)	2,688,434	8,975
Judgement Payable		110,000	0	0	110,000	110,000
Total Other Long-Term Obligations		<u>2,849,027</u>	<u>2,688,434</u>	<u>(2,739,027)</u>	<u>2,798,434</u>	<u>118,975</u>
Total Governmental Activities		<u>\$ 5,110,605</u>	<u>\$3,402,801</u>	<u>\$(3,829,804)</u>	<u>\$ 4,683,602</u>	<u>\$ 1,058,392</u>

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

	Interest Rate %	Outstanding 1/1/2008	Additions	(Reductions)	Outstanding 12/31/2008	Due Within One Year
Business-Type Activities						
Water Refunding - 1999 Issue	4.00-5.30	\$ 1,675,000	\$ 0	\$ (165,000)	\$ 1,510,000	\$ 145,000
Unamortized Accounting Loss		(94,580)	9,317	0	(85,263)	(8,188)
Unamortized Discount		(23,690)	2,334	0	(21,356)	(2,051)
Total Water Refunding - 1999 Issue		<u>1,556,730</u>	<u>11,651</u>	<u>(165,000)</u>	<u>1,403,381</u>	<u>134,761</u>
Water Refunding - 2004 Issue	2.00-4.50	870,000	0	(305,000)	565,000	340,000
Unamortized Premium		4,495	0	(1,576)	2,919	1,757
Total Water Refunding - 2004 Issue		<u>874,495</u>	<u>0</u>	<u>(306,576)</u>	<u>567,919</u>	<u>341,757</u>
Total Water General						
Obligation Bonds		<u>2,431,225</u>	<u>11,651</u>	<u>(471,576)</u>	<u>1,971,300</u>	<u>476,518</u>
Sewer Refunding - 1999 Issue	4.00-5.30	2,010,000	0	(230,000)	1,780,000	345,000
Unamortized Accounting Loss		(117,985)	13,501	0	(104,484)	(20,252)
Unamortized Discount		(29,470)	3,372	0	(26,098)	(5,058)
Total Sewer Refunding - 1999 Issue		<u>1,862,545</u>	<u>16,873</u>	<u>(230,000)</u>	<u>1,649,418</u>	<u>319,690</u>
Sewer - 2004 Issue	2.00-4.50	5,070,000	0	(495,000)	4,575,000	400,000
Unamortized Premium		26,237	0	(2,562)	23,675	2,069
Total Sewer Refunding - 2004 Issue		<u>5,096,237</u>	<u>0</u>	<u>(497,562)</u>	<u>4,598,675</u>	<u>402,069</u>
Total Sewer General						
Obligation Bonds		<u>6,958,782</u>	<u>16,873</u>	<u>(727,562)</u>	<u>6,248,093</u>	<u>721,759</u>
Total Unvoted General						
Obligation Bonds		<u>9,390,007</u>	<u>28,524</u>	<u>(1,199,138)</u>	<u>8,219,393</u>	<u>1,198,277</u>
Bond Anticipation Notes:						
Sewer System Improvements	4.06	8,400,000	8,400,000	(8,400,000)	8,400,000	8,400,000
Unamortized Premium		26,627	26,460	(26,627)	26,460	26,460
Water System Improvements	4.10	5,000,000	5,000,000	(5,000,000)	5,000,000	5,000,000
Unamortized Premium		16,800	19,500	(16,800)	19,500	19,500
Total Bond Anticipation Notes		<u>13,443,427</u>	<u>13,445,960</u>	<u>(13,443,427)</u>	<u>13,445,960</u>	<u>13,445,960</u>
Other Long-Term Obligations:						
Bresler Termination Agreement	0.0	2,131,236	0	(142,082)	1,989,154	142,082
OWDA Loan	3.75	5,463,606	0	(317,528)	5,146,078	329,547
Compensated Absences		896,713	0	(103,255)	793,458	1,885
Total Other Long-Term Obligations		<u>8,491,555</u>	<u>0</u>	<u>(562,865)</u>	<u>7,928,690</u>	<u>473,514</u>
Total Business-Type Activities		<u>31,324,989</u>	<u>13,474,484</u>	<u>(15,205,430)</u>	<u>29,594,043</u>	<u>15,117,751</u>
Totals		<u>\$ 36,435,594</u>	<u>\$ 16,877,285</u>	<u>\$ (19,035,234)</u>	<u>\$ 34,277,645</u>	<u>\$ 16,176,143</u>

General Obligation Bonds – All general obligation bonds are supported by the full faith and credit of the City. General obligation bonds presented as a liability in the 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, 2008

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 \$153,390 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.

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

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 2008, \$350,000 in bond anticipation notes were issued for street reconstruction. \$360,000 in bond anticipation notes were issued to purchase a ladder truck for the fire department. \$8,400,000 in bond anticipation notes were issued for sewer system improvements. And \$5,000,000 in bond anticipation notes were issued for water system improvements.

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

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

	General Obligation (Gross)	
	Principal	Interest
	Principal	Interest
2009	\$ 225,000	\$ 61,600
2010	235,000	50,500
2011	45,000	38,650
2012	55,000	36,490
2013	65,000	33,770
2014-2018	425,000	109,972
2019	120,000	6,700
Total	\$1,170,000	\$ 337,682

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

	Bresler Termination Agreement		General Obligation (Gross)		OWDA Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
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	142,082	0	1,345,000	277,510	354,967	164,497	1,842,049	442,007
2012	142,082	0	1,405,000	212,430	368,403	151,061	1,915,485	363,491
2013	142,082	0	205,000	143,360	382,348	137,116	729,430	280,476
2014-2018	710,410	0	1,175,000	577,368	2,140,121	457,223	4,025,531	1,034,591
2019-2023	568,334	0	1,450,000	291,965	1,228,670	69,966	3,247,004	361,931
2024	0	0	330,000	16,005	0	0	330,000	16,005
Total	\$ 1,989,154	\$ 0	\$ 8,430,000	\$2,244,298	\$ 5,146,077	\$ 1,347,223	\$ 15,565,231	\$ 3,591,521

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 14: INTERFUND TRANSACTIONS

A. Interfund Transactions

Interfund transactions are used by the City to fund small special assessment projects. As of December 31, 2008, balance sheet receivable and payables that resulted from interfund transactions were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>
Governmental Funds				
Debt Service	\$ 14,285	\$ 0	\$ 0	\$ 69,465
Capital Projects	0	49,600	242,640	0
Business-Type Activities				
Water	32,042	0	0	157,121
Sewer	3,273	0	0	16,054
Totals	<u>\$ 49,600</u>	<u>\$ 49,600</u>	<u>\$ 242,640</u>	<u>\$ 242,640</u>

B. Advances To/From Other Funds Transactions

As of December 31, 2008, advances to and from other fund transactions were as follows:

	<u>Advances To Other Funds</u>	<u>Advances From Other Funds</u>
General Fund	\$ 661,724	\$ 0
Other Governmental Funds:		
Weed/Property Cleanup	0	8,483
2006 Byrne/JAG Grant	0	13,785
2007 JAG Grant	0	17,981
ODOD JRS Grant	0	481,418
ECDD Roadwork Grant	0	24,972
EDI Grant	0	82,864
Natureworks Grant	0	32,221
Totals	<u>\$ 661,724</u>	<u>\$ 661,724</u>

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 14: INTERFUND TRANSACTIONS (Continued)

B. Reconciliation of Interfund Transfers

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 0	\$ 330,299
Other Governmental Funds:		
Special Revenue	48,574	
Debt Service	368,525	153,390
Capital Projects	153,390	86,800
	<u>\$ 570,489</u>	<u>\$ 570,489</u>
Totals	<u>\$ 570,489</u>	<u>\$ 570,489</u>

NOTE 15: DEFERRED REVENUE

Deferred revenue at December 31, 2008 consisted of the following:

	<u>Statement of Net Assets</u>	<u>Balance Sheet</u>
Property Taxes Receivable	\$ 1,336,535	\$ 1,514,937
Income Taxes Receivable	0	1,493,059
Grants Receivable	7,690,646	10,013,109
Special Assessments Receivable	4,249,835	4,249,835
	<u>\$ 13,277,016</u>	<u>\$ 17,270,940</u>
Deferred Revenue	<u>\$ 13,277,016</u>	<u>\$ 17,270,940</u>

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 16: CONTRACTUAL COMMITMENTS

As of December 31, 2008, the City had contractual commitments for the following projects:

	Contractual Commitment	Expended	Balance 12/31/2008
Shelly Company - Metcalf St Reconstruction	\$ 781,880	\$ 753,274	\$ 28,606
Kohli & Kaliher - Southside Grade Separation	125,348	83,793	41,555
Shelly Company - Metcalf/Kibby St Improvements	297,566	237,894	59,672
Arcadis G & M of Ohio - Auglaize Pump Station Improvements	650,000	329,671	320,329
York Electric - Electrical and Raw Water Screening Improvements	1,877,000	53,259	1,823,741
MWH Americas - Carbon Filtration Project	74,997	72,022	2,975
American Structurepoint - Eastside Grade Separation	177,000	158,053	18,947
BBC&M Engineering - New Reservoir Design	715,500	602,839	112,661
Totals	<u>\$ 4,699,291</u>	<u>\$ 2,290,805</u>	<u>\$ 2,408,486</u>

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, 2008.

B. Litigation

As of December 31, 2008, 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, 2008**

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 City had no negative fund balances as of December 31, 2008. However, as required during budgetary testing, we noted several funds with material negative balances throughout the audit period.



Rea & Associates, Inc.

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June 12, 2009

Mayor and Members of Council
City of Lima
Lima, Ohio

**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**

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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 12, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control. We consider the deficiency 2008-001 described in the accompanying Schedule of Finding and Questions Costs to be significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by any entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

We noted other matters of internal controls that we have reported to management of the City in a separate letter dated June 12, 2009.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Finding and Questions Costs as item 2008-002.

We noted certain matters of noncompliance that we have reported to management of the City in a separate letter dated June 12, 2009.

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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

Hea & Associates, Inc.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

June 12, 2009

Mayor and Members of Council
City of Lima
Lima, Ohio

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

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, 2008. 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, 2008.

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 but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

City of Lima
Independent Auditor's Report on Compliance
With Requirements Applicable to Each Major Program and
Internal Control Over Compliance in Accordance with
OMB Circular A-133
Page 2 of 2

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Hea & Associates, Inc.

CITY OF LIMA - ALLEN COUNTY

**Schedule of Expenditures of Federal Awards
Year ended December 31, 2008**

Federal Grantor/ Program Title	CFDA Number	Agency or Pass-Through Number	Federal Disbursements
U. S. Department of Housing and Urban Development			
Direct Programs:			
Community Development Block Grant	14.218	MC-39-0014	\$ 1,312,076
HOME Renewal Program	14.239	MC-39-0219	632,854
Economic Development Initiative - Special Project	14.251	B-06-SP-OH-0781	<u>82,864</u>
Total U.S. Department of Housing and Urban Development			<u>2,027,794</u>
U.S. Department of Justice			
Direct Programs:			
Weed and Seed	16.595	2006-WS-Q6-0182	12,748
Weed and Seed	16.744	2007-PS-AGI-314	<u>15,609</u>
Total Direct Programs			28,357
Pass through Programs from the Ohio Department of Justice:			
Edward Byrne Memorial Justice Assistance Grant	16.738	2006-DJ-BX-0458	13,934
Edward Byrne Memorial Justice Assistance Grant	16.738	2007-DJ-BX-0333	17,981
Edward Byrne Memorial Justice Assistance Grant	16.738	2006-DJ-A02-6429	2,165
Edward Byrne Memorial Justice Assistance Grant	16.738	2007-DJ-LLE-5225	<u>5,000</u>
			39,080
Asset Forfeiture	16.000		346
Ohio Department of Justice Byrne Grant	16.579	2005-DJ-BX-0059	<u>729</u>
Total Pass through Programs from Ohio Department of Justice			<u>40,155</u>
Total U.S. Department of Justice			<u>68,512</u>
U.S. Department of Transportation			
Pass through Programs from the Ohio Department of Transportation:			
Highway Planning and Construction	20.205		<u>599,319</u>
Total U.S. Department of Transportation			<u>599,319</u>
U.S. Department of Homeland Security			
Direct Programs:			
Fire Prevention and Safety Program	97.044		<u>10,585</u>
Total U.S. Department of Homeland Security			<u>10,585</u>
U.S. Department of Commerce - Economic Development Administration			
Direct Programs:			
Investments for Public Works and Economic Development Facilities	11.300	EDA-06-01-05030	<u>225,231</u>
Total U.S. Department of Commerce			<u>225,231</u>
Total Federal Financial Assistance			<u><u>\$ 2,931,441</u></u>

See accompanying independent auditors' report.

See accompanying notes to schedule of expenditures of federal awards

CITY OF LIMA – ALLEN COUNTY

**Notes to Schedule of Expenditures of Federal Awards
Year ended December 31, 2008**

(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 – ALLEN COUNTY

*Part III – Schedule of Findings and Questioned Costs
OMB Circular A-133, Section .505
December 31, 2008*

1. SUMMARY OF AUDITOR'S RESULTS
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(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (iii)	Were there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	Community Development Block Grant CFDA #14.218
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	\$300,000
(d) (1) (ix)	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2008-001

Significant Deficiency

The City has a lack of controls or consistency over supporting documents for the usage of vacation and sick leave. Of the five employees tested, three departments had various versions of time-off request forms and two departments had no employee request forms. The method in which the departmental supervisors monitor the employee usage of vacation, sick, or comp time also varies from any City procedure.

We recommend the City establish a uniform "Employee Time-Off Request Form" to be used by all employees and require the form be completed for all leaves taken. We recommend the City establish a system or form to be utilized by all department supervisors responsible for the tracking of leave used by departmental employees. We also recommend a uniform form for documentation of any comp time accrued.

Management's Response: Management concurs and will implement procedures to ensure the appropriate documentation for the request and approval of sick and vacation leave. Management will also implement procedures to document comp time as it is earned by the employee.

FINDING NUMBER 2008-002

Material Noncompliance

Ohio Rev. Code Section 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation. **Ohio Rev. Code Section 5705.10(H)** requires money that is paid into a fund must be used only for purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenditures of another fund.

The City had no negative fund balances as of December 31, 2008. However, as required during budgetary testing, we noted several funds with material negative balances throughout the audit period. The following material negative fund balances noted in the following funds:

	<u>Negative Fund Balance</u>
April 30, 2008	
Utility Gasoline	\$ 17,647
Law Enf Overtime Fund	19,617
ODOD-Brownfield Fund	805
2001-WS-QX-0157 Weed/Seed 2 Fund	6,079
2002-JB-013-A049 JAIBG Fund	13,986
2005-BJ-A02-6429 (PACE) Fund	5,156
JAG-2007-DJ-BX-033 Fund	161
JRS Agreement Fund	397,776
Roadwork Development Fund	24,972
EDI-PROJ:B-06-SP-OH-0781Fund	936

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)**

November 30, 2008

Utility Gasoline	\$ 7,254
Weed/Prop Cleanup Fund	6,111
Law Enf Overtime Fund	19,617
2001-WS-QX-0157 Weed/Seed 2 Fund	6,079
2002-JB-013-A049 Fund	3,736
2002-JB-013-A049 JAIBG Fund	13,986
2005-BJ-A02-6429 (PACE) Fund	5,156
Byrne/JAG 2006-DJ-BX-0458	13,785
JAG-2007-DJ-BX-033 Fund	14,779
JRS Agreement Fund	465,300
Roadwork Development Fund	24,972
EDI-PROJ:B-06-SP-OH-0781Fund	82,864
Natureworks/ODNR Alle-017 Fund	32,221
Johnny Appleseed/Park District Fund	5,022

Maintaining positive cash balances is not only required by statute but is a key control in the revenue and disbursement process to assure that revenue is available to pay purchase commitments from the funds intended to pay the commitment. To improve controls over financial monitoring and to help reduce the possibility of the City's funds being in a deficit balance, we recommend the City monitor fund activity to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code and Auditor of State Bulletin 97-003.

Management's Response: Management will monitor fund balances more closely and consider advancing money when needed (if available) from the general fund in order to be in compliance with the aforementioned statute.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.

CITY OF LIMA – ALLEN COUNTY

*Part IV – Summary Schedule of Prior Audit Findings
Year ended December 31, 2007*

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2007-001	The City had Funds with material negative balances throughout the audit period.	NO	Reissued as Finding 2008-002
2007-002	The City had appropriations that exceeded the certified estimated resources.	YES	Finding corrected
2007-003	The City has a lack of controls or consistency over supporting documents for the usage of vacation and sick leave.	NO	Reissued as Finding 2008-01



Mary Taylor, CPA
Auditor of State

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
SEPTEMBER 22, 2009**