

**City of Lima
Allen County**

**Basic Financial Statements
For the Year Ended December 31, 2004**



Auditor of State Betty Montgomery

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

We have reviewed the *Independent Auditor's Opinion* of the City of Lima, Allen County, prepared by Rea & Associates, Inc., for the audit period January 1, 2004 to December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

June 30, 2005

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

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June 3, 2005

Mayor and Members of Council
City of Lima
Lima, Ohio

Independent Auditor's Opinion

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lima, Ohio (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lima, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General 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 3, 2005, 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 Audit Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 2 through 10 are not a required part of the basic financial statements but are supplementary information required by 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, 2004

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, 2004. 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 2004 are as follows:

- ❑ General Revenues accounted for \$21.5 million in revenue or 39.2% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$33.4 million or 60.8% of total revenues of \$54.9 million.
- ❑ Total program expenses were \$47.2 million, \$28.9 million in governmental activities and \$18.3 million in business-type activities.
- ❑ In total, net assets increased \$7,705,949. Net assets of governmental activities increased \$7,017,491, which represents a 28.4% increase from 2003. Net assets of business-type activities increased \$688,458 or 1.5% from 2003.
- ❑ Outstanding debt decreased from \$30,709,771 to \$24,165,649 due to the retirement of \$5,730,000 in outstanding revenue bonds accounted for in the business type activities.

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 2004 and how they affected the operations of the City as a whole.

Reporting the City of Lima as a Whole

Statement of Net Assets and the Statement of Activities

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

A question typically asked about the City's finances "How did we do financially during fiscal year 2004?" 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.

CITY OF LIMA – ALLEN COUNTY

Management's Discussion and Analysis

For the Year Ended December 31, 2004

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 and the community development block grant (CDBG) special revenue 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 educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

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

CITY OF LIMA – ALLEN COUNTY

Management's Discussion and Analysis
For the Year Ended December 31, 2004

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 2004 compared to 2003:

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current and Other Assets	\$ 24,385,668	\$23,812,273	\$ 22,760,361	\$ 30,372,133	\$47,146,029	\$ 54,184,406
Capital Assets	22,217,757	15,343,709	47,203,295	44,710,721	69,421,052	60,054,430
Total Assets	46,603,425	39,155,982	69,963,656	75,082,854	116,567,081	114,238,836
Liabilities						
Long-Term Liabilities	5,648,776	5,390,527	22,829,436	28,999,742	28,478,212	34,390,269
Other Liabilities	9,260,042	9,262,247	1,682,975	1,279,335	10,943,017	10,541,582
Total Liabilities	14,908,818	14,652,774	24,512,411	30,279,077	39,421,229	44,931,851
Net Assets						
Invested in Capital Assets Net of Debt	20,246,756	13,094,746	25,150,647	21,464,345	45,397,403	34,559,091
Restricted	5,369,189	4,485,917	0	3,512,888	5,369,189	7,998,805
Unrestricted	6,078,662	6,922,545	20,300,598	19,826,544	26,379,260	26,749,089
Total Net Assets	\$ 31,694,607	\$24,503,208	\$ 45,451,245	\$ 44,803,777	\$77,145,852	\$ 69,306,985

Total assets increased by \$2.3 million with governmental assets increasing \$7.4 million and business-type assets decreasing \$5.1 million. An increase of approximately \$9.4 million in total capital assets reflects additional purchases exceeding depreciation.

Total liabilities decreased by \$5.5 million with business-type liabilities decreasing \$5.7 million and governmental activities liabilities increasing \$256,000. The decrease in business-type liabilities was the result of the early retirement of \$5.7 million in revenue bonds. The increase in governmental activities liabilities was due to an increase in deferred revenue (\$622,000), accrued wages (\$148,000), long term liabilities (\$625,000) and a decrease in accounts payable (\$487,000), intergovernmental payable (\$493,000) and claims payable (\$214,000).

CITY OF LIMA – ALLEN COUNTY

Management's Discussion and Analysis

For the Year Ended December 31, 2004

Total net assets increased by \$7.7 million. This number reflects an increase in governmental activities of \$7 million and an increase in the net assets of the business-type activities of \$688,000.

Table 2 shows the changes in net assets for fiscal year 2004. This table also compares changes in net assets between 2004 and 2003. This will enable the reader to draw further conclusion about the City's financial status and possibly project future issues.

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

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
<i>Program Revenues:</i>						
Charges for Services	\$ 5,835,744	\$ 5,772,996	\$ 18,549,180	\$ 18,584,896	\$ 24,384,924	\$ 24,357,892
Operating Grants	2,624,730	2,433,418	0	0	2,624,730	2,433,418
Capital Grants	5,966,543	742,084	482,075	84,339	6,448,618	826,423
<i>General Revenue:</i>						
Property Taxes	1,281,963	1,039,320	0	0	1,281,963	1,039,320
Income Taxes	14,109,075	15,676,364	0	0	14,109,075	15,676,364
Other Local Taxes	91,575	76,481	0	0	91,575	76,481
Grants and Entitlements	5,326,138	4,129,283	0	0	5,326,138	4,129,283
Gain on Sale of Capital Assets	25,742	10,083	150	(2,795)	25,892	7,288
Investments	497,949	606,268	15,000	24,956	512,949	631,224
Miscellaneous	124,651	23,640	0	0	124,651	23,640
<i>Total Revenues</i>	<u>35,884,110</u>	<u>30,509,937</u>	<u>19,046,405</u>	<u>18,691,396</u>	<u>54,930,515</u>	<u>49,201,333</u>
<i>Program Expenses</i>						
General Government						
Security of Persons and Property	7,502,945	7,167,991	0	0	7,502,945	7,167,991
Transportation	15,001,403	14,162,432	0	0	15,001,403	14,162,432
Community Environment	2,308,539	2,891,943	0	0	2,308,539	2,891,943
Leisure Time Activities	2,883,303	2,540,962	0	0	2,883,303	2,540,962
Interest and Fiscal Charges	1,048,009	993,180	0	0	1,048,009	993,180
<i>Enterprise Operations:</i>						
Water	122,420	142,167	0	0	122,420	142,167
Sewer	0	0	8,326,624	8,034,977	8,326,624	8,034,977
Refuse	0	0	8,066,360	6,975,014	8,066,360	6,975,014
<i>Total Program Expenses</i>	<u>28,866,619</u>	<u>27,898,675</u>	<u>18,357,947</u>	<u>17,015,481</u>	<u>47,224,566</u>	<u>44,914,156</u>
<i>Increase in Net Assets</i>						
Before Transfers and Contributions	7,017,491	2,611,262	688,458	1,675,915	7,705,949	4,287,177
<i>Increase in Net Assets</i>	<u>\$ 7,017,491</u>	<u>\$ 2,611,262</u>	<u>\$ 688,458</u>	<u>\$ 1,675,915</u>	<u>\$ 7,705,949</u>	<u>\$ 4,287,177</u>

CITY OF LIMA – ALLEN COUNTY

Management's Discussion and Analysis

For the Year Ended December 31, 2004

Governmental Activities

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

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

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

Police and fire represent the largest expense of the Governmental Activities. This expense of \$15,001,403 represents 52 percent of the total governmental services expenses. These two departments operate out of the General fund.

General government expenses equaled \$7,502,945 or 26% of the total government services expenses. This category includes expenses associated with those City departments not associated with the other cost centers.

Our Transportation Department employs 32 full time employees who provide the City and its citizens many services that include public road salting, leaf and debris pickup, paint striping and alley profiling. This department operates out of both the General fund and the Street Repair Special Revenue fund. This department had expenses of \$2,308,539 or 8 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 \$2,883,303 in 2004. This is 10 percent of total governmental services expenses.

The City also maintains 12 parks (leisure time activities) within the City. Leisure time activities also accounts for the City sponsored recreational activities. This area had expenses of \$1,048,009 in 2004 equaling 4 percent of the total governmental services expenses.

CITY OF LIMA – ALLEN COUNTY

Management's Discussion and Analysis

For the Year Ended December 31, 2004

Business-Type Activities

Business-type activities include water, sewer and refuse operations. The revenues are generated primarily from charges for services. In 2004, charges for services of \$18,549,180 accounted for 97.5 percent of the revenues. The total expenses for the utilities were \$18,357,947, thus leaving an increase in net assets of \$688,458 for the business-type activities.

The City's Funds

Information about the City's governmental funds begins on page 12. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$35,589,512 and expenditures of \$34,894,798. 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 18. These funds are accounted for on an accrual basis. All business type funds had operating revenues of \$18,549,180, which exceeded operating expenses of \$17,134,479 by \$1,414,701 or 7.6 percent of operating revenues. The City is consistent with reviews of these funds, and the necessary adjustments are made to ensure strength in our enterprise funds.

General Fund Budgeting Highlights

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

During the course of 2004, 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 \$24.3 million, over the final budget estimates of \$24.1 million. Of this \$200,000 favorable variance, \$491,000 was attributable to higher than anticipated intergovernmental revenue. There was also a shortfall of \$266,000 in income tax revenues.

Actual expenditures of \$24.6 million were \$1.7 million lower than the final appropriations of \$26.3 million. Despite the favorable variances in both actual revenue and actual expenditures, general fund expenditures exceeded revenues resulting in a net decrease in fund balance of \$238,110.

CITY OF LIMA – ALLEN COUNTY

Management's Discussion and Analysis
For the Year Ended December 31, 2004

Capital Assets and Debt Administration

Capital Assets

At the end of year 2004, the City had \$69.4 million invested in land, buildings, equipment, infrastructure and vehicles. A total of \$22.2 million of this was for governmental activities with the remainder of \$47.2 million attributable to business-type activities. Table 4 shows fiscal year 2004 balances compared with 2003.

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

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 4,713,708	\$ 4,567,336	\$ 1,750,247	\$ 1,225,948	\$ 6,463,955	\$ 5,793,284
Construction in Progress	6,765,713	854,464	3,639,607	511,692	10,405,320	1,366,156
Buildings and Improvements	7,938,669	8,082,543	22,205,558	22,481,695	30,144,227	30,564,238
Furniture and Equipment	1,075,391	1,137,397	6,051,485	6,484,998	7,126,876	7,622,395
Vehicles	706,443	380,727	803,797	869,080	1,510,240	1,249,807
Intangible Assets	0	0	63,597	127,195	63,597	127,195
Capitalized Interest	0	0	1,419,199	1,622,223	1,419,199	1,622,223
Infrastructure	1,017,833	495,149	11,269,805	11,317,738	12,287,638	11,812,887
Totals	<u>\$ 22,217,757</u>	<u>\$ 15,517,616</u>	<u>\$ 47,203,295</u>	<u>\$ 44,640,569</u>	<u>\$ 69,421,052</u>	<u>\$ 60,158,185</u>

The \$9.3 million increase in capital assets was attributable to increases in construction in progress in both governmental and business-type activities. Governmental activities construction in progress increased \$5.9 million due to several large infrastructure projects started but not completed in 2004. Business-type activities construction in progress increased \$2.2 million due to construction of a new Field Services building that was started but not completed in 2004. In addition, several smaller construction and infrastructure projects in the business-type activities were started but not completed in 2004, accounting for \$900,000 of the increase. Note 9 provides capital asset activity during the 2004 year.

CITY OF LIMA – ALLEN COUNTY

Management's Discussion and Analysis

For the Year Ended December 31, 2004

Debt Administration

The outstanding debt for the City as of December 31, 2004 was \$24,165,649. This balance reflected a decrease of \$6,544,122 from the previous year's balance of \$30,709,771, a decrease of 21.3 percent. Table 4 summarizes outstanding debt.

(Table 4)
Outstanding Debt, at December 31

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue Bonds	\$ 0	\$ 0	\$ 0	\$ 5,730,000	\$ 0	\$ 5,730,000
General Obligation Bonds	1,971,001	1,795,000	12,705,657	4,422,493	14,676,658	6,217,493
Special Assessment Bonds	142,000	215,000	0	0	142,000	215,000
Fire Pumper Loan	0	7,730	0	0	0	7,730
Capital Leases	0	46,232	0	0	0	46,232
OWDA Loans	0	0	6,789,509	7,283,752	6,789,509	7,283,752
Bresler Termination Agreement	0	0	2,557,482	2,699,564	2,557,482	2,699,564
Notes Payable	0	400,000	0	8,110,000	0	8,510,000
<i>Total</i>	<i>\$ 2,113,001</i>	<i>\$ 2,463,962</i>	<i>\$ 22,052,648</i>	<i>\$ 28,245,809</i>	<i>\$ 24,165,649</i>	<i>\$ 30,709,771</i>

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

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

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

The fire pumper loan and capital leases payable both regard equipment purchases for the City's fire department. Both of these issues were paid in full in 2004.

CITY OF LIMA – ALLEN COUNTY

*Management's Discussion and Analysis
For the Year Ended December 31, 2004*

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.

Additional information concerning the City's debt can be found in Note 14 to the basic financial statements.

Current Financial Issues

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

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

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

Contacting the City Auditor's Department

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

CITY OF LIMA - ALLEN COUNTY

Statement of Net Assets

December 31, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 9,117,617	\$ 18,211,852	\$ 27,329,469
Cash and Cash Equivalents:			
In Segregated Accounts	288,124	650,131	938,255
With Fiscal Agents and Escrow Agents	15,641	0	15,641
Taxes Receivable	4,052,578	0	4,052,578
Accounts Receivable	292,464	3,087,808	3,380,272
Intergovernmental Receivable	6,419,433	0	6,419,433
Special Assessments Receivable	2,329,541	0	2,329,541
Accrued Interest Receivable	129,409	324	129,733
Materials and Supplies Inventory	27,997	72,407	100,404
Notes Receivable	1,796,029	0	1,796,029
Prepaid Items	66,530	91,958	158,488
Unamortized Bond Issuance Costs	9,813	228,277	238,090
Internal Balances	(159,508)	159,508	0
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	0	258,096	258,096
Nondepreciable Capital Assets	11,479,421	5,389,854	16,869,275
Depreciable Capital Assets, Net	<u>10,738,336</u>	<u>41,813,441</u>	<u>52,551,777</u>
<i>Total Assets</i>	<u>46,603,425</u>	<u>69,963,656</u>	<u>116,567,081</u>
Liabilities			
Accounts Payable	531,230	475,880	1,007,110
Contracts Payable	238,084	449,996	688,080
Accrued Wages	607,118	167,849	774,967
Retainage Payable	0	119,419	119,419
Intergovernmental Payable	298,238	143,351	441,589
Deferred Revenue	7,276,396	0	7,276,396
Accrued Interest Payable	9,026	68,384	77,410
Claims Payable	299,950	0	299,950
Payable from Restricted Assets:			
Refundable Deposits	0	258,096	258,096
Long-Term Liabilities:			
Due Within One Year	1,042,735	1,794,102	2,836,837
Due In More Than One Year	<u>4,606,041</u>	<u>21,035,334</u>	<u>25,641,375</u>
<i>Total Liabilities</i>	<u>14,908,818</u>	<u>24,512,411</u>	<u>39,421,229</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	20,246,756	25,150,647	45,397,403
Restricted for:			
Capital Projects	50,062	0	50,062
Debt Service	378,074	0	378,074
Other Purposes	4,941,053	0	4,941,053
Unrestricted	<u>6,078,662</u>	<u>20,300,598</u>	<u>26,379,260</u>
<i>Total Net Assets</i>	<u>\$ 31,694,607</u>	<u>\$ 45,451,245</u>	<u>\$ 77,145,852</u>

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY

Statement of Activities

For the Year Ended December 31, 2004

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Operating Grants, Contributions and Interest			Primary Government		Total
		Charges for Services and Sales	Capital Grants and Contributions	Governmental Activities	Business-Type Activities		
Governmental Activities:							
Security of Persons and Property	\$ 15,001,403	\$ 343,914	\$ 674,469	\$ 14,790	\$ (13,968,230)	\$ 0	\$ (13,968,230)
Leisure Time Activities	1,048,009	80,310	0	0	(967,699)	0	(967,699)
Community Environment	2,883,303	280,902	1,935,261	2,662,727	1,995,587	0	1,995,587
Transportation	2,308,539	185,499	15,000	3,223,471	1,115,431	0	1,115,431
General Government	7,502,945	4,945,119	0	65,555	(2,492,271)	0	(2,492,271)
Interest and Fiscal Charges	122,420	0	0	0	(122,420)	0	(122,420)
<i>Total Governmental Activities</i>	28,866,619	5,835,744	2,624,730	5,966,543	(14,439,602)	0	(14,439,602)
Business-Type Activities:							
Water	8,326,624	8,610,334	0	400,815	0	684,525	684,525
Sewer	8,066,360	7,762,932	0	81,260	0	(222,168)	(222,168)
Refuse	1,935,801	2,175,914	0	0	0	240,113	240,113
<i>Total Business-Type Activities</i>	18,328,785	18,549,180	0	482,075	0	702,470	702,470
Totals	\$ 47,195,404	\$ 24,384,924	\$ 2,624,730	\$ 6,448,618	(14,439,602)	702,470	(13,737,132)
General Revenues							
Property Taxes Levied for:							
General Purposes				1,281,963		0	1,281,963
Income Tax Levied for:							
General Purposes				14,109,075		0	14,109,075
Other Local Taxes				91,575		0	91,575
Intergovernmental Revenue				5,326,138		0	5,326,138
Gain on Sale of Capital Asset				25,742		150	25,892
Investment Earnings				497,949		15,000	512,949
Miscellaneous				124,651		0	124,651
<i>Total General Revenues</i>				21,457,093		15,150	21,472,243
Change in Net Assets				7,017,491		717,620	7,735,111
<i>Net Assets Beginning of Year - (See Note 3)</i>				24,677,116		44,733,625	69,410,741
<i>Net Assets End of Year</i>				\$ 31,694,607		\$ 45,451,245	\$ 77,145,852

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY

*Balance Sheet
Governmental Funds
December 31, 2004*

	General	CDBG Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 3,788,966	\$ 0	\$ 4,205,548	\$ 7,994,514
Cash and Cash Equivalents:				
In Segregated Accounts	0	0	288,124	288,124
With Fiscal and Escrow Agents	0	0	15,641	15,641
Receivables:				
Taxes	4,031,374	0	21,204	4,052,578
Accounts	288,731	0	3,733	292,464
Intergovernmental	1,134,324	2,561,772	2,723,337	6,419,433
Special Assessments	0	765,482	1,564,059	2,329,541
Accrued Interest	129,233	0	176	129,409
Interfund Receivable	607,730	0	6,048	613,778
Materials and Supplies Inventory	0	0	27,997	27,997
Due From Other Funds	0	0	68,085	68,085
Notes Receivable	0	406,080	1,389,949	1,796,029
Prepaid Items	66,109	421	0	66,530
<i>Total Assets</i>	<u>\$10,046,467</u>	<u>\$3,733,755</u>	<u>\$10,313,901</u>	<u>\$24,094,123</u>
Liabilities				
Accounts Payable	238,730	59,152	141,245	439,127
Contracts Payable	97,353	61,423	79,308	238,084
Interfund Payable	0	383	599,185	599,568
Accrued Wages	562,402	13,060	31,656	607,118
Intergovernmental Payable	271,475	8,062	18,701	298,238
Deferred Revenue	3,771,668	3,174,716	3,830,810	10,777,194
Due To Other Funds	0	0	186,350	186,350
<i>Total Liabilities</i>	<u>4,941,628</u>	<u>3,316,796</u>	<u>4,887,255</u>	<u>13,145,679</u>
Fund Balances				
Reserved for Encumbrances	241,955	156,347	358,058	756,360
Reserved for Notes Receivable	0	406,080	1,389,949	1,796,029
Reserved for Inventory	0	0	27,997	27,997
Reserved for Prepays	66,109	421	0	66,530
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	4,796,775	0	0	4,796,775
Special Revenue Funds	0	(145,889)	2,661,468	2,515,579
Debt Service Funds	0	0	374,189	374,189
Capital Projects Funds	0	0	614,985	614,985
<i>Total Fund Balances</i>	<u>5,104,839</u>	<u>416,959</u>	<u>5,426,646</u>	<u>10,948,444</u>
<i>Total Liabilities and Fund Balances</i>	<u><u>\$10,046,467</u></u>	<u><u>\$3,733,755</u></u>	<u><u>\$10,313,901</u></u>	<u><u>\$24,094,123</u></u>

CITY OF LIMA - ALLEN COUNTY
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2004*

Total Governmental Funds Balances \$10,948,444

*Amounts reported for governmental activities in the
 statement of net assets are different because*

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds 22,217,757

Other long-term assets are not available to pay for current-
 period expenditures and therefore are deferred in the funds:

Property Taxes	123,855
Income Tax	1,493,628
Intergovernmental	1,883,315
Unamortized Bond Issuance Costs	9,813
Total	3,510,611

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	731,050
Internal Balances	(55,453)
Total	675,597

Due to other governments includes contractually required
 pension contributions not expected to be paid with
 expendable available financial resources and therefore
 not reported in the funds. (454,462)

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	(1,971,001)
Special Assessment Bonds	(142,000)
Compensated Absences	(2,777,813)
Judgments Payable	(303,500)
Accrued Interest Payable	(9,026)
Total	(5,203,340)

Net Assets of Governmental Activities \$31,694,607

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	CDBG Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$ 1,256,093	\$ 0	\$ 0	\$ 1,256,093
Municipal Income Taxes	13,990,520	0	0	13,990,520
Other Local Taxes	0	0	91,575	91,575
Intergovernmental	3,492,891	1,730,821	8,745,832	13,969,544
Charges for Services	2,512,019	14,971	420,173	2,947,163
Fees, Licenses and Permits	845,811	0	0	845,811
Fines and Forfeitures	1,102,087	0	435,517	1,537,604
Special Assessments	0	0	182,164	182,164
Investment Income	472,659	12,253	87,654	572,566
Miscellaneous	135,021	888	60,563	196,472
<i>Total Revenues</i>	<i>23,807,101</i>	<i>1,758,933</i>	<i>10,023,478</i>	<i>35,589,512</i>
Expenditures				
Current:				
Security of Persons and Property	13,280,277	0	787,662	14,067,939
Leisure Time Activities	949,420	0	62,735	1,012,155
Community Development	726,823	1,684,808	554,308	2,965,939
Transportation	1,551,729	0	1,250,361	2,802,090
General Government	6,852,177	0	97,021	6,949,198
Capital Outlay	343,907	27,683	6,039,439	6,411,029
Debt Service:				
Principal Retirement	453,963	0	98,000	551,963
Interest and Fiscal Charges	12,498	0	121,987	134,485
<i>Total Expenditures</i>	<i>24,170,794</i>	<i>1,712,491</i>	<i>9,011,513</i>	<i>34,894,798</i>
<i>Excess of Revenues Over (Under) Expenditures</i>	<i>(363,693)</i>	<i>46,442</i>	<i>1,011,965</i>	<i>694,714</i>
Other Financing Sources (Uses)				
Premium on General Obligation Bonds	1,001	0	0	1,001
Proceeds of Bonds	200,298	0	0	200,298
Proceeds from Disposition of Fixed Assets	25,742	0	0	25,742
Operating Transfers - In	0	0	307,878	307,878
Operating Transfers - Out	(123,883)	0	(183,995)	(307,878)
<i>Total Other Financing Sources (Uses)</i>	<i>103,158</i>	<i>0</i>	<i>123,883</i>	<i>227,041</i>
<i>Net Change in Fund Balances</i>	<i>(260,535)</i>	<i>46,442</i>	<i>1,135,848</i>	<i>921,755</i>
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<i>5,365,374</i>	<i>370,517</i>	<i>4,290,798</i>	<i>10,026,689</i>
<i>Fund Balances End of Year</i>	<i>\$ 5,104,839</i>	<i>\$ 416,959</i>	<i>\$ 5,426,646</i>	<i>\$ 10,948,444</i>

CITY OF LIMA - ALLEN COUNTY

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2004*

Net Change in Fund Balances - Total Governmental Funds	\$ 921,755
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Amounts reported for governmental activities in the statement of activities are different because

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

Capital Outlay	7,269,974
Depreciation	<u>(569,833)</u>

Total	6,700,141
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property Taxes	25,870
Income Tax	118,555
Intergovernmental	<u>47,850</u>

Total	192,275
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Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets.

General Obligation Bonds	(200,000)
Premium on General Obligation Bonds	(1,001)

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

551,963

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

1,954

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

9,813

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

Compensated Absences	(430,196)
Pension Obligation	(88,123)
Judgments Payable	<u>(105,000)</u>

Total	(623,319)
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The internal service funds used by management to charge the costs of insurance and gasoline to individual funds are not reported in the entity-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.

Change in Net Assets	(722,714)
Internal Balances	<u>186,624</u>

Total	(536,090)
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Change in Net Assets of Governmental Activities

\$ 7,017,491

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, 2004

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
Revenues				
Property Taxes	\$ 1,091,700	\$ 1,091,700	\$ 1,256,093	\$ 164,393
Municipal Income Taxes	14,800,000	14,800,000	14,533,901	(266,099)
Intergovernmental	2,982,533	2,982,533	3,473,823	491,290
Charges for Services	2,662,600	2,662,600	2,504,672	(157,928)
Fees, Licenses and Permits	721,000	721,000	845,811	124,811
Fines and Forfeitures	1,195,200	1,195,200	1,106,452	(88,748)
Investment Income	450,000	450,000	430,498	(19,502)
Miscellaneous	180,000	180,000	135,021	(44,979)
<i>Total Revenues</i>	<u>24,083,033</u>	<u>24,083,033</u>	<u>24,286,271</u>	<u>203,238</u>
Expenditures				
Current:				
Security of Persons and Property	13,446,492	13,845,111	13,305,802	539,309
Leisure Time Activities	968,090	1,003,975	961,650	42,325
Community Development	767,770	811,054	723,545	87,509
Transportation	1,937,392	1,954,714	1,696,053	258,661
General Government	7,902,126	8,010,819	7,441,863	568,956
Capital Outlay	473,677	544,560	432,165	112,395
Debt Service:				
Principal Retirement	25,000	25,000	53,963	(28,963)
Interest and Fiscal Charges	92,665	102,478	12,498	89,980
<i>Total Expenditures</i>	<u>25,613,212</u>	<u>26,297,711</u>	<u>24,627,539</u>	<u>1,670,172</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,530,179)</u>	<u>(2,214,678)</u>	<u>(341,268)</u>	<u>1,873,410</u>
Other Financing Sources (Uses)				
Proceeds of Bonds	0	0	201,299	201,299
Proceeds from Disposition of Fixed Assets	10,000	10,000	25,742	15,742
Operating Transfers - Out	0	0	(123,883)	(123,883)
<i>Total Other Financing Sources (Uses)</i>	<u>10,000</u>	<u>10,000</u>	<u>103,158</u>	<u>93,158</u>
<i>Net Change in Fund Balance</i>	<u>(1,520,179)</u>	<u>(2,204,678)</u>	<u>(238,110)</u>	<u>1,966,568</u>
<i>Fund Balance Beginning of Year</i>	<u>3,740,859</u>	<u>3,740,859</u>	<u>3,740,859</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>449,622</u>	<u>449,622</u>	<u>449,622</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 2,670,302</u>	<u>\$ 1,985,803</u>	<u>\$ 3,952,371</u>	<u>\$ 1,966,568</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, 2004

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 2,750,000	\$ 2,750,000	\$ 1,609,141	\$ (1,140,859)
Charges for Services	0	0	14,971	14,971
Revolving Loan Payments	0	0	114,125	114,125
Investment Income	0	0	12,079	12,079
Miscellaneous	0	0	1,705	1,705
<i>Total Revenues</i>	<u>2,750,000</u>	<u>2,750,000</u>	<u>1,752,021</u>	<u>(997,979)</u>
Expenditures				
Current:				
Community Development	2,480,429	2,494,316	1,967,448	526,868
Capital Outlay	<u>418,653</u>	<u>418,653</u>	<u>27,683</u>	<u>390,970</u>
<i>Total Expenditures</i>	<u>2,899,082</u>	<u>2,912,969</u>	<u>1,995,131</u>	<u>917,838</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(149,082)</u>	<u>(162,969)</u>	<u>(243,110)</u>	<u>(80,141)</u>
<i>Net Change in Fund Balance</i>	<u>(149,082)</u>	<u>(162,969)</u>	<u>(243,110)</u>	<u>(80,141)</u>
<i>Fund Balance Beginning of Year</i>	<u>(274,442)</u>	<u>(274,442)</u>	<u>(274,442)</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>191,769</u>	<u>191,769</u>	<u>191,769</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ (231,755)</u>	<u>\$ (245,642)</u>	<u>\$ (325,783)</u>	<u>\$ (80,141)</u>

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY

Statement of Net Assets

Proprietary Funds

December 31, 2004

	Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Total	
Assets					
<i>Current Assets:</i>					
Equity in Pooled Cash and Cash Equivalents	\$ 9,689,049	\$ 8,522,803	\$ 0	\$ 18,211,852	\$ 1,123,103
Cash and Cash Equivalents in Segregated Accounts	589,423	60,708	0	650,131	0
Receivables:					
Accounts	1,177,468	1,362,602	547,738	3,087,808	0
Accrued Interest	294	30	0	324	0
Interfund Receivable	13,566	1,386	0	14,952	0
Materials and Supplies Inventory	59,895	12,512	0	72,407	0
Due from Other Funds	107,210	11,055	0	118,265	0
Prepaid Items	45,979	45,979	0	91,958	0
Unamortized Bond Issuance Costs	71,734	156,543	0	228,277	0
<i>Total Current Assets</i>	<u>11,754,618</u>	<u>10,173,618</u>	<u>547,738</u>	<u>22,475,974</u>	<u>1,123,103</u>
<i>Noncurrent Assets:</i>					
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	258,096	0	0	258,096	0
Cash and Cash Equivalents with Fiscal and Escrow Agent	0	0	0	0	0
Capital Assets:					
Land	3,280,691	2,109,163	0	5,389,854	0
Depreciable Capital Assets, Net	<u>15,854,629</u>	<u>25,958,812</u>	<u>0</u>	<u>41,813,441</u>	<u>0</u>
<i>Total Noncurrent Assets</i>	<u>19,393,416</u>	<u>28,067,975</u>	<u>0</u>	<u>47,461,391</u>	<u>0</u>
<i>Total Assets</i>	<u>\$ 31,148,034</u>	<u>\$ 38,241,593</u>	<u>\$ 547,738</u>	<u>\$ 69,937,365</u>	<u>\$ 1,123,103</u>

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY

Statement of Net Assets

Proprietary Funds

December 31, 2004

	Enterprise Funds				Governmental Activities Internal Service Funds	
	Water	Sewer	Refuse	Total		
Liabilities						
<i>Current Liabilities:</i>						
Accounts Payable	\$ 177,172	\$ 171,168	\$ 127,540	\$ 475,880	\$ 92,103	
Contracts Payable	216,715	233,281	0	449,996	0	
Interfund Payable	0	0	29,162	29,162	0	
Accrued Wages	92,927	72,697	2,225	167,849	0	
Compensated Absences Payable	31,622	36,910	1,348	69,880	0	
Retainage Payable	59,710	59,709	0	119,419	0	
Intergovernmental Payable	100,567	41,414	1,370	143,351	0	
Accrued Interest Payable	13,270	55,114	0	68,384	0	
Claims Payable	0	0	0	0	299,950	
OWDA Loans Payable	0	504,601	0	504,601	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)	417,344	660,195	0	1,077,539	0	
<i>Total Current Liabilities</i>	<u>1,251,409</u>	<u>1,835,089</u>	<u>161,645</u>	<u>3,248,143</u>	<u>392,053</u>	
<i>Current Liabilities Payable from Restricted Assets:</i>						
Refundable Deposits	<u>258,096</u>	<u>0</u>	<u>0</u>	<u>258,096</u>	<u>0</u>	
<i>Total Current Liabilities Payable from Restricted Assets</i>	<u>258,096</u>	<u>0</u>	<u>0</u>	<u>258,096</u>	<u>0</u>	
<i>Long-Term Liabilities:</i>						
Compensated Absences Payable (net of current portion)	378,137	316,207	12,564	706,908	0	
OWDA Loans Payable (Net of Current Portion)	0	6,284,908	0	6,284,908	0	
Bresler Reservoir Termination Agreement	2,415,400	0	0	2,415,400	0	
General Obligation Bonds Payable (Net of Current Portion, and where applicable, of unamortized discount and accounting loss)	3,310,389	8,317,729	0	11,628,118	0	
<i>Total Long-Term Liabilities</i>	<u>6,103,926</u>	<u>14,918,844</u>	<u>12,564</u>	<u>21,035,334</u>	<u>0</u>	
<i>Total Liabilities</i>	<u>7,613,431</u>	<u>16,753,933</u>	<u>174,209</u>	<u>24,541,573</u>	<u>392,053</u>	
Net Assets						
Invested in Capital Assets, Net of Related Debt	10,645,042	12,469,257	0	25,150,647	0	
Unrestricted	12,889,561	9,018,403	373,529	20,245,145	731,050	
<i>Total Net Assets</i>	<u>\$ 23,534,603</u>	<u>\$ 21,487,660</u>	<u>\$ 373,529</u>	<u>45,395,792</u>	<u>\$ 731,050</u>	

Net assets reported for business-type activities in the statement of net assets are different because they include accumulated overpayments to the internal service funds:

Net assets of business-type activities \$ 45,451,245

CITY OF LIMA - ALLEN COUNTY

*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2004*

	Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Total	
Operating Revenues					
Charges for Services	\$ 8,000,491	\$ 7,739,738	\$ 2,036,143	\$ 17,776,372	\$ 3,988,643
Recycled Sales	0	0	139,771	139,771	0
Other Operating Revenues	<u>609,843</u>	<u>23,194</u>	<u>0</u>	<u>633,037</u>	<u>369,055</u>
<i>Total Operating Revenues</i>	<u>8,610,334</u>	<u>7,762,932</u>	<u>2,175,914</u>	<u>18,549,180</u>	<u>4,357,698</u>
Operating Expenses					
Salaries	2,277,321	1,831,909	60,008	4,169,238	0
Fringe Benefits	1,000,619	717,433	24,637	1,742,689	0
Claims Expense	0	0	0	0	4,257,163
Other Services and Charges	3,505,219	3,100,793	1,838,041	8,444,053	823,249
Depreciation	<u>1,179,315</u>	<u>1,599,184</u>	<u>0</u>	<u>2,778,499</u>	<u>0</u>
<i>Total Operating Expenses</i>	<u>7,962,474</u>	<u>7,249,319</u>	<u>1,922,686</u>	<u>17,134,479</u>	<u>5,080,412</u>
<i>Operating Income (loss)</i>	<u>647,860</u>	<u>513,613</u>	<u>253,228</u>	<u>1,414,701</u>	<u>(722,714)</u>
Non-Operating Revenues (Expenses)					
Gain on Disposal of Fixed Assets	0	150	0	150	0
Tap-in Fees	97,677	0	0	97,677	0
Donated Fixed Assets	303,138	81,260	0	384,398	0
Investment Income	13,313	1,687	0	15,000	0
Interest and Fiscal Charges	<u>(261,817)</u>	<u>(734,723)</u>	<u>(11,142)</u>	<u>(1,007,682)</u>	<u>0</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>152,311</u>	<u>(651,626)</u>	<u>(11,142)</u>	<u>(510,457)</u>	<u>0</u>
<i>Change in Net Assets</i>	<u>800,171</u>	<u>(138,013)</u>	<u>242,086</u>	<u>904,244</u>	<u>(722,714)</u>
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	<u>22,775,608</u>	<u>21,654,649</u>	<u>131,443</u>		<u>1,453,764</u>
<i>Net Assets End of Year</i>	<u><u>\$ 23,575,779</u></u>	<u><u>\$ 21,516,636</u></u>	<u><u>\$ 373,529</u></u>		<u><u>\$ 731,050</u></u>
Some amounts reported for business-type activities in the statement of activities are different because a portion of the net expense of the internal service funds is reported with business-type activities.				<u>(186,624)</u>	
Change in net assets of business-type activities				<u>\$ 717,620</u>	

CITY OF LIMA - ALLEN COUNTY

*Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004*

	Enterprise Funds				
	Water	Sewer	Refuse	Total	Internal Service Funds
	\$	\$	\$	\$	\$
Increase (Decrease) in Cash and Cash Equivalents	\$ (4,018,803)	\$ (3,494,944)	\$ (47,713)	\$ (7,561,460)	\$ (937,879)
Cash Flows from Operating Activities					
Cash Received from Customers	7,991,576	7,707,998	1,936,631	17,636,205	0
Cash Received from Interfund Services Provided	0	0	0	0	3,988,643
Other Cash Receipts	609,843	23,194	74,868	707,905	369,055
Cash Payments to Employees for Services	(2,255,114)	(1,813,335)	(59,606)	(4,128,055)	0
Cash Payments for Employee Benefits	(993,640)	(702,992)	(23,202)	(1,719,834)	0
Cash Payments for Other Services and Charges	(3,363,307)	(2,869,206)	(1,819,429)	(8,051,942)	(824,649)
Cash Payments for Claims	0	0	0	0	(4,470,928)
<i>Net Cash Provided by (Used in) Operating Activities</i>	<i>1,989,358</i>	<i>2,345,659</i>	<i>109,262</i>	<i>4,444,279</i>	<i>(937,879)</i>
Cash Flows from Capital and Related Financing Activities					
Cash Received from Tap-in Fees	97,677	0	0	97,677	0
Donated Capital Assets	303,138	81,260	0	384,398	0
Proceeds from Sale of General Obligation Bonds	2,236,497	7,282,493	0	9,518,990	0
Principal Paid on OWDA Debt	0	(494,243)	0	(494,243)	0
Principal Paid on Revenue Bonds	(2,670,000)	(3,060,000)	0	(5,730,000)	0
Principal Paid on General Obligation Bonds	(500,000)	(590,000)	(150,000)	(1,240,000)	0
Principal Paid on Bond Anticipation Notes	(2,205,000)	(5,905,000)	0	(8,110,000)	0
Principal Paid on Bresler Reservoir Termination Agreement	(142,082)	0	0	(142,082)	0
Amortization of Bond Discount	4,589	4,035	567	9,191	0
Amortization of Bond Premium	(2,248)	(2,769)	0	(5,017)	0
Interest Paid on Debt Obligation	(245,683)	(769,089)	(7,542)	(1,022,314)	0
Payments for Capital Acquisitions	(2,946,997)	(2,394,229)	0	(5,341,226)	0
<i>Net Cash Provided by (Used in) Capital and Related Financing Activities</i>	<i>(6,070,109)</i>	<i>(5,847,542)</i>	<i>(156,975)</i>	<i>(12,074,626)</i>	<i>0</i>
Cash Flows from Investing Activities					
Gain on Sale of Assets	0	150	0	150	0
Proceeds from Sale of Investments	84,937	8,809	0	93,746	0
Purchase of Investments	(37,533)	(3,835)	0	(41,368)	0
Interest on Investments	14,544	1,815	0	16,359	0
<i>Net Cash Used by Investing Activities</i>	<i>61,948</i>	<i>6,939</i>	<i>0</i>	<i>68,887</i>	<i>0</i>
<i>Net (Decrease) in Cash and Cash Equivalents</i>	<i>(4,018,803)</i>	<i>(3,494,944)</i>	<i>(47,713)</i>	<i>(7,561,460)</i>	<i>(937,879)</i>
<i>Cash and Cash Equivalents Beginning of Year</i>	<i>14,555,371</i>	<i>12,078,455</i>	<i>47,713</i>	<i>26,681,539</i>	<i>2,060,982</i>
<i>Cash and Cash Equivalents End of Year</i>	<i>\$ 10,536,568</i>	<i>\$ 8,583,511</i>	<i>\$ 0</i>	<i>\$ 19,120,079</i>	<i>\$ 1,123,103</i>

(continued)

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY

Statement of Cash Flows

Proprietary Funds (continued)

For the Year Ended December 31, 2004

	Enterprise Funds					
	Water	Sewer	Refuse	Total	Internal Service Funds	
Reconciliation of Operating Income (loss) to Net Cash Provided by Operating Activities						
Operating Income (loss)	\$ 647,860	\$ 513,613	\$ 253,228	\$ 1,414,701	\$ (722,714)	
Adjustments:						
Depreciation	1,179,315	1,599,184	0	2,778,499	0	
(Increase) Decrease in Assets:						
Accounts Receivable	(14,793)	(31,740)	(164,415)	(210,948)	0	
Materials and Supplies Inventory	12,139	1,162	0	13,301	0	
Prepaid Items	(6,284)	(6,284)	0	(12,568)	0	
Increase (Decrease) in Liabilities:						
Accounts Payable	32,431	68,277	(9,785)	90,923	(1,400)	
Contracts Payable	68,376	131,918	0	200,294	0	
Interfund Payable	0	0	29,162	29,162	0	
Accrued Wages	22,207	18,574	402	41,183	0	
Compensated Absences Payable	6,979	14,441	1,435	22,855	0	
Retainage Payable	59,710	59,709	0	119,419	0	
Intergovernmental Payable	(24,460)	(23,195)	(765)	(48,420)	0	
Decrease in Claims Payable	0	0	0	0	(213,765)	
Increase in Refundable Deposits	5,878	0	0	5,878	0	
<i>Net Cash Provided by (Used In) Operating Activities</i>	<u>\$ 1,989,358</u>	<u>\$ 2,345,659</u>	<u>\$ 109,262</u>	<u>\$ 4,444,279</u>	<u>\$ (937,879)</u>	

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY
Combining Statement of Assets and Liabilities
Agency Funds
December 31, 2004

	<u>Agency</u>
Assets	
Equity Pooled in Cash and Cash Equivalents	\$ 196,122
Cash and Cash Equivalents in Segregated Accounts	316,396
Accounts Receivable	<u>2,681,850</u>
<i>Total Assets</i>	<u><u>3,194,368</u></u>
Liabilities	
Accounts Payable	10,703
Intergovernmental Payable	3,774
Undistributed Monies	2,998,246
Deposits Held and Due to Others	<u>181,645</u>
<i>Total Liabilities</i>	<u><u>\$ 3,194,368</u></u>

See accompanying notes to the basic financial statements

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1: REPORTING ENTITY

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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

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

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

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

C. Measurement Focus

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

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

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

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.

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, 2004, but which were levied to finance fiscal year 2005 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.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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."

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, 2004.

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 2004 amounted to \$472,659, which includes \$406,487 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, 2004, 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.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 expensed 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

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Also, the city has utility deposits from customers that are classified as restricted cash and cash equivalents on the balance sheet because their use is limited to the payment of unpaid utility bills or the refunding of the deposit to the customer.

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.

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:

CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2004.

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.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

N. Accrued Liabilities and Long-term Obligations

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

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

O. Net Assets

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

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

P. Fund Balance Reserves

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

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

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.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2004.

U. Estimates

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

V. Budgetary Data

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

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

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCES/NET ASSETS

Net assets for governmental activities were restated for 2003 to properly record capital asset additions and deletions not previously recorded. The affects of this restatement are detailed below.

Governmental Activities Net Assets, 12/31/03	\$ 24,503,208
Land	172,500
Equipment	(167,482)
Vehicles	(164,683)
Infrastructure	23,569
Accumulated Depreciation - Infrastructure	(841)
Accumulated Depreciation - Equipment	172,620
Accumulated Depreciation - Vehicles	170,592
Construction in Progress	<u>(32,367)</u>
Governmental Activities Net Assets	
Restated 12-31-03	<u>\$ 24,677,116</u>

Net assets for business-type activities were restated for 2003 to properly record capital asset additions and deletions not previously recorded. The affects of this restatement are detailed below.

Business-type Activities Net Assets, 12/31/03	\$ 44,803,777
Equipment	(507,762)
Vehicles	(462,773)
Accumulated Depreciation - Equipment	448,221
Accumulated Depreciation - Vehicles	<u>452,162</u>
Business-type Activities Net Assets	
Restated 12-31-03	<u>\$ 44,733,625</u>

NOTE 4: 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:

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 4: BUDGETARY BASIS OF ACCOUNTING (Continued)

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.

Net Change in Fund Balance

	<u>General</u>	<u>CDBG</u>
GAAP Basis	\$ (260,535)	\$ 46,442
Revenue accruals	479,170	(6,912)
Expenditure accruals	(76,423)	(56,317)
Encumbrances	<u>(380,322)</u>	<u>(226,323)</u>
 Budget Basis	 <u>\$ (238,110)</u>	 <u>\$ (243,110)</u>

NOTE 5: DEPOSITS AND INVESTMENTS

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

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

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

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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

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

Interim monies may be 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 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.

CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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.

Prior to September 1996, the effective date of changes in State statutes, the City invested in collateralized mortgage obligations to maximize yields. These securities are based on cash flows from interest payments on the underlying mortgages; therefore, the securities are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

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

At year-end, the carrying amount of the City’s deposits was \$9,496,202 and the bank balance was \$11,494,784. Of the bank balance, \$500,000 was covered by federal depository insurance and

\$10,994,784 by collateral held by third party trustees in accordance with the Ohio Revised Code in collateral pools securing all public funds on deposit with specific depository institutions, which amount is considered uncollateralized as defined by the Government Accounting Standards Board.

The City’s investments are categorized below to give an indication of the level of custodial risk assumed by the City at year end. Category 1 includes insured or registered or for which the securities are held by the City or its agent in the City’s name. Category 2 includes uninsured and unregistered for which the securities are held by the counterparty’s trust department or agent in the City’s name. Category 3 includes uninsured and unregistered for which the securities are held by the counterparty, or by its trust department or agent but not in the City’s name. STAR Ohio and mutual funds are an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

Securities	Category			Carrying Value	Fair Value
	1	2	3		
Repurchase Agreements	\$ 0	\$ 0	\$4,889,999	\$ 4,889,999	\$ 4,889,999
Federal Home Loan Bank Agency	0	3,689,245	0	3,689,245	3,673,450
Federal Home Loan Mortgage Corporation	0	2,398,657	0	2,398,657	2,391,733
Federal National Mortgage Association					
Medium Term Notes	0	6,637,403	0	6,637,403	6,648,195
Freddie Mac	0	999,200	0	999,200	988,130
	<u>\$ 0</u>	<u>\$ 13,724,505</u>	<u>\$4,889,999</u>	<u>\$ 18,614,504</u>	<u>18,591,507</u>
Bank One Trust Money Market Deposit Account					148,217
Huntington Bank Money Market Deposit Account					692,885
STAR Ohio					125,168
Grand Total					<u>\$ 19,557,777</u>

CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Cash equivalents are defined as investments with original maturities of three months or less and funds included within the City's cash management pool.

A reconciliation between the classification of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits		Investments
	\$	29,053,979	\$ 0
Investments:			
Repurchase Agreements		(4,889,999)	4,889,999
Federal Home Loan Bank Agency		(3,673,450)	3,673,450
Federal Home Loan Mortgage Corporation		(2,391,733)	2,391,733
Federal National Mortgage Association			
Medium Term Notes		(6,648,195)	6,648,195
Freddie Mac		(988,130)	988,130
Bank One Trust Money Market Deposit Account		(148,217)	148,217
Huntington Bank Money Market Deposit Account		(692,885)	692,885
STAR Ohio		<u>(125,168)</u>	<u>125,168</u>
GASB Statement No. 3	<u>\$ 9,496,202</u>		<u>\$ 19,557,777</u>

NOTE 6: INCOME TAX

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

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 7: 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 2004 represent the collection of 2003 taxes. For 2004, real property taxes were levied after October 1, 2003, on the assessed value as of January 1, 2003, the lien date. These taxes will be collected in and are intended to finance 2004 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 2003. 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, 2003, on the assessed values as of December 31, 2003, 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 2004 (other than public utility property) represent the collection of 2004 taxes. For 2004, tangible personal property taxes were levied after October 1, 2003, on the value as of December 31, 2003, the lien date. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. The first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real, public utility, and tangible personal property taxes which are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2004 operations.

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

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$ 223,348,440
Commercial/Industrial	110,236,540
Tangible Personal	53,808,312
Public Utility Real	186,990
Public Utility Personal	17,802,470
 Total	 <u><u>\$ 405,382,752</u></u>

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 8: RECEIVABLES

Receivables at December 31, 2004 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	\$ 1,177,468
Sewer	1,362,602
Refuse	547,738
Total	<u>\$ 3,087,808</u>

Notes receivable represent low interest notes for development projects and home improvements granted to eligible City residents and businesses under the Federal Community Development Block Grant, the Community Housing Improvement Program, and the Urban Development Action Grant. The notes bear interest at an annual rate of 7 to 8 percent. The notes are to be repaid over periods ranging from five to fifteen years. The gross notes receivable are \$2,143,930 with uncollectible of \$347,901 at December 31, 2004. The notes are recorded net of an allowance for uncollectibles in the amount of \$1,796,029.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Indigent Defense Fees	\$ 22,403
Homestead and Rollback	70,253
Local Government	1,041,668
Motor Vehicle License Tax	167,600
Gasoline Excise Tax	406,500
Permissive Tax	148,000
Home Program Grant	1,174,113
Community Development	
Block Grant (CDBG)	2,561,772
Weed and Seed FY01 Grant	256,972
Byrne Pace Grants	16,726
2001 JAIBG Grant	2,707
2004 Law Enforcement Overtime Grant	25,970
Secure Schools 2002	18,144
Step Grant	33,424
2003 JAIBG Grant	15,959
Weed and Seed FY02 Grant	330,445
2003 Safe Streets Grant	52,500
Clean Ohio Grant	69,587
2003 Court Watch Grant	<u>4,690</u>
Total Intergovernmental Receivable	<u>\$ 6,419,433</u>

CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2004 follows:

	Balance 12/31/03	Additions	Deletions	Balance 12/31/2004
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 4,567,336	\$ 146,372	\$ 0	\$ 4,713,708
Construction in progress	<u>854,464</u>	<u>6,156,319</u>	<u>(245,070)</u>	<u>6,765,713</u>
<i>Total Capital Assets Not Being Depreciated</i>	<i>5,421,800</i>	<i>6,302,691</i>	<i>(245,070)</i>	<i>11,479,421</i>
<i>Capital Assets, Being Depreciated:</i>				
Buildings	11,260,153	102,316	0	11,362,469
Improvements	522,388	29,777	0	552,165
Machinery and equipment	3,240,616	199,912	(38,529)	3,401,999
Furniture and fixtures	44,185	0	0	44,185
Vehicles	3,962,929	738,905	(234,019)	4,467,815
Infrastructure:				
Roads	506,383	574,759	0	1,081,142
Curbs	<u>0</u>	<u>39,082</u>	<u>0</u>	<u>39,082</u>
<i>Total Capital Assets, Being Depreciated</i>	<i>19,536,654</i>	<i>1,684,751</i>	<i>(272,548)</i>	<i>20,948,857</i>
<i>Less Accumulated Depreciation:</i>				
Buildings	3,590,900	250,283	0	3,841,183
Improvements	109,098	25,684	0	134,782
Machinery and equipment	2,130,556	259,445	(38,529)	2,351,472
Furniture and fixtures	16,848	2,473	0	19,321
Vehicles	3,582,202	412,843	(233,673)	3,761,372
Infrastructure:				
Roads	<u>11,234</u>	<u>91,157</u>	<u>0</u>	<u>102,391</u>
<i>Total Accumulated Depreciation</i>	<i><u>9,440,838</u></i>	<i><u>1,041,885</u></i>	<i><u>(272,202)</u></i>	<i><u>10,210,521</u></i>
<i>Total capital assets being depreciated, net</i>	<i>10,095,816</i>	<i>642,866</i>	<i>(346)</i>	<i>10,738,336</i>
<i>Total Governmental Activities Capital Assets, Net</i>	<i><u>\$ 15,517,616</u></i>	<i><u>\$ 6,945,557</u></i>	<i><u>\$ (245,416)</u></i>	<i><u>\$ 22,217,757</u></i>

CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004

NOTE 9: CAPITAL ASSETS (Continued)

	Restated Balance 12/31/03	Additions	Deletions	Balance 12/31/2004
Business-Type Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 1,225,948	\$ 524,299	\$ 0	\$ 1,750,247
Construction in progress	<u>511,692</u>	<u>3,186,475</u>	<u>(58,560)</u>	<u>3,639,607</u>
<i>Total Capital Assets Not Being Depreciated</i>	<i>1,737,640</i>	<i>3,710,774</i>	<i>(58,560)</i>	<i>5,389,854</i>
<i>Capital Assets, Being Depreciated:</i>				
Improvements	2,338,734	19,335	0	2,358,069
Buildings	36,841,972	599,583	0	37,441,555
Machinery and equipment	16,949,625	412,742	(116,015)	17,246,352
Furniture and fixtures	20,107	6,240	0	26,347
Vehicles	3,024,411	297,445	(209,355)	3,112,501
Capitalized Interest	3,137,768	0	0	3,137,768
Intangible Assets	317,988	0	0	317,988
Sewer lines	16,951,473	53,658	0	17,005,131
Water lines	<u>15,380,569</u>	<u>428,301</u>	<u>(2,773)</u>	<u>15,806,097</u>
<i>Total Capital Assets, Being Depreciated</i>	<i>94,962,647</i>	<i>1,817,304</i>	<i>(328,143)</i>	<i>96,451,808</i>
<i>Less Accumulated Depreciation:</i>				
Improvements	455,559	98,859	554,418	
Buildings	16,243,452	796,196	17,039,648	
Machinery and equipment	10,468,516	852,004	(116,015)	11,204,505
Furniture and fixtures	16,218	491		16,709
Vehicles	2,155,331	362,728	(209,355)	2,308,704
Capitalized Interest	1,515,545	203,024		1,718,569
Intangible Assets	190,793	63,598		254,391
Sewer lines	12,940,435	196,366		13,136,801
Water lines	<u>8,073,869</u>	<u>333,526</u>	<u>(2,773)</u>	<u>8,404,622</u>
<i>Total Accumulated Depreciation</i>	<i>52,059,718</i>	<i>2,906,792</i>	<i>(328,143)</i>	<i>54,638,367</i>
<i>Total capital assets being depreciated, net</i>	<i>42,902,929</i>	<i>(1,089,488)</i>	<i>0</i>	<i>41,813,441</i>
<i>Total Business-Type Capital Assets, Net</i>	<i><u>\$ 44,640,569</u></i>	<i><u>\$ 2,621,286</u></i>	<i><u>\$ (58,560)</u></i>	<i><u>\$ 47,203,295</u></i>

CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004

NOTE 9: CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 133,328
Security of Persons and Property	258,847
Leisure Time Activities	80,601
Community Development	12,885
Transportation	<u>351,475</u>
 Total	 <u><u>\$ 837,136</u></u>

The variance of \$204,749 between accumulated depreciation additions and the depreciation expense resulted from the transfer of capital assets from Business-Type activities to Governmental activities at historical cost, along with accumulated depreciation.

NOTE 10: RISK MANAGEMENT

A. Self Insurance Program

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

Claims payable is based on the requirements of the Governmental Accounting Standards Board Statement No. 30 "Risk Financing Omnibus," which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated claim adjustment expenses. Claims payable at December 31, 2004, are estimated based on past experience in payment of claims at \$299,950.

		Current Year		
	Beginning of Year Liability	Claims and Changes in Estimates	Claims Payments	End of Year Liability
2003	\$ 239,327	\$ 3,156,391	\$ 2,882,003	\$ 513,715
2004	513,715	4,257,163	4,470,928	299,950

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 10: 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 2004 the City contracted with a third party for insurance as follows:

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

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

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

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

NOTE 11: 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 in the amount of \$2,756,090 due within more than one year and \$21,723 due within one year.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 12: DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

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

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

The 2004 employer contribution rate for state employers was 13.31% of covered payroll. For local government employer units the rate was 13.55% of covered payroll. The 2004 employer contribution rate for both the law enforcement and public safety division was 16.70% of covered payroll. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to PERS for the years ended December 31, 2004, 2003 and 2002 were \$1,553,674, \$1,396,707, and, \$1,436,473 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, 2004, 2003 and 2002 were \$1,794,912, \$1,643,861, and \$852,819, respectively, equal to the required contributions for each year.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 13: 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 2004 employer contribution rate for state employers was 13.31% of covered payroll; 4.00% was the portion that was used to fund health care for the year. For local government employer units the rate was 13.55% of covered payroll; 4.00% was the portion used to fund health care for the year. The 2004 employer rate was 16.70% and 4.00% was used to fund health care for both the law enforcement and public safety divisions. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

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, 2003, include a return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually plus an additional factor ranging from 1% to 6% for the next 8 years. Health care costs were assumed to increase at 4% in year 9 and beyond.

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

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively. As of December 31, 2003, the unaudited estimated net assets available for future OPEB payments were \$10.5 billion. The number of active contributing participants was 369,885.

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

B. Ohio Police and Fire Pension Fund

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

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 13: POSTEMPLOYMENT BENEFITS (Continued)

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2004. 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 2004 that were used to fund postemployment benefits were \$647,417. The OP&F's total health care expenses for the year ended December 31, 2003 (the latest information available) were \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003 was 13,662 for police and 10,474 for firefighters.

CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004

NOTE 14: LONG-TERM OBLIGATIONS

The changes in the City's long-term obligations during 2004 were as follows:

	Interest Rate %	Outstanding 01/01/04	Additions	(Reductions)	Outstanding 12/31/04	Amounts Due Within One Year
Governmental Activities						
Special Assessment Bonds:						
1987 Industry Avenue	7.25	\$ 90,000	\$ 0	\$ (18,000)	\$ 72,000	\$ 18,000
1995 Elm/Woodlawn/Pine Street	5.20	80,000	0	(40,000)	40,000	40,000
1996 Market/Collett/Elmwood	5.80	45,000	0	(15,000)	30,000	15,000
Total Special Assessment Bonds		215,000	0	(73,000)	142,000	73,000
Unvoted General Obligation Bonds:						
1999 Various Purpose Refunding Bonds 4.00-5.80						
Municipal Center Refunding		1,060,000	0	(20,000)	1,040,000	155,000
Parking Facility		735,000	0	(5,000)	730,000	25,000
2004 - YMCA Parking Lot Project	2.00-4.5	0	200,000	0	200,000	10,000
Unamortized Premium		0	1,001	0	1,001	50
Total Unvoted General Obligation Bonds		1,795,000	201,001	(25,000)	1,971,001	190,050
Bond Anticipation Notes:						
Ottawa River Bikeway	1.29	400,000	0	(400,000)	0	0
Total Bond Anticipation Notes		400,000	0	(400,000)	0	0
Other Long-Term Obligations:						
Compensated Absences		2,361,725	416,088	0	2,777,813	21,723
Intergovernmental Payables		366,339	454,462	(366,339)	454,462	454,462
Judgement Payable		198,500	193,500	(88,500)	303,500	303,500
Fire Pumper Loan Payable	4.75	7,730	0	(7,730)	0	0
Capital Leases	6.00	46,233	0	(46,233)	0	0
Total Other Long-Term Obligations		2,980,527	1,064,050	(508,802)	3,535,775	779,685
Total Governmental Activities		5,390,527	1,265,051	(1,006,802)	5,648,776	1,042,735
Business-Type Activities						
Revenue Bonds:						
1992 Water Revenue Refunding Bonds 5.10-6.30		2,670,000	0	(2,670,000)	0	0
1992 Sewer Revenue Refunding Bonds 5.10-6.30		3,060,000	0	(3,060,000)	0	0
Total Revenue Bonds		5,730,000	0	(5,730,000)	0	0
Unvoted General Obligation Bonds:						
1999 Various Purpose Refunding Bonds 4.00-5.80						
Refuse Bonds		150,000	0	(150,000)	0	0
Unamortized Discount		(567)	567	0	0	0
Total Refuse Bonds		149,433	567	(150,000)	0	0

CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

	Interest Rate %	Outstanding 01/01/04	Additions	(Reductions)	Outstanding 12/31/04	Amounts Due Within One Year
Water Refunding - 1999 Issue	4.00-5.30	\$ 2,140,000	\$ 0	\$ (65,000)	\$ 2,075,000	\$ 130,000
Unamortized Accounting Loss		(120,837)	3,670	0	(117,167)	(7,341)
Unamortized Discount		(30,268)	919	0	(29,349)	(1,839)
Total Water Refunding - 1999 Issue		<u>1,988,895</u>	<u>4,589</u>	<u>(65,000)</u>	<u>1,928,484</u>	<u>120,820</u>
Water Refunding - 2004 Issue	2.00-4.50	0	2,225,000	(435,000)	1,790,000	295,000
Unamortized Premium		0	11,497	(2,248)	9,249	1,524
Total Water Refunding - 2004 Issue		<u>0</u>	<u>2,236,497</u>	<u>(437,248)</u>	<u>1,799,249</u>	<u>296,524</u>
Total Water General Obligation Bonds		<u>1,988,895</u>	<u>2,241,086</u>	<u>(502,248)</u>	<u>3,727,733</u>	<u>417,344</u>
Sewer Refunding - 1999 Issue	4.00-5.30	2,465,000	0	(55,000)	2,410,000	105,000
Unamortized Accounting Loss		(144,695)	3,229	0	(141,466)	(6,164)
Unamortized Discount		(36,140)	806	0	(35,334)	(1,539)
Total Sewer Refunding - 1999 Issue		<u>2,284,165</u>	<u>4,035</u>	<u>(55,000)</u>	<u>2,233,200</u>	<u>97,297</u>
Sewer - 2004 Issue	2.00-4.50	0	7,245,000	(535,000)	6,710,000	560,000
Unamortized Premium		0	37,493	(2,769)	34,724	2,898
Total Sewer Refunding - 2004 Issue		<u>0</u>	<u>7,282,493</u>	<u>(537,769)</u>	<u>6,744,724</u>	<u>562,898</u>
Total Sewer General Obligation Bonds		<u>2,284,165</u>	<u>7,286,528</u>	<u>(592,769)</u>	<u>8,977,924</u>	<u>660,195</u>
Total Unvoted General Obligation Bonds		<u>4,422,493</u>	<u>9,528,181</u>	<u>(1,245,017)</u>	<u>12,705,657</u>	<u>1,077,539</u>
Bond Anticipation Notes:						
Sanitary Sewer System	1.88	3,260,000	0	(3,260,000)	0	0
Water Revenue Bond Refunding	1.65	2,205,000	0	(2,205,000)	0	0
Sewer Revenue Bond Refunding	1.65	2,645,000	0	(2,645,000)	0	0
Total Bond Anticipation Notes		<u>8,110,000</u>	<u>0</u>	<u>(8,110,000)</u>	<u>0</u>	<u>0</u>
Other Long-Term Obligations:						
Bresler Termination Agreement	0.0	2,699,564	0	(142,082)	2,557,482	142,082
OWDA Loan	5.50	661,687	0	(220,564)	441,123	220,564
OWDA Loan	3.75	6,622,065	0	(273,679)	6,348,386	284,038
Compensated Absences		<u>753,933</u>	<u>22,855</u>	<u>0</u>	<u>776,788</u>	<u>69,880</u>
Total Other Long-Term Obligations		<u>10,737,249</u>	<u>22,855</u>	<u>(636,325)</u>	<u>10,123,779</u>	<u>716,564</u>
Total Business-Type Activities		<u>28,999,742</u>	<u>9,551,036</u>	<u>(15,721,342)</u>	<u>22,829,436</u>	<u>1,794,103</u>
Totals		<u>\$ 34,390,269</u>	<u>\$ 10,816,087</u>	<u>\$ (16,728,144)</u>	<u>\$ 28,478,212</u>	<u>\$ 2,836,838</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, 2004

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

Special Assessment Bonds – Special assessment bonds are payable from the proceeds of assessments levied against the specific property owners who primarily benefited from the project. Special assessment monies will be received 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 \$136,970 towards these interfund assessments.

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

Loans Payable – The loans payable represent amounts borrowed for the acquisition of a fire truck. The loan was paid off in 2004 from the General Fund.

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

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

Bond Anticipation Notes – The bond anticipation notes represent short-term amounts borrowed by the City to pay for improvements in anticipation of issuing new bonds and repay the current notes with the proceeds. During 2004, all bond anticipation notes were paid in full.

CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

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

	General Obligation		Special Assessments		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 190,000	\$ 99,273	\$ 73,000	\$ 9,040	\$ 263,000	\$ 108,313
2006	195,000	90,613	33,000	4,785	228,000	95,398
2007	205,000	81,483	18,000	2,610	223,000	84,093
2008	210,000	71,725	18,000	1,305	228,000	73,030
2009	225,000	61,600	0	0	225,000	61,600
2010-2014	465,000	189,643	0	0	465,000	189,643
2015-2019	480,000	86,440	0	0	480,000	86,440
Total	<u>\$1,970,000</u>	<u>\$ 680,777</u>	<u>\$ 142,000</u>	<u>\$ 17,740</u>	<u>\$2,112,000</u>	<u>\$ 698,517</u>

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

	Bresler		General Obligation		OWDA Loans		Total	
	Termination Agreement		(Gross)		Principal		Interest	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 142,082	\$ 0	\$ 1,090,000	\$ 535,610	\$ 504,602	\$ 256,655	\$ 1,736,684	\$ 792,265
2006	142,082	0	1,115,000	507,465	515,354	233,773	1,772,436	741,238
2007	142,082	0	1,155,000	473,955	305,948	213,517	1,603,030	687,472
2008	142,082	0	1,195,000	433,385	317,529	201,937	1,654,611	635,322
2009	142,082	0	1,230,000	388,030	329,547	189,917	1,701,629	577,947
2010-2014	710,410	0	4,460,000	1,105,578	1,844,561	752,762	7,014,971	1,858,340
2015-2019	710,410	0	1,225,000	526,675	2,221,143	376,216	4,156,553	902,891
2020-2024	426,252	0	1,515,000	224,015	750,827	28,329	2,692,079	252,344
Total	<u>\$2,557,482</u>	<u>\$ 0</u>	<u>\$ 12,985,000</u>	<u>\$ 4,194,713</u>	<u>\$ 6,789,511</u>	<u>\$ 2,253,106</u>	<u>\$ 22,331,993</u>	<u>\$ 6,447,819</u>

CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004

NOTE 15: INTERFUND TRANSACTIONS

A. Interfund Transactions

As of December 31, 2004, balance sheet receivable and payables that resulted from cash advances were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>
General	\$ 607,730	\$ 0	\$ 0	\$ 0
Other Governmental Funds:				
STEP	0	11,129	0	0
Byrne (Pace)	0	9,348	0	0
2001 Weed and Seed	0	218,142	0	0
2001 JB	0	3,736	0	0
2003 Weed and Seed	0	282,702	0	0
LEOP	0	19,617	0	0
CDBG	0	383	0	0
2002 JB	0	11,482	0	0
Debt Service	6,048	3,885	0	68,085
Capital Projects	0	39,144	186,350	0
Business-Type Activities				
Water	13,566	0	0	107,210
Sewer	1,386	0	0	11,055
Refuse	0	29,162	0	0
Totals	<u>\$ 628,730</u>	<u>\$ 628,730</u>	<u>\$ 186,350</u>	<u>\$ 186,350</u>

B. Reconciliation of Interfund Transfers

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 0	\$ 123,883
Other Governmental Funds:		
Debt Service	170,908	136,970
Capital Projects	136,970	47,025
Totals	<u>\$ 307,878</u>	<u>\$ 307,878</u>

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 16: DEFERRED REVENUE

Deferred revenue at December 31, 2004 consisted of the following:

	Statement of Net Assets	Balance Sheet
Property Taxes Receivable	\$ 1,260,117	\$ 1,383,972
Income Taxes Receivable	0	1,493,628
Grants Receivable	3,686,738	5,570,053
Special Assessments Receivable	<u>2,329,541</u>	<u>2,329,541</u>
Deferred Revenue	<u><u>\$ 7,276,396</u></u>	<u><u>\$ 10,777,194</u></u>

NOTE 17: CAPITALIZED LEASES - LESSEE DISCLOSURE

In 1998, the City entered into a new lease for the acquisition of equipment. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The capital asset acquired by the lease has been capitalized in the governmental activities in the amount of \$242,570, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability is recorded and is reduced for each required principal payment.

This lease was paid in full during the 2004 fiscal year.

CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004

NOTE 18: CONTRACTUAL COMMITMENTS

As of December 31, 2004, the City had contractual commitments for the following projects:

	<u>Contractual Commitment</u>	<u>Expended</u>	<u>Balance 12/31/04</u>
Finley Fire Equipment - SCBA Equipment	\$ 75,989	\$ 66,425	\$ 9,564
Lutz Concrete, Inc. - 2004 Sidewalk Project	29,744	26,030	3,714
Bluffton Paving, Inc. - Jackson St. Reconstruction	384,599	377,378	7,221
Oglesby Construction, Inc. - Various Curb Replacements	235,941	81,940	154,001
Poggemeyer Design Group - Agri-Business Park Utilities	64,000	44,301	19,699
Shelly Co. - High St/Spartan Way Reconstruction	139,537	137,168	2,369
Eagle Bridge Company - North St. Bridge Replacement	1,776,070	1,551,721	224,349
The Shelly Company - Reconstruct Allentown Road	1,490,323	1,361,079	129,244
ITS Group - Fiber Optic Cable Installation Project	20,000	0	20,000
Montgomery Watson - Stream Reclassification Consulting	20,000	10,000	10,000
Tuttle Construction - New Utilities Field Services Building	2,290,857	2,110,222	180,635
Buckeye Truck Center, Inc. - Dump Truck	72,987	0	72,987
Poggemeyer Design Group - Agri-Business Park Infrast.	164,000	88,060	75,940
The Shelly Company - Stadium Drive Project	58,532	39,556	18,976
Miller Contracting Group, Inc. - WWTP Lab Addition	<u>965,000</u>	<u>0</u>	<u>965,000</u>
 Totals	 <u>\$ 7,787,579</u>	 <u>\$ 5,893,880</u>	 <u>\$ 1,893,699</u>

NOTE 19: 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, 2004.

B. Litigation

As of December 31, 2004, 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.

CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2004

NOTE 20: ACCOUNTABILITY & COMPLIANCE

The following funds had appropriations in excess of estimated resources plus available balances for the year ended December 31, 2004.

Fund Type/Fund	Estimated Resources	Appropriations	Excess
Weed/Property Cleanup Fund	\$ 163,082	\$ 285,000	\$ (121,918)
Cable Road Safety Study Grant	0	15,000	(15,000)
Street Repair Fund	2,614,190	3,839,806	(1,225,616)
2004-LB-BX-0662 (LLEBG)	0	20,695	(20,695)
Purdue Pharma Grant	0	10,000	(10,000)
2004 LEOP	0	20,508	(20,508)
Law Enforcement Trust Fund	18,571	30,000	(11,429)
LLEBG 2002-LB-BX-0948	80,814	90,640	(9,826)
STEP Grant	(10,590)	3,604	(14,194)
Community Development Block Grant	2,475,559	2,622,124	(146,565)
ODOD Brownfield Grant	0	84,000	(84,000)
Police EMA Grant	0	1,800	(1,800)
Fire Department FEMA Grant	0	107,969	(107,969)
2001-WS-QX-0157 Weed/Seed 2	88,826	176,481	(87,655)
2002-WS-QX-0007 Weed/Seed 3	(188,986)	129,503	(318,489)
2002-JB 013-A049 JAIBG	(4,776)	20,725	(25,501)
Byrne Pace Grant	0	34,376	(34,376)
2003-DG-B01-7087 Court Watch Grant	0	9,357	(9,357)
2003-PS-PSN-314 Safe Streets Grant	0	30,000	(30,000)
OPWC-Central Point Wood Deck Grant	0	22,333	(22,333)
ALL-Bikeway Project	0	1,842,169	(1,842,169)
General Debt Service	117,665	121,550	(3,885)
Special Assessment Debt Service	227,091	235,407	(8,316)
Building Fees - Agency Fund	14,000	15,770	(1,770)

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 20: ACCOUNTABILITY & COMPLIANCE (continued)

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

<u>Fund</u>	<u>Deficit Cash Balance</u>
Refuse Revenue Fund	\$ 29,162
LEOP	19,617
STEP	11,129
CDBG	383
2001-WS-QX-0157 Weed/Seed 2	218,142
2001-JB-013-A049	3,736
2003-WS-QX-0007 Weed/Seed 3	282,702
2002-JB-013-A049 JAIBG	11,482
2003-DG-B02-07341	9,348
Secure Schools 2002 Grant	18,144
General Debt Service	3,885

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

Mayor and Members of Council

City of Lima

Lima, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Lima, Ohio (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 3, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated June 3, 2005.

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 basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 04-1 and 04-2. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated June 3, 2005.

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

Rea & Associates, Inc.

June 3, 2005

Cambridge Columbus Coshocton Lima Marietta Millersburg Medina New Philadelphia Wooster

Member Jeffreys Henry International

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

Mayor and Members of Council
City of Lima
Lima, Ohio

Compliance

We have audited the compliance of City of Lima, Ohio (the City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. 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, 2004. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

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

Page 2

Internal Control Over Compliance

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

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

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

Kea & Associates, Inc.

June 3, 2005

CITY OF LIMA, OHIO
Schedule of Expenditures of Federal Awards
Year ended December 31, 2004

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	\$ 1,624,040
HOME Renewal Program	14.239	MC-39-0219	<u>92,068</u>
Total U.S. Department of Housing and Urban Development			<u>1,716,108</u>
U.S. Department of Justice			
Direct Programs:			
Weed & Seed Core	16.595		349,041
Asset for Forfeiture	16.000		496
Juvenile Accountability and Incentive Block Grant	16.523		24,078
Byrne Formula Grant Program	16.579		37,373
Secure Schools	16.710		10,707
Law Enforcement Block Grant	16.592		<u>91,939</u>
Total Direct Programs			513,634
Pass through Programs:			
Ohio Department of Justice Byrne Grant	16.540	DG-BO2-7341	<u>776</u>
Total U.S. Department of Justice			<u>514,410</u>
U.S. Department of Transportation			
Pass through Programs:			
Highway Planning and Construction	20.205		4,354,603
State and Community Highway Safety	20.600		20,043
Alcohol Traffic Safety and Drunk Driving Prevention Incentive	20.601		<u>22,516</u>
Total U.S. Department of Transportation			<u>4,397,162</u>
Federal Emergency Management Agency			
Pass through Programs:			
Disaster Assistance	97.036		<u>73,025</u>
Total Federal Emergency Management Agency			<u>73,025</u>
Total Federal Financial Assistance			<u>\$ 6,700,705</u>

See accompanying independent auditors' report.

See accompanying notes to schedule of expenditures of federal awards

CITY OF LIMA, OHIO

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2004

(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, expenditures are recognized when paid (disbursed).

CITY OF LIMA, OHIO

Part III – Schedule of Findings and Questioned Costs

Year ended December 31, 2004

(1) Summary of Auditors' Results:

(a) Type of report issued on the basic financial statements	Unqualified
(b) Reportable conditions in internal control were disclosed by the audit of the financial statements	No
Material weaknesses	No
(c) Noncompliance which is material to the basic financial statements	Yes
(d) Reportable conditions in internal controls over major programs	No
Material weaknesses	No
(e) Type of report issued on compliance for major programs	Unqualified for Highway Planning and Construction
(f) Any audit findings which are required to be reported under Section 510(s) of OMB Circular A-133	No
(g) Major Programs	Highway Planning and Construction (CFDA #20.205)
(h) Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
(i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133	No

CITY OF LIMA, OHIO

Part III – Schedule of Findings and Questioned Costs

Year ended December 31, 2004

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

Finding 04-1 Ohio Revised Code Section 5705.39 (repeat of 03-1)

Ohio Rev. Code Section 5705.39 states the total appropriations from each fund should not exceed the total estimated revenues of the fund. The following funds had appropriations in excess of estimated resources plus available balances for the year ended December 31, 2004.

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Weed/Property Cleanup	\$ 163,082	\$ 285,000	\$(121,018)
Cable Road Safety Study Grant	0	15,000	(15,000)
Street Repair	2,614,190	3,839,806	(1,225,616)
2004-LB-BX-0662 (LLEBG)	0	20,695	(20,695)
Purdue Phama Grant	0	10,000	(10,000)
2004 LEOP	0	20,508	(20,508)
Law Enforcement Trust Fund	18,571	30,000	(11,429)
LLEBG 2002-0LB-BX-0948	80,814	90,640	(9,826)
STEP Grant	(10,590)	3,604	(14,194)
Community Devel. Block Grant	2,475,559	2,622,124	(146,565)
ODOD Brownfield Grant	0	84,000	(84,000)
Police EMA Grant	0	1,800	(1,800)
Fire Dept. FEMA Grant	0	107,969	(107,969)
2001-WS-QX-0157 Weed/Seed 2	88,826	176,481	(87,655)
2002-WS-QX-0007 Weed/Seed 3	(188,986)	129,503	(318,489)
2002-JB-013-A049 JAIBG	(4,776)	20,725	(25,501)
Byrne Pace Grant	0	34,376	(34,376)
2003-DG-B01-7087 Court Watch	0	9,357	(9,357)
2003-PS-PSN-314 Safe Streets	0	30,000	(30,000)
OPWC-Central Point Wood Deck	0	23,333	(23,333)
ALL-Bikeway Project	0	1,842,169	(1,842,169)
General Debt Service	117,665	121,550	(3,885)
Special Assessment Debt Service	227,091	235,407	(8,316)
Building Fees-Agency Fund	14,000	15,770	(1,770)

CITY OF LIMA, OHIO

Part III – Schedule of Findings and Questioned Costs

Year ended December 31, 2004

Finding 04-2 Ohio Revised Code Section 5705.10 (repeat of 03-2)

Ohio Rev. Code Section 5705.10 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.

As of December 31, 2004:

<u>Fund</u>	<u>Deficit Cash Balance</u>
Refuse Revenue Fund	\$ 29,162
LEOP	19,617
STEP	11,129
Federal Block Grants	383
2001-WS-QX-0147 W&S 2	218,143
2001-JB-013-A049 JAIBG	3,736
2003-WS-QX-0007 Weed/Seed	282,702
2002-JB-013-A049 JAIBG	11,482
Byrne 2003-DG-B02-7341	9,348
Secure/Schools-2002CKWX0276	18,144
General Debt Service	3,885

(3) Findings and Questioned Costs for Federal Awards:

None

CITY OF LIMA, OHIO

Part IV – Summary Schedule of Prior Audit Findings

Year ended December 31, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	Section 5705.39 of the Ohio Revised Code states the total appropriations from each fund should not exceed the total estimated revenues of the fund. Several funds had appropriations in excess of estimated resources plus available balances for the year ended December 31, 2003.	No	See Corrective Action Plan
2003-002	Section 5705.10 of the Ohio Revised Code states that money paid into any fund shall be used only for the purposes for which such fund was established. The existence of a deficit cash balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund or funds carrying the deficit cash balance.	No	See Corrective Action Plan

CITY OF LIMA, OHIO
CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 §.315(c)
FOR THE YEAR ENDED DECEMBER 31, 2004

Responsible Contact Person – Randy Bartels, Director of Audit Services

Finding 04-1 Ohio Revised Code Section 5705.39 (repeat of 03-1)

Ohio Rev. Code Section 5705.39 states the total appropriations from each fund should not exceed the total estimated revenues of the fund. The following funds had appropriations in excess of estimated resources plus available balances for the year ended December 31, 2004:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Weed/Property Cleanup	\$ 163,082	\$ 285,000	\$(121,018)
Cable Road Safety Study Grant	0	15,000	(15,000)
Street Repair	2,614,190	3,839,806	(1,225,616)
2004-LB-BX-0662 (LLEBG)	0	20,695	(20,695)
Purdue Phama Grant	0	10,000	(10,000)
2004 LEOP	0	20,508	(20,508)
Law Enforcement Trust Fund	18,571	30,000	(11,429)
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STEP Grant	(10,590)	3,604	(14,194)
Community Devel. Block Grant	2,475,559	2,622,124	(146,565)
ODOD Brownfield Grant	0	84,000	(84,000)
Police EMA Grant	0	1,800	(1,800)
Fire Dept. FEMA Grant	0	107,969	(107,969)
2001-WS-QX-0157 Weed/Seed 2	88,826	176,481	(87,655)
2002-WS-QX-0007 Weed/Seed 3	(188,986)	129,503	(318,489)
2002-JB-013-A049 JAIBG	(4,776)	20,725	(25,501)
Byrne Pace Grant	0	34,376	(34,376)
2003-DG-B01-7087 Court Watch	0	9,357	(9,357)
2003-PS-PSN-314 Safe Streets	0	30,000	(30,000)
OPWC-Central Point Wood Deck	0	23,333	(23,333)
ALL-Bikeway Project	0	1,842,169	(1,842,169)
General Debt Service	117,665	121,550	(3,885)
Special Assessment Debt Service	227,091	235,407	(8,316)
Building Fees-Agency Fund	14,000	15,770	(1,770)

Corrective Actions Taken or Planned:

The City Auditor's Office will monitor appropriations against available resources, on an ongoing basis, to ensure appropriations do not exceed estimated available resources. The responsibility for monitoring the appropriations belongs to the Director of Audit Services.

CITY OF LIMA, OHIO
CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 §.315(c)
FOR THE YEAR ENDED DECEMBER 31, 2004

Finding 04-2 Ohio Revised Code Section 5705.10 (repeat of 03-2)

Ohio Rev. Code Section 5705.10 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.

As of December 31, 2004:

<u>Fund</u>	<u>Deficit Cash Balance</u>
Refuse Revenue Fund	\$ 29,162
LEOP	19,617
STEP	11,129
Federal Block Grants	383
2001-WS-QX-0147 W&S 2	218,143
2001-JB-013-A049 JAIBG	3,736
2003-WS-QX-0007 Weed/Seed	282,702
2002-JB-013-A049 JAIBG	11,482
Byrne 2003-DG-B02-7341	9,348
Secure/Schools-2002CKWX0276	18,144
General Debt Service	3,885

Corrective Actions Taken or Planned:

The City will transfer the necessary cash to funds with negative cash balances at the end of the year. This policy will apply to all funds that have non-reimbursable funding sources. For all funds that have negative cash balances due to reimbursable funds not being received, the City will consider the allowable amount to be received before transferring cash to those funds. These actions will be handled by the Auditor's Office and monitored by the Director of Audit Services.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

CITY OF LIMA

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 14, 2005**