

City of Lima
Allen County

Basic Financial Statements
For the Year Ended December 31, 2006



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Lima, Allen County, prepared by Rea & Associates, Inc., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 20, 2007

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**City of Lima – Allen County
General Purpose Financial Statements
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Rea & Associates, Inc.

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We're Ready For Your Future

June 22, 2007

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lima, Ohio, as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lima's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lima, Ohio, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective changes budgetary comparisons for the General Fund and CDBG Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2007 on our consideration of the City of Lima's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Rea & Associates, Inc.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2006

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, 2006. 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 2006 are as follows:

- ❑ General Revenues accounted for \$23.1 million in revenue or 43.1% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$30.6 million or 56.9% of total revenues of \$53.7 million.
- ❑ Total program expenses were \$52.2 million, \$32.1 million in governmental activities and \$20.1 million in business-type activities.
- ❑ In total, net assets increased \$1,586,196. Net assets of governmental activities increased \$1,968,021, which represents a 5.8% increase from 2005. Net assets of business-type activities decreased \$381,825 or 1% from 2005.
- ❑ Outstanding debt decreased from \$31,167,109 to \$29,618,386. However the City did rollover \$8,900,000 in bond anticipation notes originally issued in 2005. \$8.4 million of these notes are recorded in the business type activities and will be used to fund sewer system improvements. \$500,000 of the bond anticipation notes are accounted for in the governmental type activities and were used for street reconstruction and traffic signal improvements. \$460,000 in bond anticipation notes were also issued to purchase a new ladder truck for the fire department. These notes are accounted for in the governmental 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 2006 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.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2006

A question typically asked about the City's finances "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the City of Lima's Most Significant Funds

Fund Financial Statements

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

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, CDBG fund and EDA Grant fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2006

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

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

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

The City of Lima as a Whole

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

Table 1 provides a summary of the City's net assets for 2006 compared to 2005:

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current and Other Assets	\$ 28,203,111	\$ 27,755,454	\$ 23,322,337	\$ 27,857,923	\$ 51,525,448	\$ 55,613,377
Capital Assets	25,810,674	24,111,520	52,469,660	49,451,941	78,280,334	73,563,461
Total Assets	54,013,785	51,866,974	75,791,997	77,309,864	129,805,782	129,176,838
Liabilities						
Long-Term Liabilities	5,624,141	5,915,925	27,961,343	29,693,216	33,585,484	35,609,141
Other Liabilities	12,514,207	12,043,633	2,379,456	1,783,625	14,893,663	13,827,258
Total Liabilities	18,138,348	17,959,558	30,340,799	31,476,841	48,479,147	49,436,399
Net Assets						
Invested in Capital Assets Net of Debt	23,258,034	21,826,132	33,900,566	29,123,515	57,158,600	50,949,647
Restricted	7,531,973	6,223,509	0	0	7,531,973	6,223,509
Unrestricted	5,085,430	5,857,775	11,550,632	16,709,508	16,636,062	22,567,283
Total Net Assets	\$ 35,875,437	\$ 33,907,416	\$ 45,451,198	\$ 45,833,023	\$ 81,326,635	\$ 79,740,439

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2006

Total assets increased by \$628,944 with governmental assets increasing \$2.1 million and business-type assets decreasing \$1.5 million. An increase of approximately \$4.7 million in total capital assets is the result of additions to governmental infrastructure of \$1.1 million and the purchase of a new ladder truck for the fire department of approximately \$680,000. In addition, business-type activities capital assets increased approximately \$3 million due to increased construction in progress associated with construction of a new water reservoir and work on sewer overflow structures.

Total liabilities decreased by \$960,000 with business-type liabilities decreasing \$1.14 million and governmental activities liabilities increasing \$180,000. The decrease in business-type liabilities was the result of the reduction of outstanding debt by \$1.5 and a slight increase in contracts payable of \$400,000.

Total net assets increased by \$1.6 million. This number reflects an increase in governmental activities of \$2 million and a decrease in the net assets of the business-type activities of \$382,000.

Table 2 shows the changes in net assets for fiscal year 2006. This table also compares changes in net assets between 2006 and 2005. This will enable the reader to draw further conclusion about the City's financial status and possibly project future issues.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2006

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
<i>Program Revenues:</i>						
Charges for Services	\$ 6,210,842	\$ 5,958,147	\$ 19,547,250	\$ 19,796,867	\$ 25,758,092	\$ 25,755,014
Operating Grants	3,115,389	3,074,659	0	143,276	3,115,389	3,217,935
Capital Grants	1,626,323	962,234	93,564	132,531	1,719,887	1,094,765
<i>General Revenue:</i>						
Property Taxes	1,332,954	1,287,563	0	0	1,332,954	1,287,563
Income Taxes	15,332,171	15,484,632	0	0	15,332,171	15,484,632
Other Local Taxes	101,450	95,272	0	0	101,450	95,272
Grants and Entitlements	4,687,857	4,593,340	0	0	4,687,857	4,593,340
Gain (Loss) on Sale of Capital Assets	54,771	(409)	10,912	(30,337)	65,683	(30,746)
Investments	1,565,476	938,324	36,351	24,894	1,601,827	963,218
Miscellaneous	31,918	78,730	0	0	31,918	78,730
Total Revenues	34,059,151	32,472,492	19,688,077	20,067,231	53,747,228	52,539,723
Program Expenses						
General Government	7,584,376	7,922,440	0	0	7,584,376	7,922,440
Security of Persons and Property	15,609,906	15,151,801	0	0	15,609,906	15,151,801
Transportation	4,205,912	2,855,787	0	0	4,205,912	2,855,787
Community Environment	3,400,374	3,105,672	0	0	3,400,374	3,105,672
Leisure Time Activities	1,158,163	1,094,057	0	0	1,158,163	1,094,057
Interest and Fiscal Charges	132,399	129,926	0	0	132,399	129,926
<i>Enterprise Operations:</i>						
Water	0	0	9,548,861	9,245,102	9,548,861	9,245,102
Sewer	0	0	8,183,453	8,257,352	8,183,453	8,257,352
Refuse	0	0	2,337,588	2,182,999	2,337,588	2,182,999
Total Program Expenses	32,091,130	30,259,683	20,069,902	19,685,453	52,161,032	49,945,136
Increase in Net Assets	\$ 1,968,021	\$ 2,212,809	\$ (381,825)	\$ 381,778	\$ 1,586,196	\$ 2,594,587

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2006

Governmental Activities

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

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

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

Police and fire represent the largest expense of the Governmental Activities. This expense of \$15,609,906 represents 48.6 percent of the total governmental services expenses. These two departments operate out of the General fund.

General government expenses equaled \$7,584,376 or 23.6% 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 29 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 \$4,205,912 or 13.1% of the total governmental services expenses.

The City's Community Development Department accounts for the Community Environment expenses. This department provides services such as code enforcement, home repair assistance, some economic development work and other community environment related services. Community Environment expenses equaled \$3,400,374 in 2006. This is 10.6 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 \$1,158,163 in 2006 equaling 3.6 percent of the total governmental services expenses.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2006

Business-Type Activities

Business-type activities include water, sewer and refuse operations. The revenues are generated primarily from charges for services. In 2006, charges for services of \$19,547,250 accounted for 99.3 percent of the revenues. The total expenses for the utilities were \$20,069,902, thus leaving a decrease in net assets of \$381,825 for the business-type activities.

The City's Funds

Information about the City's governmental funds begins on page 14. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$33,596,991, an increase of \$1,154,777 or 3.6% over 2005. All governmental funds also had expenditures of \$34,814,296, an increase of \$2,712,559 or 8.5% over 2005. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

Information about the proprietary funds starts on page 20. These funds are accounted for on an accrual basis. All enterprise funds had operating revenues of \$19,547,250, a decrease \$249,617 or 1.3% from 2005. Enterprise funds operating expenses totaled \$19,044,634, an increase of \$502,357 or 2.7% over 2005. 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 2006, the City amended its general fund budget on several occasions. All recommendations for appropriation changes come to Council from the City Finance Director. The Finance Committee of Council reviews them, and they make their recommendation to the Council as a whole.

For the general fund, budget basis actual revenue was \$25.9 million, even with the final budget estimates of \$25.9 million. \$424,000 more in investment revenue than anticipated was offset by lower than expected revenues from fines and forfeitures, \$139,000, income tax, \$150,000 and charges for service, \$137,000.

Actual expenditures of \$28.1 million were \$2.4 million lower than the final appropriations of \$30.5 million. Due to relatively flat revenues, general fund expenditures exceeded revenues resulting in a net decrease in fund balance of \$1,536,081.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2006

Capital Assets and Debt Administration

Capital Assets

At the end of year 2006, the City had \$78.3 million invested in land, buildings, equipment, infrastructure and vehicles. A total of \$25.8 million of this was for governmental activities with the remainder of \$52.5 million attributable to business-type activities. Table 4 shows fiscal year 2006 balances compared with 2005.

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 4,750,196	\$ 4,745,196	\$ 2,398,727	\$ 1,598,447	\$ 7,148,923	\$ 6,343,643
Construction in Progress	979,844	4,414,172	4,636,305	364,665	5,616,149	4,778,837
Buildings and Improvements	7,977,875	7,913,495	25,150,110	26,034,848	33,127,985	33,948,343
Furniture and Equipment	992,710	1,022,750	5,070,353	5,632,157	6,063,063	6,654,907
Vehicles	1,134,874	511,563	930,641	993,365	2,065,515	1,504,928
Capitalized Interest	0	0	1,013,150	1,216,174	1,013,150	1,216,174
Infrastructure	9,975,175	5,504,344	13,270,374	13,612,285	23,245,549	19,116,629
Totals	\$ 25,810,674	\$ 24,111,520	\$ 52,469,660	\$ 49,451,941	\$ 78,280,334	\$ 73,563,461

Total capital assets increased by \$4.7 million in 2006. Governmental activities infrastructure increased \$4.5 million due to several large infrastructure projects started in prior years and completed in 2006. The completion of these projects also explains the decrease in construction in progress in the governmental activities. Governmental activities vehicles increased by \$623,311 in part because of the new ladder truck purchased by the fire department. Business-Type activities saw increases in land assets as well as construction in progress. Land assets increased by \$800,280 due to land purchased for future projects in the sewer fund. Work in the sewer department also caused \$3.7 million of the increase in construction in progress as that department continues to work on combined sewer issues. The remaining \$500,000 increase in construction in progress was due to work being done in the water department with regards to a new reservoir. Note 9 provides capital asset activity during the 2006 year.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2006

Debt Administration

The outstanding debt for the City as of December 31, 2006 was \$29,618,387. This balance reflects a decrease of \$1,548,723 from the previous year's balance of \$31,167,110, a decrease of 4.9 percent. Table 5 summarizes outstanding debt.

(Table 4)
Outstanding Debt, at December 31

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds	\$ 1,585,901	\$ 1,780,951	\$ 10,526,221	\$ 11,628,118	\$ 12,112,122	\$ 13,409,069
Special Assessment Bonds	36,000	69,000	0	0	36,000	69,000
OWDA Loans	0	0	5,769,554	6,284,907	5,769,554	6,284,907
Bresler Termination Agreement	0	0	2,273,318	2,415,400	2,273,318	2,415,400
Notes Payable	966,739	504,437	8,460,653	8,484,296	9,427,392	8,988,733
Total	\$ 2,588,640	\$ 2,354,388	\$ 27,029,746	\$ 28,812,721	\$ 29,618,386	\$ 31,167,109

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. One of these loans was retired in 2006.

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.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2006

The notes payable are bond anticipation notes used for the following: (1) 2006 bond anticipation notes for street reconstruction projects repaid from general governmental activities revenue; (2) 2006 bond anticipation notes for the purchase of a ladder truck for the fire department repaid from general governmental activities revenue, (3) 2006 bond anticipation notes for sewer system improvements to be repaid from business-type charges for services revenue

Additional information concerning the City's debt can be found in Note 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. The power generating facility broke ground in 2006 and is expected to be online by mid 2009.

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, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 10,614,372	\$ 18,416,692	\$ 29,031,064
Cash and Cash Equivalents:			
In Segregated Accounts	303,578	624,869	928,447
With Fiscal Agents and Escrow Agents	15,641	0	15,641
Taxes Receivable	4,317,995	0	4,317,995
Accounts Receivable	282,285	3,390,279	3,672,564
Intergovernmental Receivable	8,540,740	0	8,540,740
Special Assessments Receivable	2,662,101	0	2,662,101
Accrued Interest Receivable	184,134	1,296	185,430
Materials and Supplies Inventory	52,139	94,648	146,787
Notes Receivable	1,418,365	0	1,418,365
Prepaid Items	57,277	73,236	130,513
Unamortized Bond Issuance Costs	8,193	171,406	179,599
Internal Balances	(253,709)	253,709	0
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	0	296,202	296,202
Nondepreciable Capital Assets	5,730,040	7,035,032	12,765,072
Depreciable Capital Assets, Net	20,080,634	45,434,628	65,515,262
Total Assets	54,013,785	75,791,997	129,805,782
Liabilities			
Accounts Payable	380,684	524,488	905,172
Contracts Payable	201,806	786,257	988,063
Accrued Wages	604,840	177,985	782,825
Retainage Payable	0	133,610	133,610
Intergovernmental Payable	789,285	146,568	935,853
Deferred Revenue	9,953,889	0	9,953,889
Accrued Interest Payable	35,808	314,346	350,154
Claims Payable	547,895	0	547,895
Payable from Restricted Assets:			
Refundable Deposits	0	296,202	296,202
Long-Term Liabilities:			
Due Within One Year	1,352,476	10,048,824	11,401,300
Due In More Than One Year	4,271,665	17,912,519	22,184,184
Total Liabilities	18,138,348	30,340,799	48,479,147
Net Assets			
Invested in Capital Assets, Net of Related Debt	23,258,034	33,900,566	57,158,600
Restricted for:			
Capital Projects	60,439	0	60,439
Debt Service	403,679	0	403,679
Other Purposes	7,067,855	0	7,067,855
Unrestricted	5,085,430	11,550,632	16,636,062
Total Net Assets	\$ 35,875,437	\$ 45,451,198	\$ 81,326,635

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY
Statement of Activities
For the Year Ended December 31, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities		Total
						Governmental Activities	Business-Type Activities	
Governmental Activities:								
Security of Persons and Property	\$ 15,609,906	\$ 364,302	\$ 558,037	\$ 0	\$ (14,687,567)	\$ 0	\$ 0	\$ (14,687,567)
Leisure Time Activities	1,158,163	97,625	37,906	3,284	(1,019,348)	0	0	(1,019,348)
Community Environment	3,400,374	240,462	2,381,986	0	(777,926)	0	0	(777,926)
Transportation	4,205,912	318,544	97,460	1,623,039	(2,166,869)	0	0	(2,166,869)
General Government	7,584,376	5,189,909	40,000	0	(2,354,467)	0	0	(2,354,467)
Interest and Fiscal Charges	132,399	0	0	0	(132,399)	0	0	(132,399)
Total Governmental Activities	32,091,130	6,210,842	3,115,389	1,626,323	(21,138,576)	0	0	(21,138,576)
Business-Type Activities:								
Water	9,548,861	9,025,149	0	93,564	0	(430,148)	0	(430,148)
Sewer	8,183,453	8,019,529	0	0	0	(163,924)	0	(163,924)
Refuse	2,337,588	2,502,572	0	0	0	164,984	0	164,984
Total Business-Type Activities	20,069,902	19,547,250	0	93,564	0	(429,088)	0	(429,088)
Totals	\$ 52,161,032	\$ 25,758,092	\$ 3,115,389	\$ 1,719,887	(21,138,576)	(429,088)	(429,088)	(21,567,664)
General Revenues								
Property Taxes Levied for:								
General Purposes					1,332,954	0	0	1,332,954
Income Tax Levied for:								
General Purposes					15,332,171	0	0	15,332,171
Other Local Taxes					101,450	0	0	101,450
Intergovernmental Revenue					4,687,857	0	0	4,687,857
Gain on Sale of Capital Asset					54,771	10,912	0	65,683
Investment Earnings					1,565,476	36,351	0	1,601,827
Miscellaneous					31,918	0	0	31,918
Total General Revenues					23,106,597	47,263	0	23,153,860
Change in Net Assets					1,968,021	(381,825)	0	1,586,196
Net Assets Beginning of Year					33,907,416	45,833,023	0	79,740,439
Net Assets End of Year					\$ 35,875,437	\$ 45,451,198	\$ 0	\$ 81,326,635

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY

*Balance Sheet
Governmental Funds
December 31, 2006*

	General	CDBG Special Revenue	EDA Grant Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 2,792,471	\$ 4,629	\$ 0	\$ 6,448,737	\$ 9,245,837
Cash and Cash Equivalents:					
In Segregated Accounts	0	0	0	303,578	303,578
With Fiscal and Escrow Agents	0	0	0	15,641	15,641
Receivables:					
Taxes	4,289,198	0	0	28,797	4,317,995
Accounts	280,435	0	0	1,850	282,285
Intergovernmental	1,149,477	2,118,740	2,352,770	2,919,753	8,540,740
Special Assessments	0	748,948	0	1,913,153	2,662,101
Accrued Interest	183,625	0	0	509	184,134
Interfund Receivable	460,637	0	0	43,200	503,837
Materials and Supplies Inventory	0	0	0	25,841	25,841
Due From Other Funds	0	0	0	40,751	40,751
Notes Receivable	0	267,210	0	1,151,155	1,418,365
Prepaid Items	57,277	0	0	0	57,277
Total Assets	\$ 9,213,120	\$ 3,139,527	\$ 2,352,770	\$ 12,892,965	\$ 27,598,382
Liabilities					
Accounts Payable	\$ 191,748	\$ 3,016	\$ 0	\$ 50,409	\$ 245,173
Contracts Payable	7,703	0	0	194,103	201,806
Interfund Payable	0	0	0	610,637	610,637
Accrued Wages	567,688	7,078	0	30,074	604,840
Compensated Absences Payable	1,388	0	0	0	1,388
Intergovernmental Payable	763,717	7,037	0	18,531	789,285
Deferred Revenue	4,081,729	2,823,374	2,352,770	4,634,890	13,892,763
Due To Other Funds	0	0	0	152,620	152,620
Total Liabilities	5,613,973	2,840,505	2,352,770	5,691,264	16,498,512
Fund Balances					
Reserved for Encumbrances	331,694	170,569	0	621,420	1,123,683
Reserved for Notes Receivable	0	267,210	0	1,151,155	1,418,365
Reserved for Inventory	0	0	0	25,841	25,841
Reserved for Prepays	57,277	0	0	0	57,277
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	3,210,176	0	0	0	3,210,176
Special Revenue Funds	0	(138,757)	0	4,782,956	4,644,199
Debt Service Funds	0	0	0	403,679	403,679
Capital Projects Funds	0	0	0	216,650	216,650
Total Fund Balances	3,599,147	299,022	0	7,201,701	11,099,870
Total Liabilities and Fund Balances	\$ 9,213,120	\$ 3,139,527	\$ 2,352,770	\$ 12,892,965	\$ 27,598,382

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2006*

Total Governmental Funds Balances \$11,099,870

*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 25,810,674

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

Property Taxes	\$ 151,149
Income Tax	1,673,854
Intergovernmental	2,113,871
Unamortized Bond Issuance Costs	<u>8,193</u>

Total 3,947,067

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	711,427
Internal Balances	<u>(35,040)</u>

Total 676,387

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	(1,585,901)
Special Assessment Bonds	(36,000)
Bond Anticipation Notes	(966,739)
Compensated Absences	(2,872,814)
Judgments Payable	(161,299)
Accrued Interest Payable	<u>(35,808)</u>

Total (5,658,561)

Net Assets of Governmental Activities \$35,875,437

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, 2006

	General	CDBG Special Revenue	EDA Grant Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$ 1,324,831	\$ 0	\$ 0	\$ 0	\$ 1,324,831
Municipal Income Taxes	15,214,867	0	0	0	15,214,867
Other Local Taxes	0	0	0	101,450	101,450
Intergovernmental	3,133,366	1,457,331	0	4,770,992	9,361,689
Charges for Services	2,461,949	44,793	0	617,843	3,124,585
Fees, Licenses and Permits	1,047,470	0	0	0	1,047,470
Fines and Forfeitures	1,077,777	0	0	486,634	1,564,411
Special Assessments	0	0	0	122,911	122,911
Investment Income	1,413,397	7,657	0	209,379	1,630,433
Miscellaneous	33,493	1,905	0	68,946	104,344
Total Revenues	25,707,150	1,511,686	0	6,378,155	33,596,991
Expenditures					
Current:					
Security of Persons and Property	14,713,457	0	0	819,963	15,533,420
Leisure Time Activities	992,362	0	0	97,713	1,090,075
Community Development	922,515	1,335,705	0	1,141,813	3,400,033
Transportation	1,926,592	0	0	1,425,802	3,352,394
General Government	7,258,145	0	0	110,845	7,368,990
Capital Outlay	855,949	261,245	0	2,102,284	3,219,478
Debt Service:					
Principal Retirement	500,000	0	0	228,000	728,000
Interest and Fiscal Charges	17,090	0	0	104,816	121,906
Total Expenditures	27,186,110	1,596,950	0	6,031,236	34,814,296
Excess of Revenues Over (Under) Expenditures	(1,478,960)	(85,264)	0	346,919	(1,217,305)
Other Financing Sources (Uses)					
Premium on General Obligation Bonds	6,739	0	0	0	6,739
Proceeds of Bonds	960,000	0	0	0	960,000
Proceeds from Sale of Capital Assets	26,683	0	0	0	26,683
Operating Transfers - In	0	0	0	1,074,884	1,074,884
Operating Transfers - Out	(285,810)	0	0	(789,074)	(1,074,884)
Total Other Financing Sources (Uses)	707,612	0	0	285,810	993,422
Net Change in Fund Balances	(771,348)	(85,264)	0	632,729	(223,883)
Fund Balances Beginning of Year (Restated-see Note 3)	4,370,495	384,286	0	6,568,972	11,323,753
Fund Balances End of Year	\$ 3,599,147	\$ 299,022	\$ 0	\$ 7,201,701	\$ 11,099,870

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2006*

Net Change in Fund Balances - Total Governmental Funds \$ (223,883)

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

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

Capital Outlay	\$	2,911,162	
Depreciation		(1,212,008)	
Total			1,699,154

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

Property Taxes		8,123	
Income Tax		117,304	
Intergovernmental		281,962	
Total			407,389

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

Bond Anticipation Note			(960,000)
Premium on Bond Anticipation Note			(6,739)

Premiums on bond or note issuances are realized when received in
the governmental funds, but reduce interest expense on the
statement of activities

			4,487
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Repayment of bond principal is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the
statement of net assets.

			728,000
--	--	--	---------

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

			(14,525)
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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.

			(455)
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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		1,520	
Judgments Payable		56,299	
Total			57,819

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		336,154	
Internal Balances		(59,380)	
Total			276,774

Change in Net Assets of Governmental Activities \$ 1,968,021

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, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$ 1,261,700	\$ 1,261,700	\$ 1,324,831	\$ 63,131
Municipal Income Taxes	15,800,000	15,800,000	15,650,129	(149,871)
Intergovernmental	3,107,890	3,107,890	3,127,235	19,345
Charges for Services	2,604,353	2,604,353	2,467,377	(136,976)
Fees, Licenses and Permits	970,500	970,500	1,047,470	76,970
Fines and Forfeitures	1,195,000	1,195,000	1,056,109	(138,891)
Investment Income	800,000	800,000	1,223,774	423,774
Miscellaneous	161,000	161,000	34,133	(126,867)
<i>Total Revenues</i>	<u>25,900,443</u>	<u>25,900,443</u>	<u>25,931,058</u>	<u>30,615</u>
Expenditures				
Current:				
Security of Persons and Property	15,073,762	15,228,943	14,935,949	292,994
Leisure Time Activities	1,138,042	1,138,767	1,039,973	98,794
Community Development	1,039,737	1,064,949	933,702	131,247
Transportation	2,491,926	2,504,926	2,101,993	402,933
General Government	8,659,742	8,685,402	7,740,280	945,122
Capital Outlay	627,751	1,118,496	905,764	212,732
Debt Service:				
Principal Retirement	195,000	695,000	500,000	195,000
Interest and Fiscal Charges	110,603	127,694	17,090	110,604
<i>Total Expenditures</i>	<u>29,336,563</u>	<u>30,564,177</u>	<u>28,174,751</u>	<u>2,389,426</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,436,120)</u>	<u>(4,663,734)</u>	<u>(2,243,693)</u>	<u>2,420,041</u>
Other Financing Sources (Uses)				
Proceeds of Bonds	0	960,000	966,739	6,739
Proceeds from Disposition of Fixed Assets	20,000	20,000	26,683	6,683
Operating Transfers - Out	(200,000)	(23,428)	(285,810)	(262,382)
<i>Total Other Financing Sources (Uses)</i>	<u>(180,000)</u>	<u>956,572</u>	<u>707,612</u>	<u>(248,960)</u>
<i>Net Change in Fund Balance</i>	(3,616,120)	(3,707,162)	(1,536,081)	2,171,081
<i>Fund Balance Beginning of Year</i>	3,201,260	3,201,260	3,201,260	0
Prior Year Encumbrances Appropriated	909,178	909,178	909,178	0
<i>Fund Balance End of Year</i>	<u>\$ 494,318</u>	<u>\$ 403,276</u>	<u>\$ 2,574,357</u>	<u>\$ 2,171,081</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, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Intergovernmental	\$ 3,096,137	\$ 3,096,137	\$ 1,712,810	\$ (1,383,327)
Charges for Services	0	0	44,793	44,793
Revolving Loan Payments	0	0	58,146	58,146
Investment Income	0	0	7,693	7,693
Miscellaneous	0	0	1,718	1,718
<i>Total Revenues</i>	<u>3,096,137</u>	<u>3,096,137</u>	<u>1,825,160</u>	<u>(1,270,977)</u>
Expenditures				
Current:				
Community Development	2,471,311	2,471,311	1,731,737	739,574
Capital Outlay	624,826	624,826	261,245	363,581
<i>Total Expenditures</i>	<u>3,096,137</u>	<u>3,096,137</u>	<u>1,992,982</u>	<u>1,103,155</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>0</u>	<u>0</u>	<u>(167,822)</u>	<u>(167,822)</u>
<i>Net Change in Fund Balance</i>	0	0	(167,822)	(167,822)
<i>Fund Balance Beginning of Year</i>	(628,999)	(628,999)	(628,999)	0
Prior Year Encumbrances Appropriated	629,292	629,292	629,292	0
<i>Fund Balance End of Year</i>	<u>\$ 293</u>	<u>\$ 293</u>	<u>\$ (167,529)</u>	<u>\$ (167,822)</u>

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY

Statement of Net Assets

Proprietary Funds

December 31, 2006

	Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Total	
Assets					
<i>Current Assets:</i>					
Equity in Pooled Cash and Cash Equivalents	\$ 6,309,823	\$ 11,524,304	\$ 582,565	\$ 18,416,692	\$ 1,368,535
Cash and Cash Equivalents in Segregated Accounts	566,430	58,439	0	624,869	0
Receivables:					
Accounts	1,350,511	1,449,855	589,913	3,390,279	0
Accrued Interest	1,176	120	0	1,296	0
Interfund Receivable	96,900	9,900	0	106,800	0
Materials and Supplies Inventory	66,585	28,063	0	94,648	26,298
Due from Other Funds	101,474	10,395	0	111,869	0
Prepaid Items	36,618	36,618	0	73,236	0
Unamortized Bond Issuance Costs	50,793	120,613	0	171,406	0
<i>Total Current Assets</i>	<u>8,580,310</u>	<u>13,238,307</u>	<u>1,172,478</u>	<u>22,991,095</u>	<u>1,394,833</u>
<i>Noncurrent Assets:</i>					
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	296,202	0	0	296,202	0
Capital Assets:					
Land	1,698,564	5,336,468	0	7,035,032	0
Depreciable Capital Assets, Net	19,000,552	26,434,076	0	45,434,628	0
<i>Total Noncurrent Assets</i>	<u>20,995,318</u>	<u>31,770,544</u>	<u>0</u>	<u>52,765,862</u>	<u>0</u>
<i>Total Assets</i>	<u>\$ 29,575,628</u>	<u>\$ 45,008,851</u>	<u>\$ 1,172,478</u>	<u>\$ 75,756,957</u>	<u>\$ 1,394,833</u>

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY

Statement of Net Assets

Proprietary Funds

December 31, 2006

	Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Total	
Liabilities					
<i>Current Liabilities:</i>					
Accounts Payable	\$ 171,142	\$ 188,758	\$ 164,588	\$ 524,488	\$ 135,511
Contracts Payable	16,997	769,260	0	786,257	0
Accrued Wages	102,363	72,451	3,171	177,985	0
Compensated Absences Payable	0	3,928	0	3,928	0
Retainage Payable	0	133,610	0	133,610	0
Intergovernmental Payable	102,650	42,064	1,854	146,568	0
Accrued Interest Payable	11,094	303,252	0	314,346	0
Claims Payable	0	0	0	0	547,895
Bond Anticipation Notes	0	8,460,653	0	8,460,653	0
OWDA Loans Payable	0	305,947	0	305,947	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)	447,121	689,093	0	1,136,214	0
Total Current Liabilities	993,449	10,969,016	169,613	12,132,078	683,406
<i>Current Liabilities Payable from Restricted Assets:</i>					
Refundable Deposits	296,202	0	0	296,202	0
Total Current Liabilities Payable from Restricted Assets	296,202	0	0	296,202	0
<i>Long-Term Liabilities:</i>					
Compensated Absences Payable (net of current portion)	523,065	385,836	18,768	927,669	0
OWDA Loans Payable (Net of Current Portion)	0	5,463,607	0	5,463,607	0
Bresler Reservoir Termination Agreement	2,131,236	0	0	2,131,236	0
General Obligation Bonds Payable (Net of Current Portion, and where applicable, of unamortized discount and accounting loss)	2,431,225	6,958,782	0	9,390,007	0
Total Long-Term Liabilities	5,085,526	12,808,225	18,768	17,912,519	0
Total Liabilities	6,375,177	23,777,241	188,381	30,340,799	683,406
Net Assets					
Invested in Capital Assets, Net of Related Debt	15,547,453	18,353,113	0	33,900,566	0
Unrestricted	7,652,998	2,878,497	984,097	11,515,592	711,427
Total Net Assets	\$ 23,200,451	\$ 21,231,610	\$ 984,097	45,416,158	\$ 711,427

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:

35,040

Net assets of business-type activities

\$ 45,451,198

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2006*

	Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Total	
Operating Revenues					
Charges for Services	\$ 8,340,051	\$ 8,013,890	\$ 2,502,572	\$ 18,856,513	\$ 6,119,941
Other Operating Revenues	685,098	5,639	0	690,737	467,696
<i>Total Operating Revenues</i>	<u>9,025,149</u>	<u>8,019,529</u>	<u>2,502,572</u>	<u>19,547,250</u>	<u>6,587,637</u>
Operating Expenses					
Salaries	2,606,165	1,821,527	83,469	4,511,161	0
Fringe Benefits	1,284,619	881,714	36,122	2,202,455	0
Claims Expense	0	0	0	0	5,302,882
Other Services and Charges	4,355,950	3,200,686	2,218,907	9,775,543	948,601
Depreciation	1,175,393	1,380,082	0	2,555,475	0
<i>Total Operating Expenses</i>	<u>9,422,127</u>	<u>7,284,009</u>	<u>2,338,498</u>	<u>19,044,634</u>	<u>6,251,483</u>
<i>Operating Income (Loss)</i>	<u>(396,978)</u>	<u>735,520</u>	<u>164,074</u>	<u>502,616</u>	<u>336,154</u>
Non-Operating Revenues (Expenses)					
Gain on Disposal of Fixed Assets	1,012	9,900	0	10,912	0
Tap-in Fees	93,564	0	0	93,564	0
Investment Income	32,905	3,446	0	36,351	0
Interest and Fiscal Charges	(163,258)	(921,390)	0	(1,084,648)	0
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(35,777)</u>	<u>(908,044)</u>	<u>0</u>	<u>(943,821)</u>	<u>0</u>
<i>Change in Net Assets</i>	<u>(432,755)</u>	<u>(172,524)</u>	<u>164,074</u>	<u>(441,205)</u>	<u>336,154</u>
<i>Net Assets Beginning of Year</i>	<u>23,633,206</u>	<u>21,404,134</u>	<u>820,023</u>		<u>375,273</u>
<i>Net Assets End of Year</i>	<u>\$ 23,200,451</u>	<u>\$ 21,231,610</u>	<u>\$ 984,097</u>		<u>\$ 711,427</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>59,380</u>	
Change in net assets of business-type activities				<u>\$ (381,825)</u>	

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2006

	Enterprise Funds				Internal Service Funds
	Water	Sewer	Refuse	Total	
Increase (Decrease) in Cash and Cash Equivalents	\$ (1,205,936)	\$ (3,685,552)	\$ 127,447	\$ (4,764,041)	\$ 450,200
Cash Flows from Operating Activities					
Cash Received from Customers	8,288,446	7,991,238	2,463,057	18,742,741	0
Cash Received from Interfund Services Provided	0	0	0	0	6,119,941
Other Cash Receipts	685,098	5,639	0	690,737	467,696
Cash Payments to Employees for Services	(2,606,696)	(1,835,302)	(82,553)	(4,524,551)	0
Cash Payments for Employee Benefits	(1,258,636)	(860,102)	(32,615)	(2,151,353)	0
Cash Payments for Other Services and Charges	(4,641,386)	(2,346,995)	(2,220,442)	(9,208,823)	(930,471)
Cash Payments for Claims	0	0	0	0	(5,206,966)
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>466,826</u>	<u>2,954,478</u>	<u>127,447</u>	<u>3,548,751</u>	<u>450,200</u>
Cash Flows from Capital and Related Financing Activities					
Cash Received from Tap-in Fees	93,564	0	0	93,564	0
Proceeds from Sale of Bond Anticipation Notes	0	8,460,653	0	8,460,653	0
Principal Paid on OWDA Debt	0	(515,353)	0	(515,353)	0
Principal Paid on General Obligation Bonds	(440,000)	(675,000)	0	(1,115,000)	0
Principal Paid on Bresler Reservoir Termination Agreement	(142,082)	0	0	(142,082)	0
Principal Paid on Bond Anticipation Notes	0	(8,400,000)	0	(8,400,000)	0
Interest Paid on Debt Obligation	(147,233)	(960,914)	0	(1,108,147)	0
Payments for Capital Acquisitions	(1,016,015)	(4,557,178)	0	(5,573,193)	0
<i>Net Cash Provided by (Used in) Capital and Related Financing Activities</i>	<u>(1,651,766)</u>	<u>(6,647,792)</u>	<u>0</u>	<u>(8,299,558)</u>	<u>0</u>
Cash Flows from Investing Activities					
Proceeds from Sale of Assets	1,012	9,900	0	10,912	0
Proceeds from Sale of Investments	90,807	9,303	0	100,110	0
Purchase of Investments	(145,350)	(14,850)	0	(160,200)	0
Interest on Investments	32,535	3,409	0	35,944	0
<i>Net Cash Used by Investing Activities</i>	<u>(20,996)</u>	<u>7,762</u>	<u>0</u>	<u>(13,234)</u>	<u>0</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	<u>(1,205,936)</u>	<u>(3,685,552)</u>	<u>127,447</u>	<u>(4,764,041)</u>	<u>450,200</u>
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>8,378,391</u>	<u>15,268,295</u>	<u>455,118</u>	<u>24,101,804</u>	<u>918,335</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 7,172,455</u>	<u>\$ 11,582,743</u>	<u>\$ 582,565</u>	<u>\$ 19,337,763</u>	<u>\$ 1,368,535</u>

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, 2006

	Enterprise Funds				Internal Service Funds
	Water	Sewer	Refuse	Total	
Reconciliation of Operating Gain to Net Cash Provided by Operating Activities					
Operating Income (Loss)	\$ (396,978)	\$ 735,520	\$ 164,074	\$ 502,616	\$ 336,154
Adjustments:					
Depreciation	1,175,393	1,380,082	0	2,555,475	0
(Increase) Decrease in Assets:					
Accounts Receivable	(88,634)	(22,652)	(39,515)	(150,801)	0
Materials and Supplies Inventory	(1,142)	(1,434)	0	(2,576)	28,105
Prepaid Items	11,180	10,632	0	21,812	0
Increase (Decrease) in Liabilities:					
Accounts Payable	(47,443)	36,993	(1,687)	(12,137)	19,581
Contracts Payable	(237,263)	709,816	0	472,553	0
Accrued Wages	(531)	(13,775)	916	(13,390)	0
Compensated Absences Payable	25,983	21,612	3,507	51,102	0
Retainage Payable	0	109,506	0	109,506	0
Intergovernmental Payable	(10,768)	(11,822)	152	(22,438)	0
Increase in Claims Payable	0	0	0	0	66,360
Increase in Refundable Deposits	37,029	0	0	37,029	0
<i>Net Cash Provided by (Used In) Operating Activities</i>	<u>\$ 466,826</u>	<u>\$ 2,954,478</u>	<u>\$ 127,447</u>	<u>\$ 3,548,751</u>	<u>\$ 450,200</u>

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY
Combining Statement of Assets and Liabilities
Agency Funds
December 31, 2006

	<u>Agency</u>
Assets	
Equity Pooled in Cash and Cash Equivalents	\$ 192,722
Cash and Cash Equivalents in Segregated Accounts	410,851
Accounts Receivable	<u>2,900,000</u>
 <i>Total Assets</i>	 <u>\$ 3,503,573</u>
 Liabilities	
Accounts Payable	16,156
Intergovernmental Payable	3,890
Undistributed Monies	3,310,851
Deposits Held and Due to Others	<u>172,676</u>
 <i>Total Liabilities</i>	 <u>\$ 3,503,573</u>

See accompanying notes to the basic financial statements

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 1: REPORTING ENTITY

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

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

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

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

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

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

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

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

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

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

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

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

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

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

C. Measurement Focus

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

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

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

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

D. Basis of Accounting

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

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

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

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

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Pooled Cash and Cash Equivalents

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

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

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments, except for repurchase agreements and non-negotiable certificates of deposit, are reported at fair value, which is based on quoted market prices. Repurchase agreements and non-negotiable certificates of deposit are reported at cost. STAROhio is an investment pool, managed by the Ohio State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's shared price, which is the price the investment could be sold for at December 31, 2006.

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 2006 amounted to \$1,413,397, which includes \$1,279,695 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, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Materials and Supplies Inventory

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

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

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Notes Receivable

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

I. Unamortized Bond Issuance Costs

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

J. Restricted Assets/Liabilities

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

K. Capital Assets

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

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

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Capitalization of Interest

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The City's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from temporary investment of the debt proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. The City did not capitalize any additional interest in 2006.

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Interfund Balances

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

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

M. Compensated Absences

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

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

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

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Accrued Liabilities and Long-term Obligations

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

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

O. Net Assets

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

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

P. Fund Balance Reserves

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

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

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Operating Revenues and Expenses

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

R. Contributions of Capital

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

S. Interfund Activity

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

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

U. Estimates

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

V. Budgetary Data

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

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

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

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
 December 31, 2006

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

Restatement of Fund Balance The General fund fund balance was restated for 2005 to comply with GASB Technical Bulletin No. 2004-2. This technical bulletin clarifies the requirements of Statement 27 and Statement 45 for recognition of pension and other postemployment benefit expenditures and liabilities by cost-sharing employers. Prior to this restatement, the City had only reported those payments that were made during the available period on the fund financial statements. Payments due after that period were shown as a liability on the entity wide statement of net assets.

	<u>General</u>	<u>CDBG Special Revenue</u>	<u>Aggregate Nonmajor</u>	<u>Total</u>
Fund Balances, 12/31/05	\$4,840,100	\$ 384,286	\$6,568,972	\$11,793,358
Fund Balance Restatement (Intergovernmental Payable)	(469,605)	0	0	(469,605)
	<u>\$4,370,495</u>	<u>\$ 384,286</u>	<u>\$6,568,972</u>	<u>\$11,323,753</u>

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

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:

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

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

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 4: BUDGETARY BASIS OF ACCOUNTING (Continued)

Net Change in Fund Balance

	General	CDBG
GAAP Basis	\$ (771,348)	\$ (85,264)
Revenue accruals	223,908	313,474
Expenditure accruals	(488,967)	(223,874)
Encumbrances	(499,674)	(172,158)
Budget Basis	\$ (1,536,081)	\$ (167,822)

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.

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

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

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

Interim monies may be invested in the following:

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

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

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

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

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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

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

Deposits with Financial Institutions

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

At fiscal year-end, the carrying amount of the City's deposits was \$9,937,533. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2006, \$10,481,120 of the City's bank balance of \$11,081,120 was exposed to custodial risk as discussed above, while \$600,000 was covered by Federal Deposit Insurance Corporation.

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

Investments

As of December 31, 2006, the City had the following investments and maturities:

Investment	Fair Value	Investment Maturities		
		6 Months or Less	7 to 12 Months	12 to 24 Months
U.S. Treasury Notes	\$ 8,919,960	\$ 2,992,260	\$ 2,980,080	\$ 2,947,620
Repurchase Agreements	1,431,876	1,431,876	0	0
Huntington Bank Money Market Accounts	1,938,546	1,938,546	0	0
Fifth Third Bank Money Market Account	105,328	105,328	0	0
The State Bank Money Market Account	4,133,575	4,133,575	0	0
STAR Ohio	4,408,109	4,408,109	0	0
	<u>\$ 20,937,394</u>	<u>\$ 15,009,694</u>	<u>\$ 2,980,080</u>	<u>\$ 2,947,620</u>

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

Credit Risk. The City's repurchase agreement is an unrated investment. As of June 30, 2006, the City's investment in STAR Ohio was rated AAAM by Standard & Poor's.

Concentration of Credit Risk. The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the City at December 31, 2006.

Investment	Fair Value	Percentage of Total
U.S. Treasury Notes	\$ 8,919,960	42.60%
Repurchase Agreements	1,431,876	6.84%
Huntington Bank Money Market Accounts	1,938,546	9.26%
Fifth Third Bank Money Market Account	105,328	0.51%
The State Bank Money Market Account	4,133,575	19.74%
STAR Ohio	4,408,109	21.05%
	<u>\$ 20,937,394</u>	<u>100.00%</u>

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

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.

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 2006 represent the collection of 2005 taxes. For 2006, real property taxes were levied after October 1, 2005, on the assessed value as of January 1, 2005, the lien date. These taxes will be collected in and are intended to finance 2006 operations. Assessed values for real property taxes are established by the State statute at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 2004. Real property taxes are payable annually or semiannually. The first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property were levied after October 1, 2005, on the assessed values as of December 31, 2005, 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 2006 (other than public utility property) represent the collection of 2006 taxes. For 2006, tangible personal property taxes were levied after October 1, 2005, on the value as of December 31, 2005, 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 2006 operations.

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
 December 31, 2006

NOTE 7: PROPERTY TAXES (Continued)

The full tax rate for all City operations for the year ended December 31, 2006 was 3.90 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

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

NOTE 8: RECEIVABLES

Receivables at December 31, 2006 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	\$ 1,350,511
Sewer	1,449,855
Refuse	589,913
Total	\$ 3,390,279

Notes receivable represent low interest notes for development projects and home improvements granted to eligible City residents and businesses under the Federal Community Development Block Grant, the Community Housing Improvement Program, and the Urban Development Action Grant. The notes bear interest at an annual rate of 7 to 8 percent. The notes are to be repaid over periods ranging from five to fifteen years. The gross notes receivable are \$1,723,686 with uncollectible of \$305,321 at December 31, 2006. The notes are recorded net of an allowance for uncollectibles in the amount of \$1,418,365.

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 8: RECEIVABLES (Continued)

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities:	
Workers Comp Refund	\$ 9,212
Homestead and Rollback	55,065
Local Government	1,085,200
Motor Vehicle License Tax	130,300
Gasoline Excise Tax	537,000
Permissive Tax	170,801
Home Program Grant	1,349,897
Community Development	
Block Grant (CDBG)	2,118,740
Weed and Seed FY01 Grant	225,000
Byrne Pace Grants	50,923
2001 JAIBG Grant	2,707
2004 Law Enforcement Overtime Grant	25,970
2005 EDA Grant	2,352,770
2003 JAIBG Grant	3,159
Weed and Seed FY02 Grant	223,800
2003 Safe Streets Grant	20
Weed and Seed FY06 Grant	200,000
Court Watch Grants	176
Total Intergovernmental Receivable	\$ 8,540,740

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2006 follows:

	Balance 12/31/2005	Additions	Deletions	Balance 12/31/2006
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 4,745,196	\$ 5,000	\$ 0	\$ 4,750,196
Construction in progress	4,414,172	572,791	(4,007,119)	979,844
<i>Total Capital Assets Not Being Depreciated</i>	9,159,368	577,791	(4,007,119)	5,730,040
<i>Capital Assets, Being Depreciated:</i>				
Buildings	11,376,069	261,037	0	11,637,106
Improvements	803,970	101,386	0	905,356
Machinery and equipment	3,572,967	228,024	(128,329)	3,672,662
Furniture and fixtures	52,506	0	0	52,506
Vehicles	4,477,615	849,802	(69,499)	5,257,918
Infrastructure:				
Roads	3,725,609	3,771,211	0	7,496,820
Sidewalks	303,129	59,686	0	362,815
Bridges	1,395,016	894,707	0	2,289,723
Signals and Traffic Lights	0	333,411	0	333,411
Curbs	469,588	39,054	0	508,642
<i>Total Capital Assets, Being Depreciated</i>	26,176,469	6,538,318	(197,828)	32,516,959
<i>Less Accumulated Depreciation:</i>				
Buildings	4,092,845	255,010	0	4,347,855
Improvements	173,699	43,033	0	216,732
Machinery and equipment	2,580,454	252,570	(125,781)	2,707,243
Furniture and fixtures	22,269	2,946	0	25,215
Vehicles	3,966,052	226,491	(69,499)	4,123,044
Infrastructure:				
Roads	357,149	556,471	0	913,620
Sidewalks	5,730	8,090	0	13,820
Bridges	17,050	35,003	0	52,053
Signals and Traffic Lights	0	15,508	0	15,508
Curbs	9,069	12,166	0	21,235
<i>Total Accumulated Depreciation</i>	11,224,317	1,407,288	(195,280)	12,436,325
<i>Total capital assets being depreciated, net</i>	14,952,152	5,131,030	(2,548)	20,080,634
<i>Total Governmental Activities Capital Assets, Net</i>	<u>\$ 24,111,520</u>	<u>\$ 5,708,821</u>	<u>\$ (4,009,667)</u>	<u>\$ 25,810,674</u>

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 9: CAPITAL ASSETS (Continued)

	Balance 12/31/2005	Additions	Deletions	Balance 12/31/2006
Business-Type Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 1,598,447	\$ 800,280	\$ 0	\$ 2,398,727
Construction in progress	364,665	4,271,640	0	4,636,305
<i>Total Capital Assets Not Being Depreciated</i>	1,963,112	5,071,920	0	7,035,032
<i>Capital Assets, Being Depreciated:</i>				
Improvements	2,367,654	8,795	0	2,376,449
Buildings	42,214,500	100,422	0	42,314,922
Machinery and equipment	17,633,705	238,599	(58,562)	17,813,742
Furniture and fixtures	26,347	19,022	0	45,369
Vehicles	3,649,680	292,933	(346,675)	3,595,938
Capitalized Interest	3,137,768	0	0	3,137,768
Intangible Assets	317,988	0	0	317,988
Sewer lines	17,372,639	95,483	(16,200)	17,451,922
Water lines	18,363,366	124,136	0	18,487,502
<i>Total Capital Assets, Being Depreciated</i>	105,083,647	879,390	(421,437)	105,541,600
<i>Less Accumulated Depreciation:</i>				
Improvements	652,960	98,925	0	751,885
Buildings	17,894,346	895,030	0	18,789,376
Machinery and equipment	12,010,435	811,819	(52,185)	12,770,069
Furniture and fixtures	17,460	1,229	0	18,689
Vehicles	2,656,315	355,657	(346,675)	2,665,297
Capitalized Interest	1,921,593	203,024	0	2,124,617
Intangible Assets	317,989	0	0	317,989
Sewer lines	13,294,497	123,258	(16,200)	13,401,555
Water lines	8,829,223	438,272	0	9,267,495
<i>Total Accumulated Depreciation</i>	57,594,818	2,927,214	(415,060)	60,106,972
<i>Total capital assets being depreciated, net</i>	47,488,829	(2,047,824)	(6,377)	45,434,628
<i>Total Business-Type Capital Assets, Net</i>	\$ 49,451,941	\$ 3,024,096	\$ (6,377)	\$ 52,469,660

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 9: CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

General Government	\$	117,478
Security of Persons and Property		323,855
Leisure Time Activities		80,382
Community Development		5,779
Transportation		879,794
Total	\$	1,407,288

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, 2006, are estimated based on past experience in payment of claims at \$547,895.

		Beginning of Year Liability	Claims and Changes in Estimates	Claims Payments	End of Year Liability
2005	\$	299,950	\$ 5,797,078	\$ 5,615,493	\$ 481,535
2006		481,535	5,302,882	5,236,522	547,895

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

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 2006 the City contracted with a third party for insurance as follows:

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

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

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

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

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

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, Governmental Activities in the amount of \$2,872,814 due within more than one year and \$1,388 due within one year. Unpaid compensated absences for Business-Type Activities as of year end are reported on the Statement of Net Assets as \$927,669 due within more than one year and \$3,928 due within one year.

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) 222-5601 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 9% 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 2006 employer contribution rate for state employers was 13.54% of covered payroll. For local government employer units the rate was 13.70% of covered payroll. The 2006 employer contribution rate for both the law enforcement and public safety division was 16.93% of covered payroll. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to PERS

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 12: DEFINED BENEFIT PENSION PLANS (Continued)

for the years ended December 31, 2006, 2005 and 2004 were \$1,643,497, \$1,646,707, and \$1,553,674, 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, 2006, 2005 and 2004 were \$1,808,008 \$1,780,604, \$1,794,912, respectively, equal to the required contributions for each year.

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 2006 employer contribution rate for state employers was 13.54% of covered payroll; 4.50% was the portion that was used to fund health care for the year. For local government employer units the rate was 13.70% of covered payroll; 4.50% was the portion used to fund health care for the year. The 2006 employer rate was 16.93% and 4.50% was used to fund health care for both the law enforcement and public safety divisions. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 13: POSTEMPLOYMENT BENEFITS (Continued)

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually plus an additional factor ranging from .50% to 6% for the next 9 years. Health care costs were assumed to increase at 4% in year 10 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 \$31.3 billion and \$20.20 billion, respectively. As of December 31, 2005, the unaudited estimated net assets available for future OPEB payments were \$11.1 billion. The number of active contributing participants was 369,214.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004 is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

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

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

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 2006. 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 2006 that were used to fund postemployment benefits were \$645,774. The OP&F's total health care expenses for the year ended December 31, 2005 (the latest information available) were \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 was 13,922 for police and 10,537 for firefighters.

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 14: LONG-TERM OBLIGATIONS

The changes in the City's long-term obligations during 2006 were as follows:

	Interest Rate %	Outstanding 01/01/06	Additions	(Reductions)	Outstanding 12/31/06	Amounts Due Within One Year
Governmental Activities						
Special Assessment Bonds:						
1987 Industry Avenue	7.25	\$ 54,000	\$ 0	\$ (18,000)	\$ 36,000	\$ 18,000
1996 Market/Collett/Elmwood	5.80	15,000	0	(15,000)	0	0
Total Special Assessment Bonds		<u>69,000</u>	<u>0</u>	<u>(33,000)</u>	<u>36,000</u>	<u>18,000</u>
Unvoted General Obligation Bonds:						
1999 Various Purpose Refunding Bonds	4.00-5.80					
Municipal Center Refunding		885,000	0	(160,000)	725,000	170,000
Parking Facility		705,000	0	(25,000)	680,000	25,000
2004 - YMCA Parking Lot Project	2.00-4.5	190,000	0	(10,000)	180,000	10,000
Unamortized Premium		951	0	(50)	901	50
Total Unvoted General Obligation Bonds		<u>1,780,951</u>	<u>0</u>	<u>(195,050)</u>	<u>1,585,901</u>	<u>205,050</u>
Bond Anticipation Notes:						
Metcalf St Reconstruction	4.50	500,000	500,000	(500,000)	500,000	500,000
Purchase Fire Truck	4.50	0	460,000	0	460,000	460,000
Unamortized Premium		4,437	6,739	(4,437)	6,739	6,739
Total Bond Anticipation Notes		<u>504,437</u>	<u>966,739</u>	<u>(504,437)</u>	<u>966,739</u>	<u>966,739</u>
Other Long-Term Obligations:						
Compensated Absences		2,874,334	2,874,202	(2,874,334)	2,874,202	1,388
Judgement Payable		217,598		(56,299)	161,299	161,299
Total Other Long-Term Obligations		<u>3,091,932</u>	<u>2,874,202</u>	<u>(2,930,633)</u>	<u>3,035,501</u>	<u>162,687</u>
Total Governmental Activities		<u>5,446,320</u>	<u>3,840,941</u>	<u>(3,663,120)</u>	<u>5,624,141</u>	<u>1,352,476</u>

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

	Interest Rate %	Outstanding 01/01/06	Additions	(Reductions)	Outstanding 12/31/06	Due Within One Year
Business-Type Activities						
Water Refunding - 1999 Issue	4.00-5.30	\$ 1,945,000	\$ 0	\$ (135,000)	\$ 1,810,000	\$ 135,000
Unamortized Accounting Loss		(109,826)	7,623	0	(102,203)	(7,623)
Unamortized Discount		(27,510)	1,910	0	(25,600)	(1,910)
Total Water Refunding - 1999 Issue		<u>1,807,664</u>	<u>9,533</u>	<u>(135,000)</u>	<u>1,682,197</u>	<u>125,467</u>
Water Refunding - 2004 Issue	2.00-4.50	1,495,000	0	(305,000)	1,190,000	320,000
Unamortized Premium		7,725	0	(1,576)	6,149	1,654
Total Water Refunding - 2004 Issue		<u>1,502,725</u>	<u>0</u>	<u>(306,576)</u>	<u>1,196,149</u>	<u>321,654</u>
Total Water General						
Obligation Bonds		<u>3,310,389</u>	<u>9,533</u>	<u>(441,576)</u>	<u>2,878,346</u>	<u>447,121</u>
Sewer Refunding - 1999 Issue	4.00-5.30	2,305,000	0	(110,000)	2,195,000	185,000
Unamortized Accounting Loss		(135,302)	6,457	0	(128,845)	(10,860)
Unamortized Discount		(33,795)	1,613	0	(32,182)	(2,712)
Total Sewer Refunding - 1999 Issue		<u>2,135,903</u>	<u>8,070</u>	<u>(110,000)</u>	<u>2,033,973</u>	<u>171,428</u>
Sewer - 2004 Issue	2.00-4.50	6,150,000	0	(565,000)	5,585,000	515,000
Unamortized Premium		31,826	0	(2,924)	28,902	2,665
Total Sewer Refunding - 2004 Issue		<u>6,181,826</u>	<u>0</u>	<u>(567,924)</u>	<u>5,613,902</u>	<u>517,665</u>
Total Sewer General						
Obligation Bonds		<u>8,317,729</u>	<u>8,070</u>	<u>(677,924)</u>	<u>7,647,875</u>	<u>689,093</u>
Total Unvoted General						
Obligation Bonds		<u>11,628,118</u>	<u>17,603</u>	<u>(1,119,500)</u>	<u>10,526,221</u>	<u>1,136,214</u>
Bond Anticipation Notes:						
Sewer System Improvements	4.00	8,400,000	8,400,000	(8,400,000)	8,400,000	8,400,000
Unamortized Premium		84,296	60,653	(84,296)	60,653	60,653
Total Bond Anticipation Notes		<u>8,484,296</u>	<u>8,460,653</u>	<u>(8,484,296)</u>	<u>8,460,653</u>	<u>8,460,653</u>
Other Long-Term Obligations:						
Bresler Termination Agreement	0.0	2,415,400	0	(142,082)	2,273,318	142,082
OWDA Loan	5.50	220,559	0	(220,559)	0	0
OWDA Loan	3.75	6,064,348	0	(294,794)	5,769,554	305,947
Compensated Absences		880,495	51,102	0	931,597	3,928
Total Other Long-Term Obligations		<u>9,580,802</u>	<u>51,102</u>	<u>(657,435)</u>	<u>8,974,469</u>	<u>451,957</u>
Total Business-Type Activities		<u>29,693,216</u>	<u>8,529,358</u>	<u>(10,261,231)</u>	<u>27,961,343</u>	<u>10,048,824</u>
Totals		<u>\$ 35,139,536</u>	<u>\$ 12,370,299</u>	<u>\$ (13,924,351)</u>	<u>\$ 33,585,484</u>	<u>\$ 11,401,300</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, 2006

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 \$154,690 towards these interfund assessments.

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

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

Bond Anticipation Notes – The bond anticipation notes represent short-term amounts borrowed by the City to pay for improvements in anticipation of issuing new bonds. During 2006, \$500,000 in bond anticipation notes were issued for street reconstruction. \$460,000 in bond anticipation notes were issued to purchase a ladder truck for the fire department. \$8,400,000 in bond anticipation notes were issued for sewer system improvements.

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
 December 31, 2006

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

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

	General Obligation		Special Assessments		Total	
	(Gross)		Principal	Interest	Principal	Interest
	Principal	Interest				
2007	\$ 205,000	\$ 81,483	\$ 18,000	\$ 2,610	\$ 223,000	\$ 84,093
2008	210,000	71,725	18,000	1,305	228,000	73,030
2009	225,000	61,600	0	0	225,000	61,600
2010	235,000	50,500	0	0	235,000	50,500
2011	45,000	38,650	0	0	45,000	38,650
2012-2016	345,000	149,765	0	0	345,000	149,765
2017-2019	320,000	37,168	0	0	320,000	37,168
Total	\$1,585,000	\$ 490,891	\$ 36,000	\$ 3,915	\$1,621,000	\$494,806

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				
2007	\$ 142,082	\$ 0	\$ 1,155,000	\$ 473,955	\$ 305,947	\$ 213,517	\$ 1,603,029	\$ 687,472
2008	142,082	0	1,195,000	433,385	317,529	201,937	1,654,611	635,322
2009	142,082	0	1,230,000	388,030	329,547	189,917	1,701,629	577,947
2010	142,082	0	1,290,000	337,630	342,021	177,443	1,774,103	515,073
2011	142,082		1,345,000	277,510	354,967	164,497	1,842,049	442,007
2012-2016	710,410	0	2,285,000	731,895	1,986,846	610,480	4,982,256	1,342,375
2017-2021	710,410	0	1,330,000	416,490	2,132,698	204,886	4,173,108	621,376
2022-2024	142,088	0	950,000	92,743	0	0	1,092,088	92,743
Total	\$ 2,273,318	\$ 0	\$10,780,000	\$3,151,638	\$ 5,769,555	\$ 1,762,677	\$ 18,822,873	\$ 4,914,315

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
 December 31, 2006

NOTE 15: INTERFUND TRANSACTIONS

A. Interfund Transactions

As of December 31, 2006, balance sheet receivable and payables that resulted from cash advances were as follows:

	Interfund Receivable	Interfund Payable	Due to Other Funds	Due from Other Funds
General	\$ 460,637	\$ 0	\$ 0	\$ 0
Other Governmental Funds:				
Weed/Seed 2005 Site 3	0	197,984	0	0
Weed/Seed 2005 Site 2	0	197,213	0	0
2001 Weed and Seed	0	6,079	0	0
2001 JB	0	3,736	0	0
LEOP	0	19,617	0	0
ODOD Brownfield		805		
2002 JB	0	13,986	0	0
2005 Pace	0	8,152	0	0
2006 Bryne/JAG	0	2,480	0	0
2006 Weed and Seed	0	3,524	0	0
Debt Service	43,200		0	40,751
Capital Projects	0	157,061	152,620	0
Business-Type Activities				
Water	96,900	0	0	101,474
Sewer	9,900	0	0	10,395
Totals	<u>\$ 610,637</u>	<u>\$ 610,637</u>	<u>\$ 152,620</u>	<u>\$ 152,620</u>

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
 December 31, 2006

NOTE 15: INTERFUND TRANSACTIONS (Continued)

B. Reconciliation of Interfund Transfers

	Transfers In	Transfers Out
General	\$ 0	\$ 285,810
Other Governmental Funds:		
Courts Special Projects	559,384	0
Debt Service	360,810	154,690
Capital Projects	154,690	634,384
Totals	\$ 1,074,884	\$ 1,074,884

NOTE 16: DEFERRED REVENUE

Deferred revenue at December 31, 2006 consisted of the following:

	Statement of Net Assets	Balance Sheet
Property Taxes Receivable	\$ 1,319,426	\$ 1,470,575
Income Taxes Receivable	0	1,673,854
Grants Receivable	5,972,362	8,086,233
Special Assessments Receivable	2,662,101	2,662,101
Deferred Revenue	\$ 9,953,889	\$ 13,892,763

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 17: CONTRACTUAL COMMITMENTS

As of December 31, 2006, the City had contractual commitments for the following projects:

	Contractual Commitment	Expended	Balance 12/31/06
MWA Constructors - CSO Control Structures Sluice Gates	\$ 1,697,800	\$ 1,620,550	\$ 77,250
Shelly Company - Metcalf St Reconstruction	781,880	627,501	154,379
Bluffton Paving, Inc - Widen Faurot/Lincoln Bikepath	67,578	66,043	1,535
Northwest Custom Concrete - 2006 Sidewalk Project	223,859	184,860	38,999
Arcadis G & M of Ohio - Auglaize Pump Station Improvements	650,000	80,590	569,410
LJB Inc. - Sanitary Sewer Trunk Extension	1,409,000	1,102,230	306,770
BBC&M Engineering - New Reservoir Design	715,500	300,557	414,943
Totals	<u>\$ 5,545,617</u>	<u>\$ 3,982,331</u>	<u>\$ 1,563,286</u>

NOTE 18: 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, 2006.

B. Litigation

As of December 31, 2006, the City was a party to various legal proceedings seeking damages or injunctive relief, arising in the course of ordinary business. The ultimate disposition of these proceedings is not presently determinable, but will not, in the opinion of the City Attorney, have a material adverse effect on the overall financial condition of the City.

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

CITY OF LIMA – ALLEN COUNTY
Notes to the Basic Financial Statements
December 31, 2006

NOTE 19: ACCOUNTABILITY & COMPLIANCE

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

<u>Fund</u>	Deficit Cash Balance
Capital Projects	7,061
Weed/Seed Site 3	197,984
Weed/Seed Site 2	197,213
Weed/Seed – 2006	3,524
2001-WS-QX-0157 Weed/Seed 2	6,079
2001-JB-013-A049	3,736
ODOD Brownfield	805
2002-JB-013-A049 JAIBG	13,986
LEOP	19,617
2005 Pace	8,152
2006 Bryne/JAG	2,480

We're Ready For Your Future

June 22, 2007

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

Mayor and Members of Council
City of Lima
Lima, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lima, Ohio (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting.

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted certain immaterial control deficiencies that we have reported to management of the City in a separate letter dated June 22, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated June 22, 2007.

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.

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

Mayor and Members of Council
City of Lima
Lima, Ohio

Compliance

We have audited the compliance of the City of Lima, Ohio (the City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. 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, 2006. However, we noted other matters involving compliance, which we have reported to management of the City in a separate letter dated June 22, 2007.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we noted immaterial control deficiencies that we have reported to management of the City in a separate letter dated June 22, 2007.

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.

CITY OF LIMA - ALLEN COUNTY

Schedule of Expenditures of Federal Awards
Year ended December 31, 2006

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	\$ 1,703,533
HOME Renewal Program	14.239	MC-39-0219	<u>865,362</u>
Total U.S. Department of Housing and Urban Development			<u>2,568,895</u>
U.S. Department of Justice			
Direct Programs:			
Weed and Seed	16.595	2005-WS-Q5-0047	190,219
Weed and Seed	16.595	2005-WS-Q5-0048	187,382
Weed and Seed	16.595	2006-WS-Q6-0182	3,524
<i>Total Weed and Seed</i>			<u>381,125</u>
Law Enforcement Block Grant	16.592	2004-LB-BX-0662	21,160
Law Enforcement Block Grant	16.592	2003-LB-BX-1700	<u>37,421</u>
			58,581
Total Direct Programs			439,706
Pass through Programs:			
Edward Byrne Memorial Justice Assistance Grant	16.738	2006-DJ-BX-0458	2,480
Ohio Department of Justice Byrne Grant	16.579	2003-DG-B02-7341	16,516
Ohio Department of Justice Byrne Grant	16.579	2003-DB-B01-7087	7,933
Ohio Department of Justice Byrne Grant	16.579	2005-DJ-BX-0059	29,880
Ohio Department of Justice Byrne Grant	16.579	2005-BJ-A02-6429	<u>34,218</u>
<i>Total Byrne Grant</i>			88,547
Ohio Department of Justice-Collaborative Electronic Project	16.609	PS-PSN-314	<u>20,531</u>
Total Pass through Programs			<u>111,558</u>
Total U.S. Department of Justice			<u>551,264</u>
U.S. Department of Transportation			
Pass through Programs:			
State and Community Highway Safety	20.600	TE-2006-00-00557	12,526
Highway Planning and Construction	20.205		<u>396,566</u>
Total U.S. Department of Transportation			<u>409,092</u>
U.S. Department of Homeland Security			
Direct Programs:			
Fire Prevention and Safety Program	97.044		612
Pass through Programs:			
Disaster Assistance	97.036		<u>174,238</u>
Total U.S. Department of Homeland Security			<u>174,850</u>
Total Federal Financial Assistance			<u><u>\$ 3,704,101</u></u>

See accompanying independent auditors' report.

See accompanying notes to schedule of expenditures of federal awards

CITY OF LIMA – ALLEN COUNTY

*Notes to Schedule of Expenditures of Federal Awards
Year ended December 31, 2006*

(1) General

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

(2) Basis of Accounting

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

CITY OF LIMA – ALLEN COUNTY

*Part III – Schedule of Findings and Questioned Costs
Year ended December 31, 2006*

(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	No
(d) Reportable conditions in internal controls over major programs	No
Material weaknesses	No
(e) Type of report issued on compliance for major programs	Unqualified
(f) Any audit findings which are required to be reported under Section 510(s) of OMB Circular A-133	No
(g) Major Programs	Community Development Block Grant CFDA #14.218 HOME Renewal Program CFDA #14.239 Weed & Seed Grant 16.595
(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	Yes

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

None

(3) Findings and Questioned Costs for Federal Awards:

None

CITY OF LIMA – ALLEN COUNTY

*Part IV – Summary Schedule of Prior Audit Findings
Year ended December 31, 2006*

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
None			



Mary Taylor, CPA
Auditor of State

CITY OF LIMA

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 2, 2007**