



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

For the Year Ended December 31, 2009



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Lima, Allen County, prepared by Rea & Associates, Inc., for the audit period January 1, 2009 through December 31, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 14, 2010

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Basic Financial Statements
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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

June 23, 2010

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lima, Ohio, as of and for the year ended December 31, 2009, 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, as of December 31, 2009, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the general 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 23, 2010 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 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 basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits 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, 2009

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, 2009. 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 2009 are as follows:

- General revenues accounted for \$21.4 million in revenue or 37 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$36 million or 63 percent of total revenues of \$57.4 million.
- Total program expenses were \$57 million, \$34.4 million in governmental activities and \$22.6 million in business-type activities.
- In total, net assets increased \$411,721. Net assets of governmental activities increased \$2,286,965, which represents a 4 percent increase from 2008. Net assets of business-type activities decreased \$1,875,244 or 4 percent from 2008.
- Outstanding debt increased from \$30,685,753 to \$48,380,494. The City did rollover \$14,055,000 in bond anticipation notes originally issued in 2005, 2006, 2007 and 2008. \$13.4 million of these notes are recorded in the business type activities. \$8.4 million will be used to fund sewer system improvements, \$5 million will be used for water system improvements. \$655,000 of the bond anticipation notes are accounted for in the governmental type activities and were used for street reconstruction and traffic signal improvements and to purchase a new ladder truck for the fire department. These notes are accounted for in the governmental type activities.

In addition to the note rollovers, the City issued new debt for the both the water and sewer utilities. A bond anticipation note was issued to finance the purchase of two buildings. Total amount of the note was \$2,160,000. The note is allocated \$1,296,000 to the water utility and \$864,000 to the sewer utility. The City's water utility entered into a loan agreement with the Ohio Water Development Authority to finance the construction of a new above ground reservoir. The final amount of this loan will not be determined until construction is complete. Expected completion date is third quarter 2011. The maximum amount the City is authorized to borrow under this agreement is \$28,848,000. At the end of 2009, the City had drawn down \$5,374,084 of this loan.

The City's sewer utility also issued a total of \$12,400,000 in revenue bonds to finance critical equipment and electrical upgrades at the wastewater treatment plant. \$2.15 million of this issuance was traditional tax exempt municipal bonds. The remaining \$10.25 was issued as Build America Bonds. Build America Bonds are issued at taxable interest rates, however the sewer utility will receive a rebate from the Federal government for 35% of the interest cost each year.

The City also entered into a five year capital lease for a new phone system in 2009.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2009

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 2009 and how they affected the operations of the City as a whole.

Reporting the City of Lima as a Whole

Statement of Net Assets and the Statement of Activities

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

A question typically asked about the City's finances "How did we do financially during fiscal year 2009?" 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.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2009

Reporting the City of Lima's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been safeguarded for specific activities or objectives. The City uses many funds to account for financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the general fund and vine street railroad grade separation capital fund.

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the vine street railroad grade separation capital fund, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for each of its funds. A budgetary comparison statement has been provided for the general fund 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.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2009

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 2009 compared to 2008:

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2008 Restated	2009	2008 Restated	2009	2008 Restated
Assets						
Current and Other Assets	\$ 44,840,931	\$ 33,050,394	\$ 29,263,689	\$ 19,929,086	\$ 74,104,620	\$ 52,979,480
Capital Assets	44,866,932	42,776,665	67,707,446	59,400,511	112,574,378	102,177,176
Total Assets	89,707,863	75,827,059	96,971,135	79,329,597	186,678,998	155,156,656
Liabilities						
Long-Term Liabilities	4,440,274	4,683,602	47,388,324	29,594,043	51,828,598	34,277,645
Other Liabilities	26,903,256	15,979,674	4,612,264	1,976,178	31,515,520	17,955,852
Total Liabilities	31,343,530	20,663,276	52,000,588	31,570,221	83,344,118	52,233,497
Net Assets						
Invested in Capital Assets Net of Debt	43,055,899	40,891,497	20,390,890	44,045,884	63,446,789	84,937,381
Restricted	7,796,672	6,898,418	0	0	7,796,672	6,898,418
Unrestricted (Note 3)	7,511,762	8,287,453	24,579,657	2,799,907	32,091,419	11,087,360
Total Net Assets	\$ 58,364,333	\$ 56,077,368	\$ 44,970,547	\$ 46,845,791	\$ 103,334,880	\$ 102,923,159

Total assets increased by \$31 million with governmental assets increasing \$13.9 million and business-type assets increasing \$17.6 million. \$11.5 million of the \$11.8 increase in governmental activities current and other assets is the result of an increase in intergovernmental receivables. This reflects several large grants received in 2009 that will be used to complete capital projects over the next two years. The \$2.1 million increase to capital assets is discussed in the capital asset section of the MD & A. The \$9.3 million increase in business-type activities current and other assets is due to an increase in the cash balances of \$9.3 million in the utility funds. This increase was a result of receiving the proceeds from the new revenue bonds issued at the end of the year. There was also an increase in accounts receivable of \$274,931 and a decrease in internal balances of \$339,446. As a result of the revenue bond issuance, unamortized bond issuance costs increased by \$187,475. The \$8.3 million increase to business-type activities capital assets is also discussed later in this MD & A.

Total liabilities increased by \$31.1 million, with business-type liabilities increasing \$20.4 million and governmental activities liabilities increasing \$10.7. The increase in business-type liabilities was the result

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
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of the increase of outstanding debt by \$18.5 million. Business-type liabilities also saw an increase of \$1.6 million in contracts payable due to the new reservoir project in the water utility and several construction projects in the sewer utility. Governmental activities liabilities increased \$10.7 million. The increase was caused by an increase in deferred revenue of \$11.5 million. This deferred revenue is related to several capital project related grants received by the City in 2009. Accrued wages decreased \$590,524.

Total net assets increased by \$411,721. This number reflects an increase in governmental activities of \$2,286,965 million and a decrease in the net assets of the business-type activities of \$1,875,244.

Table 2 shows the changes in net assets for fiscal year 2009. This table also compares changes in net assets between 2009 and 2008. This will enable the reader to draw further conclusion about the City's financial status and possibly project future issues.

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
<i>Program Revenues:</i>						
Charges for Services	\$ 8,066,912	\$ 7,944,128	\$ 20,704,927	\$ 20,304,358	\$ 28,771,839	\$ 28,248,486
Operating Grants	3,556,580	2,240,916	0	0	3,556,580	2,240,916
Capital Grants	3,614,582	2,598,125	30,413	518,034	3,644,995	3,116,159
<i>General Revenue:</i>						
Property Taxes	1,599,617	1,317,502	0	0	1,599,617	1,317,502
Income Taxes	14,938,589	15,421,494	0	0	14,938,589	15,421,494
Other Local Taxes	104,775	133,697	0	0	104,775	133,697
Grants and Entitlements	3,994,327	5,587,915	0	0	3,994,327	5,587,915
Gain (Loss) on Sale of Capital Assets	(38,410)	8,078	(17,501)	16,541	(55,911)	24,619
Investments	743,766	981,926	0	26,808	743,766	1,008,734
Miscellaneous	99,521	82,102	0	0	99,521	82,102
Total Revenues	36,680,259	36,315,883	20,717,839	20,865,741	57,398,098	57,181,624
Program Expenses						
General Government	8,107,361	7,990,138	0	0	8,107,361	7,990,138
Security of Persons and Property	15,878,806	16,217,669	0	0	15,878,806	16,217,669
Transportation	5,412,474	5,460,764	0	0	5,412,474	5,460,764
Community Environment	3,871,079	3,331,755	0	0	3,871,079	3,331,755
Leisure Time Activities	1,014,916	1,231,283	0	0	1,014,916	1,231,283
Interest and Fiscal Charges	108,658	109,812	0	0	108,658	109,812
<i>Enterprise Operations:</i>						
Water	0	0	11,314,396	9,466,922	11,314,396	9,466,922
Sewer	0	0	8,795,133	7,841,434	8,795,133	7,841,434
Refuse	0	0	2,483,554	2,869,343	2,483,554	2,869,343
Total Program Expenses	34,393,294	34,341,421	22,593,083	20,177,699	56,986,377	54,519,120
Increase (Decrease) in Net Assets	\$ 2,286,965	\$ 1,974,462	\$ (1,875,244)	\$ 688,042	\$ 411,721	\$ 2,662,504

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2009

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 \$15,878,806 represents 46.2 percent of the total governmental services expenses. These two departments operate out of the general fund.

General government expenses equaled \$8,107,361 or 23.6 percent of the total government services expenses. This category includes expenses associated with those City departments not associated with the other cost centers.

Our transportation department employs 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 \$5,412,474 or 15.7 percent of the total governmental services expenses.

The City's community development department accounts for the community environment expenses. This department provides services such as code enforcement, home repair assistance, some economic development work and other community environment related services. Community environment expenses equaled \$3,871,079 in 2009. This is 11.3 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 \$1,014,916 in 2009 equaling 3 percent of the total governmental services expenses.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2009

Business-Type Activities

Business-type activities include water, sewer and refuse operations. The revenues are generated primarily from charges for services. In 2009, charges for services of \$20,704,927 accounted for 99.85 percent of the revenues. The total expenses for the utilities were \$22,593,083, leaving a decrease in net assets of \$1,875,244 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 \$36,642,354, a decrease of \$1,002,092 or 2.7 percent under 2008. All governmental funds also had expenditures of \$37,269,945, an increase of \$388,277, 1 percent over 2008. 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 19. These funds are accounted for on an accrual basis. All enterprise funds had operating revenues of \$20,704,927, an increase of \$400,569 or 2 percent from 2008. Enterprise funds operating expenses totaled \$21,374,223, an increase of \$2,117,190 or 11 percent over 2008. 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 2009, 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 \$26.6 million, \$1.7 million under the final budget estimates of \$28.3 million. Property tax exceeded projections by \$176,850. Municipal income tax revenues were under the projected amount by \$812,693. Intergovernmental revenues and charges for services revenues were also under projections by \$525,535 and \$180,818 respectively. Also coming in under projections were fees, licenses and permits revenue by \$192,707 and fines and forfeitures revenues by \$217,632. Investment income was also lower than estimated by \$92,902.

Actual expenditures of \$27.9 million were \$1.4 million lower than the final appropriations of \$29.3 million. All of the City's departments came in under budget in 2009 due to uncertainties in the economy forcing the City to maintain a conservative approach to spending. The lower than estimated revenues and lower than estimated expenditures caused the general fund balance to decrease by \$943,002.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
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Capital Assets and Debt Administration

Capital Assets

At the end of year 2009, the City had \$112.6 million invested in land, buildings, equipment, infrastructure and vehicles. A total of \$44.9 million of this was for governmental activities with the remainder of \$67.7 million attributable to business-type activities. Table 3 shows fiscal year 2009 balances compared with 2008.

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

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 7,167,423	\$ 6,588,080	\$ 5,081,176	\$ 4,603,395	\$ 12,248,599	\$ 11,191,475
Construction in Progress	1,527,132	692,781	11,481,044	3,835,722	13,008,176	4,528,503
Buildings and Improvements	8,550,342	8,784,616	24,666,534	23,457,609	33,216,876	32,242,225
Furniture and Equipment	1,189,839	1,174,825	6,134,705	6,583,342	7,324,544	7,758,167
Vehicles	827,465	1,155,311	725,642	984,956	1,553,107	2,140,267
Capitalized Interest	0	0	440,258	607,103	440,258	607,103
Infrastructure	25,604,731	24,381,052	19,178,087	19,328,384	44,782,818	43,709,436
Totals	\$ 44,866,932	\$ 42,776,665	\$ 67,707,446	\$ 59,400,511	\$ 112,574,378	\$ 102,177,176

Total capital assets increased by \$10.4 million in 2009. Governmental activities capital assets increased \$2.1 million. Infrastructure assets increased by \$1.2 million due to road construction work completed in 2009. There were more projects in progress at years end increasing the construction in progress in the governmental activities by \$834,351. Business-type activities saw an increase in capital assets of \$8.3 million. Construction in progress increased by 7.6 million due to construction on a new above ground reservoir for the water utility and critical equipment and electrical upgrades at the wastewater treatment plant. Note 9 provides capital asset activity during the 2009 year.

Debt Administration

The outstanding debt for the City as of December 31, 2009 was \$48,380,494. This balance reflects an increase of \$17,694,741 from the previous year's balance of \$30,685,753, a decrease of 57.7 percent. Table 4 summarizes outstanding debt.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
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(Table 4)
Outstanding Debt, at December 31

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
General Obligation						
Bonds	\$ 945,751	\$ 1,170,801	\$ 7,021,115	\$ 8,219,393	\$ 7,966,866	\$ 9,390,194
Revenue Bonds	0	0	12,432,582	0	12,432,582	0
Capital Leases	204,690	0	204,691	0	409,381	0
OWDA Loans	0	0	9,443,524	5,146,078	9,443,524	5,146,078
Bresler Termination					0	0
Agreement	0	0	1,847,072	1,989,154	1,847,072	1,989,154
Notes Payable	660,587	714,367	15,620,482	13,445,960	16,281,069	14,160,327
<i>Total</i>	<u>\$ 1,811,028</u>	<u>\$ 1,885,168</u>	<u>\$ 46,569,466</u>	<u>\$ 28,800,585</u>	<u>\$ 48,380,494</u>	<u>\$ 30,685,753</u>

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

The City has two OWDA loans issued by the Ohio Water Development Administration. One loan financed improvements at the City's wastewater treatment plant. This loan is to be repaid from business-type activities charges for services revenue. The second OWDA loan was granted in 2009 and is being used to fund construction of a new above ground reservoir. The maximum amount of this loan is \$28.8 million and the payment schedule is yet to be determined. This loan will be repaid from business-type activities charges for services revenue.

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

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Management's Discussion and Analysis
For the Year Ended December 31, 2009

The notes payable are bond anticipation notes used for the following: (1) 2009 bond anticipation notes for street reconstruction projects repaid from general governmental activities revenue; (2) 2009 bond anticipation notes for the purchase of a ladder truck for the fire department repaid from general governmental activities revenue, (3) 2009 bond anticipation notes for sewer system improvements to be repaid from business-type charges for services revenue, (4) 2009 bond anticipation notes for water system improvements to be repaid from business-type charges for services revenue, (5) 2009 bond anticipation notes for building acquisition for the water and sewer utilities to be repaid from business-type charges for services revenue. Items 3, 4 and 5 were subsequently retired in May of 2010 with the issuance of revenue bonds.

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 construction stage of a new reservoir to serve the anticipated needs for future economic development

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

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

Contacting the City Auditor's Department

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Gene Reaman, Auditor of City of Lima, 50 Town Square, Lima, OH 45801.

CITY OF LIMA - ALLEN COUNTY
Statement of Net Assets
December 31, 2009

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 11,840,461	\$ 23,327,695	\$ 35,168,156
Cash and Cash Equivalents:			
In Segregated Accounts	68,893	0	68,893
With Fiscal Agents and Escrow Agents	15,641	0	15,641
Taxes Receivable	4,439,819	0	4,439,819
Accounts Receivable	643,807	3,802,844	4,446,651
Intergovernmental Receivable	22,113,306	0	22,113,306
Special Assessments Receivable	4,257,381	0	4,257,381
Accrued Interest Receivable	418,496	0	418,496
Materials and Supplies Inventory	94,553	100,005	194,558
Notes Receivable	970,448	0	970,448
Prepaid Items	66,198	61,424	127,622
Unamortized Bond Issuance Costs	6,828	314,489	321,317
Internal Balances	(94,900)	94,900	0
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	0	475,691	475,691
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	1,086,641	1,086,641
Nondepreciable Capital Assets	8,694,555	16,562,220	25,256,775
Depreciable Capital Assets, Net	36,172,377	51,145,226	87,317,603
Total Assets	89,707,863	96,971,135	186,678,998
Liabilities			
Accounts Payable	555,193	649,308	1,204,501
Contracts Payable	201,021	2,517,263	2,718,284
Accrued Wages	267,015	73,695	340,710
Retainage Payable	0	458,340	458,340
Intergovernmental Payable	877,071	174,312	1,051,383
Deferred Revenue	24,747,438	0	24,747,438
Accrued Interest Payable	20,584	263,655	284,239
Claims Payable	234,934	0	234,934
Payable from Restricted Assets:			
Refundable Deposits	0	475,691	475,691
Long-Term Liabilities:			
Due Within One Year	1,052,208	17,778,523	18,830,731
Due In More Than One Year	3,388,066	29,609,801	32,997,867
Total Liabilities	31,343,530	52,000,588	83,344,118
Net Assets			
Invested in Capital Assets, Net of Related Debt	43,055,899	20,390,890	63,446,789
Restricted for:			
Capital Projects	527,038	0	527,038
Debt Service	1,348,083	0	1,348,083
Other Purposes	5,921,551	0	5,921,551
Unrestricted	7,511,762	24,579,657	32,091,419
Total Net Assets	\$ 58,364,333	\$ 44,970,547	\$ 103,334,880

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY

Statement of Activities

For the Year Ended December 31, 2009

	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	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental Activities:							
Security of Persons and Property	\$ 15,878,806	\$ 306,309	\$ 704,926	\$ 55,000	\$ (14,812,571)	\$ 0	\$ (14,812,571)
Leisure Time Activities	1,014,916	59,672	0	64,500	(890,744)	0	(890,744)
Community Environment	3,871,079	358,286	2,579,811	545,032	(387,950)	0	(387,950)
Transportation	5,412,474	363,584	261,940	2,950,050	(1,836,900)	0	(1,836,900)
General Government	8,107,361	6,979,061	9,903	0	(1,118,397)	0	(1,118,397)
Interest and Fiscal Charges	108,658	0	0	0	(108,658)	0	(108,658)
<i>Total Governmental Activities</i>	<u>34,393,294</u>	<u>8,066,912</u>	<u>3,556,580</u>	<u>3,614,582</u>	<u>(19,155,220)</u>	<u>0</u>	<u>(19,155,220)</u>
Business-Type Activities:							
Water	11,314,396	9,634,695	0	30,413	0	(1,649,288)	(1,649,288)
Sewer	8,795,133	8,605,800	0	0	0	(189,333)	(189,333)
Refuse	2,483,554	2,464,432	0	0	0	(19,122)	(19,122)
<i>Total Business-Type Activities</i>	<u>22,593,083</u>	<u>20,704,927</u>	<u>0</u>	<u>30,413</u>	<u>0</u>	<u>(1,857,743)</u>	<u>(1,857,743)</u>
Totals	<u>\$ 56,986,377</u>	<u>\$ 28,771,839</u>	<u>\$ 3,556,580</u>	<u>\$ 3,644,995</u>	<u>(19,155,220)</u>	<u>(1,857,743)</u>	<u>(21,012,963)</u>
General Revenues							
Property Taxes Levied for:							
General Purposes					1,599,617	0	1,599,617
Income Tax Levied for:							
General Purposes					14,938,589	0	14,938,589
Other Local Taxes					104,775	0	104,775
Intergovernmental Revenue					3,994,327	0	3,994,327
Loss on Sale of Capital Asset					(38,410)	(17,501)	(55,911)
Investment Earnings					743,766	0	743,766
Miscellaneous					99,521	0	99,521
<i>Total General Revenues</i>					<u>21,442,185</u>	<u>(17,501)</u>	<u>21,424,684</u>
Change in Net Assets					2,286,965	(1,875,244)	411,721
<i>Net Assets Beginning of Year (Restated-see Note 3)</i>					<u>56,077,368</u>	<u>46,845,791</u>	<u>102,923,159</u>
<i>Net Assets End of Year</i>					<u>\$ 58,364,333</u>	<u>\$ 44,970,547</u>	<u>\$ 103,334,880</u>

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY

Balance Sheet

Governmental Funds

December 31, 2009

	<u>General</u>	<u>Vine St RRGs Capital</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 3,639,105	\$ 0	\$ 6,832,287	\$ 10,471,392
Cash and Cash Equivalents:				
In Segregated Accounts	0	0	68,893	68,893
With Fiscal and Escrow Agents	0	0	15,641	15,641
Receivables:				
Taxes	4,410,383	0	29,436	4,439,819
Accounts	643,807	0	0	643,807
Intergovernmental	978,655	9,772,212	11,362,439	22,113,306
Special Assessments	0	0	4,257,381	4,257,381
Accrued Interest	417,524	0	972	418,496
Interfund Receivable	0	0	31,500	31,500
Materials and Supplies Inventory	0	0	29,240	29,240
Due From Other Funds	0	0	209,750	209,750
Notes Receivable	0	0	970,448	970,448
Prepaid Items	36,248	0	29,950	66,198
Advances to Other Funds	886,474	0	0	886,474
Total Assets	\$ 11,012,196	\$ 9,772,212	\$ 23,837,937	\$ 44,622,345
Liabilities				
Accounts Payable	\$ 270,330	\$ 0	\$ 141,199	\$ 411,529
Contracts Payable	69,054	0	131,967	201,021
Interfund Payable	0	0	31,500	31,500
Accrued Wages	243,646	0	23,369	267,015
Intergovernmental Payable	843,449	0	33,622	877,071
Deferred Revenue	4,005,483	9,746,458	15,065,736	28,817,677
Due To Other Funds	0	0	209,750	209,750
Advances from Other Funds	0	0	875,716	875,716
Total Liabilities	5,431,962	9,746,458	16,512,859	31,691,279
Fund Balances				
Reserved for Encumbrances	336,836	0	2,679,565	3,016,401
Reserved for Notes Receivable	0	0	970,448	970,448
Reserved for Inventory	0	0	29,240	29,240
Reserved for Prepays	36,248	0	29,950	66,198
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	5,207,150	0	0	5,207,150
Special Revenue Funds	0	0	2,345,024	2,345,024
Debt Service Funds	0	0	1,091,571	1,091,571
Capital Projects Funds	0	25,754	179,280	205,034
Total Fund Balances	5,580,234	25,754	7,325,078	12,931,066
Total Liabilities and Fund Balances	\$ 11,012,196	\$ 9,772,212	\$ 23,837,937	\$ 44,622,345

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, 2009*

Total Governmental Funds Balances		\$ 12,931,066
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		44,866,932
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	\$ 399,169	
Income Tax	1,528,459	
Intergovernmental	2,142,611	
Unamortized Bond Issuance Costs	6,828	
Total		4,077,067
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	1,045,026	
Internal Balances	(94,900)	
Total		950,126
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	(945,752)	
Bond Anticipation Notes	(660,587)	
Compensated Absences	(2,519,245)	
Capital Leases Payable	(204,690)	
Judgments Payable	(110,000)	
Accrued Interest Payable	(20,584)	
Total		(4,460,858)
<i>Net Assets of Governmental Activities</i>		\$58,364,333

CITY OF LIMA - ALLEN COUNTY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2009

	General	Vine St RRGs Capital	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$ 1,378,850	\$ 0	\$ 0	\$ 1,378,850
Municipal Income Taxes	14,903,189	0	0	14,903,189
Other Local Taxes	0	0	104,775	104,775
Intergovernmental	2,616,133	723,876	7,971,438	11,311,447
Charges for Services	4,881,800	0	666,601	5,548,401
Fees, Licenses and Permits	637,793	0	0	637,793
Fines and Forfeitures	903,974	0	577,432	1,481,406
Special Assessments	0	0	81,663	81,663
Investment Income	681,745	0	94,348	776,093
Miscellaneous	350,029	0	68,708	418,737
Total Revenues	26,353,513	723,876	9,564,965	36,642,354
Expenditures				
Current:				
Security of Persons and Property	14,734,389	0	557,347	15,291,736
Leisure Time Activities	862,462	0	36,457	898,919
Community Development	836,568	0	2,914,988	3,751,556
Transportation	1,715,305	0	2,724,908	4,440,213
General Government	7,542,490	0	165,658	7,708,148
Capital Outlay	465,217	698,122	2,930,066	4,093,405
Debt Service:				
Principal Retirement	750,818	0	225,000	975,818
Interest and Fiscal Charges	34,821	0	75,329	110,150
Total Expenditures	26,942,070	698,122	9,629,753	37,269,945
Excess of Revenues Under Expenditures	(588,557)	25,754	(64,788)	(627,591)
Other Financing Sources (Uses)				
Premium on General Obligation Bonds	5,587	0	0	5,587
Proceeds of Bonds	655,000	0	0	655,000
Proceeds from Sale of Capital Assets	1,904	0	0	1,904
Inception of Capital Lease	245,508	0	0	245,508
Operating Transfers - In	0	0	183,290	183,290
Operating Transfers - Out	(30,800)	0	(152,490)	(183,290)
Total Other Financing Sources	877,199	0	30,800	907,999
Net Change in Fund Balances	288,642	25,754	(33,988)	280,408
Fund Balances Beginning of Year (Restated-see Note 3)	5,291,592	0	7,359,066	12,650,658
Fund Balances End of Year	\$ 5,580,234	\$ 25,754	\$ 7,325,078	\$ 12,931,066

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, 2009*

Net Change in Fund Balances - Total Governmental Funds **\$ 280,408**

*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	\$	4,694,678	
Depreciation		(2,604,411)	
			2,090,267

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

Property Taxes		220,767	
Income Tax		35,400	
Intergovernmental		(179,852)	
			76,315

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

Bond Anticipation Note		(655,000)	
Premium on Bond Anticipation Note		(5,587)	
Inception of Capital Lease		(245,508)	

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

4,417

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

935,000

Payment on a capital lease is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

40,818

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

(2,470)

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.

(456)

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.

160,214

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		(522,409)	
Internal Balances		130,956	

		(391,453)	
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Change in Net Assets of Governmental Activities **\$ 2,286,965**

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP) and Actual
General Fund
For the Year Ended December 31, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$ 1,202,000	\$ 1,202,000	\$ 1,378,850	\$ 176,850
Municipal Income Taxes	15,900,000	15,900,000	15,087,307	(812,693)
Intergovernmental	3,154,533	3,154,533	2,628,998	(525,535)
Charges for Services	4,973,100	4,973,100	4,792,282	(180,818)
Fees, Licenses and Permits	830,500	830,500	637,793	(192,707)
Fines and Forfeitures	1,125,000	1,125,000	907,368	(217,632)
Investment Income	900,000	900,000	807,098	(92,902)
Miscellaneous	203,000	203,000	350,029	147,029
<i>Total Revenues</i>	<u>28,288,133</u>	<u>28,288,133</u>	<u>26,589,725</u>	<u>(1,698,408)</u>
Expenditures				
Current:				
Security of Persons and Property	16,762,506	15,908,098	15,293,189	614,909
Leisure Time Activities	1,103,838	984,843	929,878	54,965
Community Development	951,868	897,612	863,130	34,482
Transportation	1,743,692	1,877,449	1,807,663	69,786
General Government	8,960,523	8,337,935	8,043,101	294,834
Capital Outlay	195,000	288,040	267,649	20,391
Debt Service:				
Principal Retirement	935,000	935,000	710,000	225,000
Interest and Fiscal Charges	81,125	86,725	25,058	61,667
<i>Total Expenditures</i>	<u>30,733,552</u>	<u>29,315,702</u>	<u>27,939,668</u>	<u>1,376,034</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(2,445,419)</u>	<u>(1,027,569)</u>	<u>(1,349,943)</u>	<u>(322,374)</u>
Other Financing Sources (Uses)				
Proceeds of Bonds	630,000	630,000	660,587	30,587
Proceeds from Disposition of Fixed Assets	10,000	10,000	1,904	(8,096)
Operating Transfers - Out	(100,000)	0	(30,800)	(30,800)
Advances - In	0	(422,974)	(224,750)	198,224
<i>Total Other Financing Sources</i>	<u>540,000</u>	<u>217,026</u>	<u>406,941</u>	<u>189,915</u>
<i>Net Change in Fund Balance</i>	<u>(1,905,419)</u>	<u>(810,543)</u>	<u>(943,002)</u>	<u>(132,459)</u>
<i>Fund Balance Beginning of Year</i>	3,779,741	3,779,741	3,779,741	0
Prior Year Encumbrances Appropriated	<u>257,701</u>	<u>257,701</u>	<u>257,701</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 2,132,023</u>	<u>\$ 3,226,899</u>	<u>\$ 3,094,440</u>	<u>\$ (132,459)</u>

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY
Statement of Net Assets
Proprietary Funds
December 31, 2009

	Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Total	
Assets					
<i>Current Assets:</i>					
Equity in Pooled Cash and Cash Equivalents	\$ 3,850,863	\$ 19,020,445	\$ 456,387	\$ 23,327,695	\$ 1,369,069
Receivables:					
Accounts	1,413,542	1,734,221	655,081	3,802,844	0
Materials and Supplies Inventory	66,852	33,153	0	100,005	65,313
Prepaid Items	30,712	30,712	0	61,424	0
Unamortized Bond Issuance Costs	22,329	292,160	0	314,489	0
<i>Total Current Assets</i>	<u>5,384,298</u>	<u>21,110,691</u>	<u>1,111,468</u>	<u>27,606,457</u>	<u>1,434,382</u>
<i>Noncurrent Assets:</i>					
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	475,691	0	0	475,691	0
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	1,086,641	0	1,086,641	0
Capital Assets:					
Nondepreciable Capital Assets	11,409,399	5,152,821	0	16,562,220	0
Depreciable Capital Assets, Net	22,986,978	28,158,248	0	51,145,226	0
<i>Total Noncurrent Assets</i>	<u>34,872,068</u>	<u>34,397,710</u>	<u>0</u>	<u>69,269,778</u>	<u>0</u>
<i>Total Assets</i>	<u>\$ 40,256,366</u>	<u>\$ 55,508,401</u>	<u>\$ 1,111,468</u>	<u>\$ 96,876,235</u>	<u>\$ 1,434,382</u>

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY
Statement of Net Assets
Proprietary Funds
December 31, 2009

	Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Total	
Liabilities					
<i>Current Liabilities:</i>					
Accounts Payable	\$ 200,456	\$ 252,905	\$ 195,947	\$ 649,308	\$ 143,664
Contracts Payable	2,186,023	331,240	0	2,517,263	0
Accrued Wages	42,693	29,784	1,218	73,695	0
Compensated Absences Payable	1,954	0	0	1,954	0
Retainage Payable	458,340	0	0	458,340	0
Intergovernmental Payable	124,854	47,595	1,863	174,312	0
Accrued Interest Payable	101,981	161,674	0	263,655	0
Claims Payable	0	0	0	0	234,934
Advances From Other Funds	0	0	0	0	10,758
Bond Anticipation Notes	6,321,284	9,299,198	0	15,620,482	0
Capital Leases Payable	23,286	23,286	0	46,572	0
OWDA Loans Payable	0	342,020	0	342,020	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)	475,782	753,721	0	1,229,503	0
Revenue Bonds Payable	0	395,910	0	395,910	0
Total Current Liabilities	10,078,735	11,637,333	199,028	21,915,096	389,356
<i>Current Liabilities Payable from Restricted Assets:</i>					
Refundable Deposits	475,691	0	0	475,691	0
Total Current Liabilities Payable from Restricted Assets	475,691	0	0	475,691	0
<i>Long-Term Liabilities:</i>					
Compensated Absences Payable (Net of Current Portion)	463,794	336,756	16,354	816,904	0
Capital Leases Payable (Net of Current Portion)	79,059	79,060	0	158,119	0
OWDA Loans Payable (Net of Current Portion)	4,626,993	4,474,511	0	9,101,504	0
Bresler Reservoir Termination Agreement	1,704,990	0	0	1,704,990	0
General Obligation Bonds Payable (Net of Current Portion, and where applicable, of unamortized discount and accounting loss)	1,019,000	4,772,612	0	5,791,612	0
Revenue Bonds Payable (Net of Current Portion)	0	12,036,672	0	12,036,672	0
Total Long-Term Liabilities	7,893,836	21,699,611	16,354	29,609,801	0
Total Liabilities	18,448,262	33,336,944	215,382	52,000,588	389,356
Net Assets					
Invested in Capital Assets, Net of Related Debt	19,256,811	1,134,079	0	20,390,890	0
Unrestricted	2,551,293	21,037,378	896,086	24,484,757	1,045,026
Total Net Assets	\$ 21,808,104	\$ 22,171,457	\$ 896,086	44,875,647	\$ 1,045,026

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:

94,900

Net assets of Business-Type Activities

\$ 44,970,547

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, 2009*

	Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Total	
Operating Revenues					
Charges for Services	\$ 8,866,612	\$ 8,564,172	\$ 2,464,432	\$ 19,895,216	\$ 4,507,197
Other Operating Revenues	768,083	41,628	0	809,711	297,282
Total Operating Revenues	<u>9,634,695</u>	<u>8,605,800</u>	<u>2,464,432</u>	<u>20,704,927</u>	<u>4,804,479</u>
Operating Expenses					
Salaries	2,685,201	1,987,595	77,485	4,750,281	0
Fringe Benefits	1,019,641	718,085	27,514	1,765,240	0
Claims Expense	0	0	195,947	195,947	4,415,822
Other Services and Charges	6,303,987	4,126,711	2,180,984	12,611,682	911,066
Depreciation	976,723	1,074,350	0	2,051,073	0
Total Operating Expenses	<u>10,985,552</u>	<u>7,906,741</u>	<u>2,481,930</u>	<u>21,374,223</u>	<u>5,326,888</u>
Operating Income	<u>(1,350,857)</u>	<u>699,059</u>	<u>(17,498)</u>	<u>(669,296)</u>	<u>(522,409)</u>
Non-Operating Revenues (Expenses)					
Loss on Disposal of Fixed Assets	(2,304)	(15,197)	0	(17,501)	0
Tap-in Fees	30,413	0	0	30,413	0
Interest and Fiscal Charges	(245,006)	(842,898)	0	(1,087,904)	0
Total Non-Operating Revenues (Expenses)	<u>(216,897)</u>	<u>(858,095)</u>	<u>0</u>	<u>(1,074,992)</u>	<u>0</u>
Change in Net Assets	<u>(1,567,754)</u>	<u>(159,036)</u>	<u>(17,498)</u>	<u>(1,744,288)</u>	<u>(522,409)</u>
Net Assets Beginning of Year (Restated-see Note 3)	<u>23,375,858</u>	<u>22,330,493</u>	<u>913,584</u>		<u>1,567,435</u>
Net Assets End of Year	<u>\$ 21,808,104</u>	<u>\$ 22,171,457</u>	<u>\$ 896,086</u>		<u>\$ 1,045,026</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.

(130,956)

Change in net assets of business-type Activities

\$ (1,875,244)

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, 2009

	Enterprise Funds				Internal Service Funds
	Water	Sewer	Refuse	Total	
Cash Flows from Operating Activities					
Cash Received from Customers	\$ 8,781,972	\$ 8,484,576	\$ 2,410,147	\$ 19,676,695	\$ 0
Cash Received from Interfund Services Provided	0	0	0	0	4,507,197
Other Cash Receipts	768,083	41,628	0	809,711	297,282
Cash Payments to Employees for Services	(2,771,533)	(2,050,931)	(80,204)	(4,902,668)	0
Cash Payments for Employee Benefits	(1,002,356)	(710,949)	(26,535)	(1,739,840)	0
Cash Payments for Other Services and Charges	(3,736,018)	(3,900,072)	(2,380,857)	(10,016,947)	(910,686)
Cash Payments for Claims	0	0	0	0	(4,480,929)
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>2,040,148</u>	<u>1,864,252</u>	<u>(77,449)</u>	<u>3,826,951</u>	<u>(587,136)</u>
Cash Flows from Capital and Related Financing Activities					
Cash Received from Tap-in Fees	30,413	0	0	30,413	0
Proceeds from Sale of Revenue Bonds	0	12,432,582	0	12,432,582	0
Proceeds from Sale of Bond Anticipation Notes	6,321,284	17,735,402	0	24,056,686	0
Proceeds from OWDA Loan	4,626,993	0	0	4,626,993	0
Proceeds from Capital Lease	122,754	122,754	0	245,508	0
Principal Paid on OWDA Debt	0	(329,547)	0	(329,547)	0
Principal Paid on General Obligation Bonds	(476,518)	(721,760)	0	(1,198,278)	0
Principal Paid on Bresler Reservoir Termination Agreement	(142,083)	0	0	(142,083)	0
Principal Paid on Bond Anticipation Notes	(5,019,500)	(16,862,664)	0	(21,882,164)	0
Principal Paid on Capital Lease	(20,409)	(20,408)	0	(40,817)	0
Interest Paid on Debt Obligation	(224,849)	(1,030,353)	0	(1,255,202)	0
Advances from Other Funds	0	0	0	0	10,758
Payments for Capital Acquisitions	(7,994,080)	(2,363,927)	0	(10,358,007)	0
<i>Net Cash (Used in) Provided by Capital and Related Financing Activities</i>	<u>(2,775,995)</u>	<u>8,962,079</u>	<u>0</u>	<u>6,186,084</u>	<u>10,758</u>
Cash Flows from Investing Activities					
Loss on Sale of Capital Assets	(2,304)	(15,197)	0	(17,501)	0
<i>Net Cash Used by Investing Activities</i>	<u>(2,304)</u>	<u>(15,197)</u>	<u>0</u>	<u>(17,501)</u>	<u>0</u>
<i>Net (Decrease) Increase in Cash and Cash Equivalents</i>	(738,151)	10,811,134	(77,449)	9,995,534	(576,378)
<i>Cash and Cash Equivalents Beginning of Year (Restated-see Note 3)</i>	<u>5,064,705</u>	<u>9,295,952</u>	<u>533,836</u>	<u>14,894,493</u>	<u>1,945,447</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 4,326,554</u>	<u>\$ 20,107,086</u>	<u>\$ 456,387</u>	<u>\$ 24,890,027</u>	<u>\$ 1,369,069</u>

See accompanying notes to the basic financial statements

(continued)

CITY OF LIMA - ALLEN COUNTY
Statement of Cash Flows
Proprietary Funds (continued)
For the Year Ended December 31, 2009

	Enterprise Funds				Internal Service Funds
	Water	Sewer	Refuse	Total	
Reconciliation of Operating Gain to Net Cash Provided by Operating Activities					
Operating Gain (Loss)	\$ (1,350,857)	\$ 699,059	\$ (17,498)	\$ (669,296)	\$ (522,409)
Adjustments:					
Depreciation	976,723	1,074,350	0	2,051,073	0
(Increase) Decrease in Assets:					
Accounts Receivable	(141,050)	(79,596)	(54,285)	(274,931)	0
Materials and Supplies Inventory	61,354	(690)	0	60,664	(25,659)
Prepaid Items	9,066	9,066	0	18,132	0
Increase (Decrease) in Liabilities:					
Accounts Payable	(61,900)	4,252	(3,138)	(60,786)	26,039
Contracts Payable	2,122,235	228,320	0	2,350,555	0
Accrued Wages	(86,332)	(63,336)	(2,719)	(152,387)	0
Compensated Absences Payable	17,285	7,136	979	25,400	0
Retainage Payable	458,340	0	0	458,340	0
Intergovernmental Payable	(21,126)	(14,309)	(788)	(36,223)	0
Increase in Claims Payable	0	0	0	0	(65,107)
Increase in Refundable Deposits	56,410	0	0	56,410	0
<i>Net Cash Provided by (Used In) Operating Activities</i>	<u>\$ 2,040,148</u>	<u>\$ 1,864,252</u>	<u>\$ (77,449)</u>	<u>\$ 3,826,951</u>	<u>\$ (587,136)</u>

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY
Combining Statement of Assets and Liabilities
Agency Funds
December 31, 2009

	<u>Agency</u>
Assets	
Equity Pooled in Cash and Cash Equivalents	\$ 196,267
Cash and Cash Equivalents in Segregated Accounts	597,529
Accounts Receivable	<u>2,736,438</u>
 <i>Total Assets</i>	 <u><u>\$ 3,530,234</u></u>
 Liabilities	
Accounts Payable	25,648
Intergovernmental Payable	11,541
Undistributed Monies	3,333,967
Deposits Held and Due to Others	<u>159,078</u>
 <i>Total Liabilities</i>	 <u><u>\$ 3,530,234</u></u>

See accompanying notes to the basic financial statements

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1: REPORTING ENTITY

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. 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, 2009

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, 2009**

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.

Vine Street Railroad Grade Separation Capital Fund The vine street railroad grade separation capital fund accounts for grant proceeds and expenditures from an American Reinvestment and Recovery Act (ARRA) grant that is being used to construct a railroad underpass.

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.

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

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

C. Measurement Focus

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

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

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary fund activities.

D. Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7.) 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, 2009

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, 2009, but which were levied to finance fiscal year 2010 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, 2009**

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, 2009.

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 2009 amounted to \$681,745 which includes \$612,523 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, 2009, 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, 2009

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, 2009**

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, sidewalks, 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 capitalized interest in the amount of \$36,179. This interest is associated with the Ohio Water Development Authority loan used to construct a new reservoir.

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

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, 2009**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Accrued Liabilities and Long-term Obligations

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

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

O. Net Assets

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

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

P. Fund Balance Reserves

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

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

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 2009.

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.

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Budgetary Data

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

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

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

W. Implementation of New Accounting Policies

For the year ended December 31, 2009, the City has implemented GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments," GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," and GASB Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards."

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

GASB Statement 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature.

GASB Statement 56 incorporates into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards.

Implementation of These GASB Statements did not affect the presentation of the financial statements of the City.

NOTE 3: PRIOR-PERIOD ADJUSTMENT

Fund balances in the governmental funds and net assets in the enterprise funds, business-type activities and governmental activities were restated to properly record assets held in the City's sinking fund. The City initiated a review and sought legal opinion determination regarding the satisfaction of the sinking fund requirement in prior years and the appropriate use of the remaining funds. The City determined, with legal advice, the restatement of the sinking funds is to be recorded as a prior period adjustment is appropriate. It was determined that the assets in the sinking fund should be restated to the debt service fund in order to comply with Ohio Revised Code.

The restatement of fund balances in the governmental funds is as follows:

	General	CDBG Special Revenue	Special Assessment Debt Service	Aggregate Nonmajor	Total
Fund Balances, 12/31/08	\$ 5,291,592	\$ 228,337	\$ 434,498	\$ 5,782,646	\$ 11,737,073
Fund Balance Restatement					
Cash & Cash Equivalents					
in Segregated Accounts	0	0	(331,581)	1,035,796	704,215
Accrued Interest	0	0	(355)	1,235	880
Interfund Receivable	0	0	(14,285)	49,600	35,315
Due From Other Funds	0	0	(69,465)	242,640	173,175
Fund Balances, Restated 12-31-08	<u>\$ 5,291,592</u>	<u>\$ 228,337</u>	<u>\$ 18,812</u>	<u>\$ 7,111,917</u>	<u>\$ 12,650,658</u>

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 3: PRIOR-PERIOD ADJUSTMENT (Continued)

The following schedules detail the effects of restatement on net assets.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net Assets, 12/31/08	\$ 55,163,783	\$ 47,759,376	\$ 102,923,159
Cash & Cash Equivalents in Segregated Accounts	704,215	(704,215)	0
Accrued Interest	880	(880)	0
Interfund Receivable	35,315	(35,315)	0
Due From Other Funds	173,175	(173,175)	0
Net Assets, Restated 12-31-08	<u>\$ 56,077,368</u>	<u>\$ 46,845,791</u>	<u>\$ 102,923,159</u>

	<u>Water</u>	<u>Sewer</u>	<u>Refuse</u>	<u>Total</u>
Net Assets, 12-31-08	\$ 24,204,214	\$ 22,415,722	\$ 913,584	\$ 47,533,520
Cash & Cash Equivalents in Segregated Accounts	(638,395)	(65,820)	0	(704,215)
Accrued Interest	(798)	(82)	0	(880)
Interfund Receivable	(32,042)	(3,273)	0	(35,315)
Due From Other Funds	(157,121)	(16,054)	0	(173,175)
Net Assets, Restated 12-31-08	<u>\$ 23,375,858</u>	<u>\$ 22,330,493</u>	<u>\$ 913,584</u>	<u>\$ 46,619,935</u>

NOTE 4: BUDGETARY BASIS OF ACCOUNTING

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

The statements of revenues, expenditures and changes in fund balances - budget (non-GAAP basis) and actual presented for the general fund is 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).

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 4: BUDGETARY BASIS OF ACCOUNTING (Continued)

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.

Net Change in Fund Balance

	General
GAAP Basis	\$ 288,642
Revenue accruals	(9,296)
Expenditure accruals	(748,730)
Encumbrances	(473,618)
Budget Basis	\$ (943,002)

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.

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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.

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;

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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 (STAROhio).

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

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.

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

At fiscal year-end, the carrying amount of the City’s deposits was \$33,231,709. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures,” as of December 31, 2009, \$21,270,973 of the City’s bank balance of \$32,770,973 was exposed to custodial risk as discussed above, while \$11,500,000 was covered by Federal Deposit Insurance Corporation.

Investments

As of December 31, 2009, the City had the following investments and maturities:

Investment	Fair Value	Investment Maturities 6 Months or Less
Repurchase Agreements	\$ 1,170,341	\$ 1,170,341
Huntington Bank Money Market Account	107,933	107,933
Fifth Third Bank Money Market Account	16,853	16,853
Union Bank Money Market Account	3,010,076	3,010,076
STAROhio Account	71,906	71,906
	\$ 4,377,109	\$ 4,377,109

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, 2009, the City’s investment in STAROhio was rated AAAM by Standard & Poor’s.

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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, 2009.

Investment	Fair Value	Percentage of Total
Repurchase Agreements	\$ 1,170,341	26.74%
Huntington Bank Money Market Account	107,933	2.47%
Fifth Third Bank Money Market Account	16,853	0.38%
Union Bank Money Market Account	3,010,076	68.77%
STAROhio Account	71,906	1.64%
	\$ 4,377,109	100.00%

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 2009 represent the collection of 2008 taxes. For 2009, real property taxes were levied after October 1, 2008, on the assessed value as of January 1, 2008, the lien date. These taxes will be collected in and are intended to finance 2009 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 2009. 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.

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 7: PROPERTY TAXES (Continued)

Public utility real and tangible personal property were levied after October 1, 2008, on the assessed values as of December 31, 2008, 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 2009 (other than public utility property) represent the collection of 2009 taxes. For 2009, tangible personal property taxes were levied after April 1, 2008, on the value as of December 31, 2008, the lien date. For 2009, tangible personal property is assessed at zero for property including inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. The first payment is due April 30, with the remainder payable by September 20.

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

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 2009 operations.

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 7: PROPERTY TAXES (Continued)

The full tax rate for all City operations for the year ended December 31, 2009 was 3.30 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2008 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$ 241,687,650
Commercial/Industrial	128,888,720
Tangible Personal	0
Public Utility	16,628,360
Total	\$ 387,204,730

NOTE 8: RECEIVABLES

Receivables at December 31, 2009 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	\$ 1,413,542
Sewer	1,734,221
Refuse	655,081
Total	\$ 3,802,844

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 \$1,215,101 with uncollectible of \$244,653 at December 31, 2009. The notes are recorded net of an allowance for uncollectibles in the amount of \$970,448.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 8: RECEIVABLES (Continued)

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities:	
Indigent Defense Reimbursement	\$ 22,312
Homestead and Rollback	81,715
Local Government	874,628
Motor Vehicle License Tax	144,000
Gasoline Excise Tax	516,600
Permissive Tax	142,000
Home Program Grant	791,368
Community Development	
Block Grant (CDBG)	1,954,682
2007 DJ BX 03330 JAG	20,132
2007 PS AGI 314	168,274
2008 DJ BS 0308	18,817
EDA 06 78 05329	235,277
ALL-Lima Traffic PID 82576	878,930
NS Program A-Z-08-284-1	1,686,308
CDBG-R B-09-MY-39-0014	43,653
HPRP/S-09-MY-39-0014	480,900
Energy Retrofit Grant	171,200
ALL-Lima Bikepath Grant	72,911
ODOD JRS Grant	1,376,289
ALL-Lima Grade Separation Grant	2,144,962
ECDD Roadwork Development	500,000
Ottawa River Bikeway Phase IV	16,136
Vine St RRGs PID 86297	9,772,212
Total Intergovernmental Receivable	<u>\$ 22,113,306</u>

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2009 follows:

	Balance 12/31/2008	Additions	Deletions	Balance 12/31/2009
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 6,588,080	\$ 579,343	\$ 0	\$ 7,167,423
Construction in progress	692,781	2,437,759	(1,603,408)	1,527,132
<i>Total Capital Assets Not Being Depreciated</i>	7,280,861	3,017,102	(1,603,408)	8,694,555
<i>Capital Assets, Being Depreciated:</i>				
Buildings	13,283,617	48,754	0	13,332,371
Improvements	2,185,797	102,697	0	2,288,494
Machinery and equipment	4,375,093	318,790	(489,408)	4,204,475
Furniture and fixtures	53,790	0	(2,543)	51,247
Vehicles	5,357,238	69,445	(286,136)	5,140,547
Infrastructure:				
Roads	27,908,091	2,730,192	0	30,638,283
Sidewalks	1,178,657	194,618	0	1,373,275
Bridges	5,545,373	30,093	0	5,575,466
Signals and traffic lights	4,368,957	351,778	0	4,720,735
Curbs	6,574,404	212,704	0	6,787,108
Rail sidings	1,443,375	0	0	1,443,375
<i>Total Capital Assets, Being Depreciated</i>	72,274,392	4,059,071	(778,087)	75,555,376
<i>Less Accumulated Depreciation:</i>				
Buildings	5,556,921	291,656	0	5,848,577
Improvements	1,127,877	94,069	0	1,221,946
Machinery and equipment	3,222,919	258,283	(447,922)	3,033,280
Furniture and fixtures	31,139	3,625	(2,161)	32,603
Vehicles	4,201,927	397,291	(286,136)	4,313,082
Infrastructure:				
Roads	16,312,874	1,693,092	0	18,005,966
Sidewalks	265,856	31,706	0	297,562
Bridges	841,103	82,442	0	923,545
Signals and traffic lights	2,558,548	249,626	0	2,808,174
Curbs	2,581,241	166,671	0	2,747,912
Rail sidings	78,183	72,169	0	150,352
<i>Total Accumulated Depreciation</i>	36,778,588	3,340,630	(736,219)	39,382,999
<i>Total Capital Assets Being Depreciated, Net</i>	35,495,804	718,441	(41,868)	36,172,377
<i>Total Governmental Activities Capital Assets, Net</i>	\$ 42,776,665	\$ 3,735,543	\$ (1,645,276)	\$ 44,866,932

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 9: CAPITAL ASSETS (Continued)

	Balance 12/31/2008	Additions	Deletions	Balance 12/31/2009
Business-Type Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 4,603,395	\$ 477,781	\$ 0	\$ 5,081,176
Construction in progress	3,835,722	7,673,543	(28,221)	11,481,044
<i>Total Capital Assets Not Being Depreciated</i>	8,439,117	8,151,324	(28,221)	16,562,220
<i>Capital Assets, Being Depreciated:</i>				
Improvements	2,390,697	0	0	2,390,697
Buildings	42,598,102	2,209,346	0	44,807,448
Machinery and equipment	20,915,457	460,659	(824,471)	20,551,645
Furniture and fixtures	46,597	0	0	46,597
Vehicles	4,142,899	39,856	(85,934)	4,096,821
Capitalized interest	3,137,768	36,179	0	3,173,947
Intangible assets	317,988	0	0	317,988
Sewer lines	20,763,274	28,221	0	20,791,495
Water lines	22,390,159	371,049	0	22,761,208
<i>Total Capital Assets, Being Depreciated</i>	116,702,941	3,145,310	(910,405)	118,937,846
<i>Less Accumulated Depreciation:</i>				
Improvements	950,989	99,894	0	1,050,883
Buildings	20,580,201	900,527	0	21,480,728
Machinery and equipment	14,358,125	889,839	(806,969)	14,440,995
Furniture and fixtures	20,587	1,955	0	22,542
Vehicles	3,157,943	299,170	(85,934)	3,371,179
Capitalized interest	2,530,665	203,024	0	2,733,689
Intangible assets	317,989	0	0	317,989
Sewer lines	13,721,062	191,104	0	13,912,166
Water lines	10,103,986	358,463	0	10,462,449
<i>Total Accumulated Depreciation</i>	65,741,547	2,943,976	(892,903)	67,792,620
<i>Total capital assets being depreciated, net</i>	50,961,394	201,334	(17,502)	51,145,226
<i>Total Business-Type Capital Assets, Net</i>	<u>\$ 59,400,511</u>	<u>\$ 8,352,658</u>	<u>\$ (45,723)</u>	<u>\$ 67,707,446</u>

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 9: CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

General Government	\$	147,869
Security of Persons and Property		369,268
Leisure Time Activities		114,863
Community Development		9,224
Transportation		2,699,406
Total	\$	3,340,630

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 \$200 single and a \$400 family deductible for all employees. Under this program, the fund provides coverage for up to a maximum of \$100,000 for each individual. The City purchases stop-loss coverage for claims in excess of \$100,000 and up to a maximum of \$1,000,000. Settled claims have not exceeded stop-loss coverage for the last three years. The City utilizes a third party administrator to review all claims, which are then paid by the City.

Claims payable is based on the requirements of the Governmental Accounting Standards Board Statement No. 30 "Risk Financing Omnibus," which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated claim adjustment expenses. Claims payable at December 31, 2009, are estimated based on past experience in payment of claims at \$234,934.

		Beginning of Year Liability	Claims and Changes in Estimates	Claims Payments	End of Year Liability
2008	\$	278,893	\$ 4,833,990	\$ 4,812,842	\$ 300,041
2009		300,041	4,415,822	4,480,929	234,934

**CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2009**

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 2009, the City contracted with a third party for insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
Stolly Insurance Agency, Inc.	Building and Contents	*
	Auto Insurance	*
	General Liability	*
	Law Enforcement Officers'	*
	Professional Liability	*
	Auto Liability	*
	Commercial Blanket Bond	*
	Employee Benefit Liability	*
	Uninsured Motorist Coverage	*
	Excess Property	*
	Public Officials Liability	*
	Boiler and Machinery	\$ 1,000
	Deep Well Pumps	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, 2009**

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 \$2,519,245 due within more than one year. Unpaid compensated absences for Business-Type Activities as of year end are reported on the statement of net assets as \$816,905 due within more than one year and \$1,954 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 10% for employees other than law enforcement and public safety. In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consists of sheriffs, deputy sheriffs and township police with an employee contribution rate of 10.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continue to contribute at 10.1%.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 12: DEFINED BENEFIT PENSION PLANS (Continued)

The 2009 employer contribution rate for state employers was 14% of covered payroll. For local government employer units the rate was 14% of covered payroll. The 2009 employer contribution rate for both the law enforcement and public safety division was 17.63% of covered payroll. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to PERS for the years ended December 31, 2009, 2008 and 2007 were \$1,756,679, \$1,735,567, and \$1,703,079 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, 2009, 2008 and 2007 were \$1,920,088, \$1,909,732, and \$1,822,464, respectively, equal to the required contributions for each year.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

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 2009 employer contribution rate for state employers was 14% of covered payroll. For local government employer units the rate was 14.0% of covered payroll. The 2009 employer rate for public safety and law enforcement was 17.63%. The portion of employer contributions, for all employers, allocated to health care was 7.0% for 2009. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2008, 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 3.00% for the next 6 years. Health care costs were assumed to increase at 4% in year 7 and beyond.

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

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.6 billion and \$18.9 billion, respectively. As of December 31, 2008, the unaudited estimated net assets available for future OPEB payments were \$10.7 billion. The number of active contributing participants was 356,388.

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

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 13: POSTEMPLOYMENT BENEFITS (Continued)

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.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 6.75% of covered payroll was applied to the postemployment health care program during 2009. 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 2009 that were used to fund postemployment benefits were \$594,797. The OP&F's total health care expenses for the year ended December 31, 2008 (the latest information available) were \$96,472,398, which was net of member contributions of \$56,948,977. The number of OP&F participants eligible to receive health care benefits as of December 31, 2008 was 14,567 for police and 10,750 for firefighters.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 14: LONG-TERM OBLIGATIONS

The changes in the City's long-term obligations during 2009 were as follows:

	Interest Rate %	Outstanding 1/1/2009	Additions	(Reductions)	Outstanding 12/31/2009	Amounts Due Within One Year
Governmental Activities						
Unvoted General Obligation Bonds:						
1999 Various Purpose Refunding Bonds	4.00-5.80					
Municipal Center Refunding		\$ 380,000	\$ 0	\$ (185,000)	\$ 195,000	\$ 195,000
Parking Facility		630,000	0	(30,000)	600,000	30,000
2004 - YMCA Parking Lot Project	2.00-4.50	160,000	0	(10,000)	150,000	10,000
Unamortized Premium		801	0	(50)	751	50
Total Unvoted General Obligation Bonds		1,170,801	0	(225,050)	945,751	235,050
Bond Anticipation Notes:						
Metcalf St Reconstruction	3.375	350,000	350,000	(350,000)	350,000	350,000
Purchase Fire Truck	3.375	360,000	305,000	(360,000)	305,000	305,000
Unamortized Premium		4,367	5,587	(4,367)	5,587	5,587
Total Bond Anticipation Notes		714,367	660,587	(714,367)	660,587	660,587
Other Long-Term Obligations:						
Compensated Absences		2,688,434	2,519,246	(2,688,434)	2,519,246	0
Capital Lease-Cisco Phone System	4.69	0	245,508	(40,818)	204,690	46,571
Judgement Payable		110,000	0	0	110,000	110,000
Total Other Long-Term Obligations		2,798,434	2,764,754	(2,729,252)	2,833,936	156,571
Total Governmental Activities		4,683,602	3,425,341	(3,668,669)	4,440,274	1,052,208
Business-Type Activities						
General Obligation Bonds:						
Water Refunding - 1999 Issue	4.00-5.30	\$ 1,510,000	\$ 0	\$ (145,000)	\$ 1,365,000	\$ 420,000
Unamortized Accounting Loss		(85,263)	8,188	0	(77,075)	(23,716)
Unamortized Discount		(21,356)	2,051	0	(19,305)	(5,941)
Total Water Refunding - 1999 Issue		1,403,381	10,239	(145,000)	1,268,620	390,343
Water Refunding - 2004 Issue	2.00-4.50	565,000	0	(340,000)	225,000	85,000
Unamortized Premium		2,919	0	(1,757)	1,162	439
Total Water Refunding - 2004 Issue		567,919	0	(341,757)	226,162	85,439
Total Water General						
Obligation Bonds		1,971,300	10,239	(486,757)	1,494,782	475,782
Sewer Refunding - 1999 Issue	4.00-5.30	1,780,000	0	(345,000)	1,435,000	450,000
Unamortized Accounting Loss		(104,484)	20,252	0	(84,232)	(26,415)
Unamortized Discount		(26,098)	5,058	0	(21,040)	(6,598)
Total Sewer Refunding - 1999 Issue		1,649,418	25,310	(345,000)	1,329,728	416,987

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

	Interest Rate %	Outstanding 1/1/2009	Additions	(Reductions)	Outstanding 12/31/2009	Due Within One Year
Business-Type Activities (continued)						
General Obligation Bonds:						
Sewer - 2004 Issue	2.00-4.50	\$ 4,575,000	\$ 0	\$ (400,000)	\$ 4,175,000	\$ 335,000
Unamortized Premium		23,675	0	(2,070)	21,605	1,734
Total Sewer Refunding - 2004 Issue		4,598,675	0	(402,070)	4,196,605	336,734
Total Sewer General Obligation Bonds		6,248,093	25,310	(747,070)	5,526,333	753,721
Total Unvoted General Obligation Bonds		8,219,393	35,549	(1,233,827)	7,021,115	1,229,503
Revenue Bonds:						
Sewer Improvement TE Issue	2.00-2.50	0	2,150,000	0	2,150,000	390,000
Unamortized Premium		0	32,582	0	32,582	5,910
Sewer Improvement BAB Issue	3.89-6.675	0	10,250,000	0	10,250,000	0
Total Revenue Bonds		0	12,432,582	0	12,432,582	395,910
Bond Anticipation Notes:						
Sewer System Improvements	4.06	8,400,000	16,800,000	(16,800,000)	8,400,000	8,400,000
Unamortized Premium		26,460	66,780	(62,664)	30,576	30,576
Sewer System Building Acquisition	1.50	0	864,000	0	864,000	864,000
Unamortized Premium		0	4,622	0	4,622	4,622
Water System Improvements	4.10	5,000,000	5,000,000	(5,000,000)	5,000,000	5,000,000
Unamortized Premium		19,500	18,350	(19,500)	18,350	18,350
Water System Building Acquisition	1.50	0	1,296,000	0	1,296,000	1,296,000
Unamortized Premium		0	6,934	0	6,934	6,934
Total Bond Anticipation Notes		13,445,960	24,056,686	(21,882,164)	15,620,482	15,620,482
Other Long-Term Obligations:						
Bresler Termination Agreement	0.0	1,989,154	0	(142,082)	1,847,072	142,082
OWDA Loan	3.75	5,146,078	0	(329,547)	4,816,531	342,020
OWDA Loan-Reservoir	4.32	0	4,626,993	0	4,626,993	0
Capital Lease-Cisco Phone System						
Water Fund Portion	4.69	0	122,754	(20,409)	102,345	23,286
Sewer Fund Portion	4.69	0	122,754	(20,408)	102,346	23,286
Compensated Absences		793,458	818,858	(793,458)	818,858	1,954
Total Other Long-Term Obligations		7,928,690	5,691,359	(1,305,904)	12,314,145	532,628
Total Business-Type Activities		29,594,043	42,216,176	(24,421,895)	47,388,324	17,778,523
Totals		<u>\$ 34,277,645</u>	<u>\$ 45,641,517</u>	<u>\$ (28,090,564)</u>	<u>\$ 51,828,598</u>	<u>\$ 18,830,731</u>

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

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.

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 \$117,490 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.

Revenue Bonds – The revenue bonds pledge enterprise fund income derived from the acquired and constructed assets to pay debt service. The bond indenture has certain restrictive covenants which principally require that bond reserve accounts be maintained and charges for services to customers be in sufficient amounts, as defined, to satisfy the obligations under the indenture. In addition, special provisions exist regarding covenant violations, redemptions of principal, and maintenance of properties. In conjunction with the issuance of the revenue refunding bonds, the City entered into a trust agreement with a commercial bank. This trust agreement, along with the bond indenture, requires that the City establish various accounts for the repayment of debt. The restricted assets in the sewer fund are held by the trustees in accordance with the trust agreement.

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

In 2009, the City's water utility entered into a loan agreement with OWDA to fund the construction of a new above ground reservoir. The maximum amount available under this agreement is \$28,848,000. As of December 31, 2009, the City had requested total draws of \$5,374,084. Payments on this loan are anticipated to begin in 2012. As of the end of 2009, the payment schedule had not been determined.

**CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2009**

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

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 2009, \$350,000 in bond anticipation notes were issued for street reconstruction. \$305,000 in bond anticipation notes were issued to purchase a ladder truck for the fire department. \$8,400,000 in bond anticipation notes were issued in January 2009 for sewer system improvements and renewed again in July 2009. \$5,000,000 in bond anticipation notes were issued for water system improvements. And \$2,160,000 in bond anticipation notes were issued for building acquisitions in the water and sewer utilities. These notes were allocated \$1,296,000 to the water utility and \$864,000 to the sewer utility.

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

	General Obligation (Gross)	
	Principal	Interest
2010	\$ 235,000	\$ 50,500
2011	45,000	38,650
2012	55,000	36,490
2013	65,000	33,770
2014	65,000	30,232
2014-2019	480,000	86,440
Total	<u>\$ 945,000</u>	<u>\$ 276,082</u>

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

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

	Bresler Termination Agreement		General Obligation (Gross)		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 142,082	\$ 0	\$ 1,290,000	\$ 337,630	\$ 342,021	\$ 177,443
2011	142,082	0	1,345,000	277,510	354,967	164,497
2012	142,082	0	1,405,000	212,430	368,403	151,061
2013	142,082	0	205,000	143,360	382,348	137,116
2014	142,082	0	215,000	134,647	396,821	122,644
2015-2019	710,410	0	1,225,000	526,675	2,221,143	376,216
2020-2024	426,252	0	1,515,000	224,015	750,828	28,329
Total	\$ 1,847,072	\$ 0	\$ 7,200,000	\$ 1,856,267	\$ 4,816,531	\$ 1,157,306

	Revenue Bonds (Gross)		Total	
	Principal	Interest	Principal	Interest
2010	\$ 390,000	\$ 607,493	\$ 2,164,103	\$ 1,122,566
2011	430,000	650,927	2,272,049	1,092,934
2012	435,000	642,327	2,350,485	1,005,818
2013	445,000	633,627	1,174,430	914,103
2014	450,000	623,615	1,203,903	880,906
2015-2019	2,545,000	2,848,574	6,701,553	3,751,465
2020-2024	3,230,000	2,101,131	5,922,080	2,353,475
2025-2029	4,475,000	933,833	4,475,000	933,833
Total	\$ 12,400,000	\$ 9,041,527	\$ 26,263,603	\$ 12,055,100

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 15: CAPITAL LEASES – LESSEE DISCLOSURE

The City entered into a capital lease in 2009 for a new VoIP phone system from Cisco. This lease meets the criteria of a capital lease pursuant to generally accepted accounting principles. Capital lease payments are reflected as debt service expenditures in the governmental fund statements and as a reduction of the liability in the entity wide statements and enterprise fund statements. A capital asset has been recorded in the amount of \$491,016 and allocated 50% to governmental activities, 25% to the water fund and 25% to the sewer fund. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the long term liabilities section of the entity wide statements and enterprise fund statements. Principal payments in 2009 totaled \$40,818 in governmental-type activities and \$40,817 in business-type activities. Capital lease payments in governmental funds are reflected as program expenditures.

The schedule of future minimum lease payments required under the capital lease is as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Governmental-type</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>
2010	\$ 55,179	\$ 55,179
2011	55,179	55,179
2012	55,179	55,179
2013	55,179	55,179
2014	4,598	4,598
Total Minimum Lease Payments	<u>225,314</u>	<u>225,314</u>
Less: Amount Representing Interest	<u>(20,624)</u>	<u>(20,623)</u>
Present Value of Minimum Lease Payments	<u>\$ 204,690</u>	<u>\$ 204,691</u>

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 16: INTERFUND TRANSACTIONS

A. Interfund Transactions

Interfund transactions are used by the City to fund small special assessment projects. As of December 31, 2009, balance sheet receivable and payables that resulted from interfund transactions were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>
Governmental Funds				
Debt Service	\$ 31,500	\$ 0	\$ 0	\$ 209,750
Capital Projects	0	31,500	209,750	0
Totals	<u>\$ 31,500</u>	<u>\$ 31,500</u>	<u>\$ 209,750</u>	<u>\$ 209,750</u>

B. Advances To/From Other Funds Transactions

Advances to/from other funds were made to cover operating deficits that resulted from reimbursable grants. As of December 31, 2009, advances to and from other fund transactions were as follows:

	<u>Advances To Other Funds</u>	<u>Advances From Other Funds</u>
General Fund	\$ 886,474	\$ 0
Other Governmental Funds:		
Land Utilization Fund	0	234
2007 Anti Gang Grant	0	127,959
EDA 06-78-05329 Grant	0	51,531
NS Program Grant	0	172,974
Energy Retrofit Grant	0	1,236
ODOD JRS Grant	0	481,418
ECDD Roadwork Grant	0	24,972
Special Assessment Debt	0	15,392
Internal Service Fund:		
Gasoline Fund	0	10,758
Totals	<u>\$ 886,474</u>	<u>\$ 886,474</u>

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 16: INTERFUND TRANSACTIONS (Continued)

C. Reconciliation of Interfund Transfers

Interfund transfers are used by the City to fund small special assessment projects. Special assessments paid by the taxpayers for sidewalk manuscript projects are received in the debt service fund. These monies are later transferred to the capital project fund that funds the sidewalk projects. As of December 31, 2009, balances for interfund transfer were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 0	\$ 30,800
Other Governmental Funds:		
Debt Service	65,800	117,490
Capital Projects	117,490	35,000
	<u>\$ 183,290</u>	<u>\$ 183,290</u>
Totals		

NOTE 17: DEFERRED REVENUE

Deferred revenue at December 31, 2009 consisted of the following:

	<u>Statement of Net Assets</u>	<u>Balance Sheet</u>
Property Taxes Receivable	\$ 1,354,421	\$ 1,753,590
Income Taxes Receivable	0	1,528,459
Grants Receivable	19,135,636	21,278,247
Special Assessments Receivable	4,257,381	4,257,381
	<u>\$ 24,747,438</u>	<u>\$ 28,817,677</u>
Deferred Revenue		

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 18: CONTRACTUAL COMMITMENTS

As of December 31, 2009, the City had contractual commitments for the following projects:

	<u>Contractual Commitment</u>	<u>Expended</u>	<u>Balance 12/31/2009</u>
Kohli & Kaliher - Southside Grade Separation	\$ 850,970	\$ 192,788	\$ 658,182
Ben's Construction - Neighborhood Stabilization Grant - Demolition	500,000	97,171	402,829
York Electric - Electrical and Raw Water Screening Improvements	1,877,000	1,667,978	209,022
MWH Americas - Granular Activated Carbon Filtration Project	945,000	70,000	875,000
American Structurepoint - Eastside Grade Separation	243,496	60,875	182,621
Jutte Excavating - Truck Scale - Wastewater Treatment Plant	203,893	175,348	28,545
Kirk Brothers - Wastewater Treatment - Digester Renovations	623,000	534,986	88,014
Peterson Construction - Pumping Station - New Reservoir	5,072,000	762,027	4,309,973
Atlas Excavation - Transmission Mains - New Reservoir	3,434,975	562,513	2,872,462
E. S. Wagner Company - New Upground Reservoir	14,410,497	1,719,296	12,691,201
BBC&M Engineering - New Reservoir Design	600,000	93,098	506,902
Totals	<u>\$ 28,760,831</u>	<u>\$ 5,936,080</u>	<u>\$ 22,824,751</u>

NOTE 19: CONTINGENT LIABILITIES

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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, 2009.

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009**

NOTE 19: CONTINGENT LIABILITIES (Continued)

B. Litigation

As of December 31, 2009, 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 was estimated with the assistance of the City Attorney and has been determined to be insignificant to the financial statements as a whole.

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.

NOTE 20: SUBSEQUENT EVENTS

In May 2010, the City water and sewer utilities issued revenue bonds to retire previously issued outstanding bond anticipation notes. The revenue bonds pledge enterprise fund income derived from the acquired and constructed assets to pay debt service.

NOTE 21 - ACCOUNTABILITY AND COMPLIANCE

Ohio Revised Code Section 5705.39 requires that total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources. The City was in violation by appropriating in excess of estimated resources within the sewer fund.

Ohio Revised Code Section 5705.41 indicates that the City is required to encumber funds prior to expenditure as well as obtain a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated. The City was in violation by purchasing capital assets without prior encumbrance or written purchase agreement.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

June 23, 2010

Mayor and Members of Council
City of Lima
Lima, Ohio

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lima, Ohio (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statement and have issued our report thereon dated June 23, 2010. 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 audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

We noted other matters of internal controls that we have reported to management of the City in a separate letter dated June 23, 2010.

Compliance and Other Matters

As part of reasonably assuring 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 directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2009-001 & 2009-002.

We also noted certain noncompliance or other matters that we reported to the City's management in a separate letter dated June 23, 2010.

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

This report is intended for the information and use of the audit committee, management, Council, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

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June 23, 2010

Mayor and Members of Council
City of Lima
Lima, Ohio

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

Compliance

We have audited the compliance of the City of Lima, Ohio (the City) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2009. 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 of America; and OMB Circular A-133, *Audits of State, 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, 2009.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

City of Lima
Independent Auditor's Report on Compliance
With Requirements Applicable to Each Major Program and
Internal Control Over Compliance in Accordance with
OMB Circular A-133
June 23, 2010
Page 2 of 2

A deficiency in internal control exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

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

This report is intended for the information and use of the audit committee, management, Council, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Hea & Associates, Inc.

CITY OF LIMA - ALLEN COUNTY

Schedule of Expenditures of Federal Awards
Year ended December 31, 2009

Federal Grantor/ Program Title	CFDA Number	Agency or Pass-Through Number	Federal Disbursements
U. S. Department of Housing and Urban Development			
<u>Direct Programs:</u>			
Community Development Block Grant - Entitlement	14.218	MC-39-0014	\$ 1,301,487
Community Development Block Grant Recovery - Entitlement (ARRA)	14.253	MY-39-0014	287,152
Total Community Development Block Grant - Entitlement Cluster			<u>1,588,639</u>
Community Development Block Grant - Non Entitlement Grants	14.228	MY-39-0014	198,088
Home Investment Partnership Program	14.239	MC-39-0219	<u>570,313</u>
Total U.S. Department of Housing and Urban Development			<u>2,357,040</u>
U.S. Department of Justice			
<u>Direct Programs:</u>			
Weed and Seed	16.595	2009-SB-B9-0323	130,203
Anti-Gang Initiative	16.744	2007-PS-AGI-314	<u>207,246</u>
Total Direct Programs			337,449
<u>Pass through Programs (Ohio Department of Justice):</u>			
Edward Byrne Memorial Justice Assistance Grant	16.738	2006-DJ-BX-0458	3,316
Edward Byrne Memorial Justice Assistance Grant	16.738	2007-DJ-BX-0333	26,310
Edward Byrne Memorial Justice Assistance Grant	16.738	2008-DJ-BS-0308	<u>1,814</u>
			31,440
Asset Forfeiture	16.000		<u>435</u>
Total Pass through Programs			<u>31,875</u>
Total U.S. Department of Justice			<u>369,324</u>
U.S. Department of Transportation			
<u>Pass through Programs (Ohio Department of Transportation):</u>			
Highway Planning and Construction	20.205	Various	920,635
Highway Planning and Construction (ARRA)	20.205	E09000516	<u>698,122</u>
Total Highway Planning and Construction			<u>1,618,757</u>
Total U.S. Department of Transportation			<u>1,618,757</u>
U.S. Department of Homeland Security			
<u>Direct Programs:</u>			
Fire Prevention and Safety Program	97.044	2008-FO-05605	<u>60,425</u>
Total U.S. Department of Homeland Security			<u>60,425</u>
U.S. Department of Commerce - Economic Development Administration			
<u>Direct Programs:</u>			
Economic Development - Technical Assistance	11.303	06-78-05329	<u>51,531</u>
Total U.S. Department of Commerce			<u>51,531</u>
U.S. Department of Energy			
<u>Direct Programs:</u>			
Energy Efficiency and Conservation Block Grant	81.128	DE-EE0002224	<u>1,236</u>
Total U.S. Department of Energy			<u>1,236</u>
Total Federal Financial Assistance			<u><u>\$ 4,458,313</u></u>

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, 2009**

(1) General

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

(2) Basis of Accounting

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

CITY OF LIMA – ALLEN COUNTY

*Part III – Schedule of Findings and Questioned Costs
OMB Circular A-133, Section .505
December 31, 2009*

1. SUMMARY OF AUDITOR'S RESULTS
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(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Were there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	Community Development Block Grant CFDA #14.218 Community Development Block Grant Recovery - Entitlement (ARRA) #14.253 Home Investment Partnership Program CFDA #14.239 Federal Highway Planning & Construction CFDA #20.205
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	\$300,000
(d) (1) (ix)	Low Risk Auditee?	Yes

CITY OF LIMA – ALLEN COUNTY
Part III – Schedule of Findings and Questioned Costs (Continued)

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

FINDING NUMBER 2009-001

Material Noncompliance

Ohio Rev. Code Section 5705.39 indicates that the total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

The City had appropriations that materially exceeded the certified estimated resources in the following fund as of December 31, 2009:

	<u>Final Estimated Resources plus Beginning Balances</u>	<u>Final Appropriations</u>	<u>Excess</u>
Sewer Fund	\$ 70,648,890	\$76,789,362	\$6,140,472

Appropriating less than or equal to estimated resources is required by statute and is a key control in the budgetary and disbursement process to assure that revenues are expected to be received prior to budgeting expenditures that will exceed appropriations. To improve controls over budgeting and disbursements and to help reduce the possibility of the City committing funds to be spent which are not available to be spent, we recommend the City monitor appropriations versus estimated resources throughout the year to help avoid overspending.

Management's Response: Management will take the necessary steps required for budgetary compliance.

FINDING NUMBER 2009-002

Material Noncompliance

Ohio Rev. Code Section 5705.41 indicates that a) no subdivision or taxing unit is to expend money unless it has been appropriated, b) no subdivision is to expend money except by a proper warrant drawn against an appropriate fund and c) no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The City purchased two buildings without written evidence of a purchase agreement. This purchase also did not follow the appropriate budgetary procedures to encumber the funds prior to expending. We recommend that the City properly enter into purchase agreements for all expenditures of City funds in order to be in compliance with the ORC.

Management's Response: Appropriate levels of management were aware of the transaction and will take note for future contracts.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None noted.

CITY OF LIMA – ALLEN COUNTY

*Part IV – Summary Schedule of Prior Audit Findings
Year Ended December 31, 2009*

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2008-001	The City had Funds with material negative balances.	Yes	
2008-002	The City has a lack of controls or consistency over supporting documents for the usage of vacation and sick leave.	Yes	

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Mary Taylor, CPA
Auditor of State

CITY OF LIMA

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 28, 2010**