



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

For the Year Ended December 31, 2010



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.



Dave Yost • Auditor of State

City County
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, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 16, 2011

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Basic Financial Statements
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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

June 29, 2011

Focused on Your Future.
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, (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2010, 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 29, 2011 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 12 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 City of Lima's 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, 2010

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, 2010. 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 2010 are as follows:

- General Revenues accounted for \$20.7 million in revenue or 30 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$48.8 million or 70 percent of total revenues of \$69.5 million.
- Total program expenses were \$58.2 million, \$36 million in governmental activities and \$22.2 million in business-type activities.
- In total, net assets increased \$11,262,202. Net assets of governmental activities increased \$7,091,542, which represents a 12 percent increase from 2009. Net assets of business-type activities increased \$4,170,660 or 9 percent from 2009.
- Outstanding debt increased from \$48,380,494 to \$70,022,255. The City did rollover \$605,010 in bond anticipation notes originally issued in 2005, 2006, 2007, 2008 and 2009. 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.

In addition to the note rollovers, the City issued new debt for the both the water and sewer utilities. The City's water utility continued to draw on 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 2010 the City had drawn down \$24,816,185 of this loan. The City's water utility also entered into a loan agreement with OWDA to fund construction of a carbon filter facility at the water treatment plant. The maximum amount available under this agreement is \$16,081,088. As of December 31, 2010 the City had requested total draws of \$1,120,651. Payments on this loan are anticipated to begin in 2012.

The City's sewer and water utilities also issued a total of \$17,440,000 in revenue bonds to retire outstanding bond anticipation notes. These bonds will be retired over a twenty year period.

In 2010, the City created a storm water utility. The storm water utility entered into two loan agreements with the OWDA to fund several small infrastructure projects in 2010. The balances of the loans were \$265,914 and \$52,481. The payment schedule had not been set as of the end of 2010, but the loans will be paid back over a twenty year period.

The City also entered into a five year capital lease for a new ambulance in 2010.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2010

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 2010 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 2010?" 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. In 2010 City Council authorized the creation of a storm water utility. This utility will also be reported in the Business-Type Activities section of the entity wide statements.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2010

Reporting the City of Lima's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been safeguarded for specific activities or objectives. The City uses many funds to account for financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the general fund and the Vine St. Railroad Grade Separation capital project 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, refuse and storm water); 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, 2010

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 2010 compared to 2009:

(Table 1)
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Assets						
Current and Other Assets	\$ 38,620,929	\$ 44,840,931	\$ 22,029,530	\$ 29,263,689	\$ 60,650,459	\$ 74,104,620
Capital Assets	<u>52,350,105</u>	<u>44,866,932</u>	<u>99,520,514</u>	<u>67,707,446</u>	<u>151,870,619</u>	<u>112,574,378</u>
Total Assets	<u>90,971,034</u>	<u>89,707,863</u>	<u>121,550,044</u>	<u>96,971,135</u>	<u>212,521,078</u>	<u>186,678,998</u>
Liabilities						
Long-Term Liabilities	5,311,926	4,440,274	68,254,218	47,388,324	73,566,144	51,828,598
Other Liabilities	<u>20,203,233</u>	<u>26,903,256</u>	<u>4,154,619</u>	<u>4,612,264</u>	<u>24,357,852</u>	<u>31,515,520</u>
Total Liabilities	<u>25,515,159</u>	<u>31,343,530</u>	<u>72,408,837</u>	<u>52,000,588</u>	<u>97,923,996</u>	<u>83,344,118</u>
Net Assets						
Invested in Capital Assets Net of Debt	49,676,862	43,055,899	32,171,497	20,390,890	81,848,359	63,446,789
Restricted	8,144,474	7,796,672	0	0	8,144,474	7,796,672
Unrestricted	<u>7,634,539</u>	<u>7,511,762</u>	<u>16,969,710</u>	<u>24,579,657</u>	<u>24,604,249</u>	<u>32,091,419</u>
Total Net Assets	<u>\$ 65,455,875</u>	<u>\$ 58,364,333</u>	<u>\$ 49,141,207</u>	<u>\$ 44,970,547</u>	<u>\$ 114,597,082</u>	<u>\$ 103,334,880</u>

Total assets increased by \$25.8 million with governmental assets increasing \$1.3 million and business-type assets increasing \$24.5 million. Governmental activities current and other assets decreased by \$6.2 million in 2010. This is largely the result of a decrease in intergovernmental receivables of \$7.6 million. This reflects several large grants received in 2009 that are being used to complete capital projects over 2010 and 2011. The \$7.5 million increase to capital assets is discussed in the capital asset section of the MD & A. The \$7.2 million decrease in business-type activities current and other assets is due to a decrease in the cash balances of \$12 million in the utility funds. This decrease is due to cash borrowed in prior years to fund capital projects at the wastewater treatment plant being spent in 2010. There was also an increase in accounts receivable of \$379,871 and an increase in internal balances of \$24,580. As a result of revenue bond issuance in 2010, unamortized bond issuance costs increased by \$388,374. Due to the creation of the storm water utility in 2010, special assessments receivable are now recorded in the business-type activities. 2010 shows \$2.2 million anticipated to be collected in 2011, to fund 2011

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2010

operations. The \$31.8 million increase to business-type activities capital assets is also discussed later in this MD & A.

Total liabilities increased by \$14.6 million, with business-type liabilities increasing \$20.4 million and governmental activities liabilities decreasing \$5.8 million. The increase in business-type liabilities was the result of the increase of outstanding debt by \$20.8 million. Business-type liabilities also saw an increase of \$659,296 in retainage payable due to the new reservoir project in the water utility and several construction projects in the sewer utility. Contracts payable decreased \$1.2 million. Governmental activities liabilities decreased \$5.8 million. The decrease was caused by a decrease in deferred revenue of \$8.1 million. This deferred revenue is related to several capital project related grants received by the City in 2009 and used to fund projects in 2010. Governmental activities also saw an increase in outstanding debt in 2010 of \$871,652 due to the issuance of general obligation bonds used to finance improvements to the City's street lighting system. Accrued wages increased \$173,864.

Total net assets increased by \$11.3 million. This number reflects an increase in governmental activities of \$7.1 million and an increase in the net assets of the business-type activities of \$4.2 million.

Table 2 shows the changes in net assets for fiscal year 2010. This table also compares changes in net assets between 2010 and 2009. This will enable the reader to draw further conclusion about the City's financial status and possibly project future issues.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2010

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
<i>Program Revenues:</i>						
Charges for Services	\$ 8,783,126	\$ 8,066,912	\$ 24,447,046	\$ 20,704,927	\$ 33,230,172	\$ 28,771,839
Operating Grants	4,126,832	3,556,580	0	0	4,126,832	3,556,580
Capital Grants	10,768,111	3,614,582	637,724	30,413	11,405,835	3,644,995
<i>General Revenue:</i>						
Property Taxes	1,182,230	1,599,617	0	0	1,182,230	1,599,617
Income Taxes	15,003,484	14,938,589	0	0	15,003,484	14,938,589
Other Local Taxes	151,253	104,775	0	0	151,253	104,775
Grants and Entitlements	4,103,727	3,994,327	0	0	4,103,727	3,994,327
Rebate on RZ and BAB Bonds	8,590	0	107,164	0	115,754	0
Gain (Loss) on Sale of Capital Assets	47,078	(38,410)	9,992	(17,501)	57,070	(55,911)
Investments	(116,390)	743,766	56,654	0	(59,736)	743,766
Miscellaneous	124,343	99,521	0	0	124,343	99,521
Total Revenues	44,182,384	36,680,259	25,258,580	20,717,839	69,440,964	57,398,098
Program Expenses						
General Government	8,555,199	8,107,361	0	0	8,555,199	8,107,361
Security of Persons and Property	15,742,649	15,878,806	0	0	15,742,649	15,878,806
Transportation	6,015,443	5,412,474	0	0	6,015,443	5,412,474
Community Environment	4,529,530	3,871,079	0	0	4,529,530	3,871,079
Leisure Time Activities	1,061,948	1,014,916	0	0	1,061,948	1,014,916
Interest and Fiscal Charges	97,438	108,658	0	0	97,438	108,658
<i>Enterprise Operations:</i>						
Water	0	0	9,595,208	11,314,396	9,595,208	11,314,396
Sewer	0	0	9,935,479	8,795,133	9,935,479	8,795,133
Refuse	0	0	2,597,847	2,483,554	2,597,847	2,483,554
Storm water	0	0	48,021	0	48,021	0
Total Program Expenses	36,002,207	34,393,294	22,176,555	22,593,083	58,178,762	56,986,377
Transfers	(1,088,635)	0	1,088,635	0	0	0
Increase (Decrease) in Net Assets	\$ 7,091,542	\$ 2,286,965	\$ 4,170,660	\$ (1,875,244)	\$ 11,262,202	\$ 411,721

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2010

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 \$15,742,649 represents 44.1 percent of the total governmental services expenses. These two departments operate out of the General fund.

General government expenses equaled \$8,555,199 or 23.8 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 \$6,015,443 or 16.7 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 \$4,529,530 in 2010. This is 12.6 percent of total governmental services expenses.

The City also maintains 12 parks (leisure time activities) within the City. Leisure time activities also accounts for the City sponsored recreational activities. This area had expenses of \$1,061,948 in 2010 equaling 2.9 percent of the total governmental services expenses.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2010

Business-Type Activities

Business-type activities include water, sewer, refuse and storm water operations. The revenues are generated primarily from charges for services. In 2010, charges for services of \$24,447,046 accounted for 92.8 percent of the revenues. The total expenses for the utilities were \$22,176,555, leaving an increase in net assets of \$4,170,660 for the business-type activities.

The City's Funds

Information about the City's governmental funds begins on page 15. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$43,565,677, an increase of \$6,923,323 or 19 percent over 2009. All governmental funds also had expenditures of \$45,824,340, an increase of \$8,554,395, 22.9 percent over 2009. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

Information about the proprietary funds starts on page 20. These funds are accounted for on an accrual basis. All enterprise funds had operating revenues of \$24,447,046, an increase of \$3,742,119 or 18.1 percent from 2009. Enterprise funds operating expenses totaled \$20,286,375, a decrease of \$1,087,848 or 5.1 percent over 2009. 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 2010, 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 \$27 million, \$743,133 under the final budget estimates of \$27.8 million. Property tax exceeded projections by \$185,801. Municipal income tax revenues were under the projected amount by \$470,231. Intergovernmental revenues and charges for services revenues were over projections by \$26,085 and \$102,163 respectively. Also coming in under projections were fees, licenses and permits revenue by \$73,217 and fines and forfeitures revenues by \$131,741. Investment income was also lower than estimated by \$465,039.

Actual expenditures of \$28.3 million were \$1.5 million lower than the final appropriations of \$29.9 million. All of the City's departments came in under budget in 2010 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 \$687,974.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2010

Capital Assets and Debt Administration

Capital Assets

At the end of year 2010, the City had \$151.9 million invested in land, buildings, equipment, infrastructure and vehicles. A total of \$52.4 million of this was for governmental activities with the remainder of \$99.5 million attributable to business-type activities. Table 3 shows fiscal year 2010 balances compared with 2009.

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 7,167,423	\$ 7,167,423	\$ 5,115,926	\$ 5,081,176	\$ 12,283,349	\$ 12,248,599
Construction in Progress	9,546,662	1,527,132	41,527,191	11,481,044	51,073,853	13,008,176
Buildings and Improvements	8,851,541	8,550,342	24,703,146	24,666,534	33,554,687	33,216,876
Furniture and Equipment	1,400,267	1,189,839	5,670,731	6,134,705	7,070,998	7,324,544
Vehicles	1,337,755	827,465	633,848	725,642	1,971,603	1,553,107
Capitalized Interest	0	0	868,374	440,258	868,374	440,258
Infrastructure	24,046,457	25,604,731	21,001,298	19,178,087	45,047,755	44,782,818
Totals	\$ 52,350,105	\$ 44,866,932	\$ 99,520,514	\$ 67,707,446	\$ 151,870,619	\$ 112,574,378

Total capital assets increased by \$39.3 million in 2010. Governmental activities capital assets increased \$7.5 million. Infrastructure assets decreased by \$1.5 million due, in part to a transfer of some infrastructure assets to the new storm water utility. There were more projects in progress at year end increasing the construction in progress in the governmental activities by \$8 million. Business-type activities saw an increase in capital assets of \$31.8 million. Construction in progress increased by \$30 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 8 provides capital asset activity during the 2010 year.

Debt Administration

The outstanding debt for the City as of December 31, 2010 was \$70,022,255. This balance reflects an increase of \$21,641,761 from the previous year's balance of \$48,380,494, an increase of 44.7 percent. Table 4 summarizes outstanding debt.

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2010

(Table 4)
Outstanding Debt, at December 31

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds	\$ 1,805,701	\$ 945,751	\$ 5,791,612	\$ 7,021,115	\$ 7,597,313	\$ 7,966,866
Revenue Bonds	0	0	28,964,554	12,432,582	\$ 28,964,554	\$ 12,432,582
Capital Leases	262,528	204,690	158,119	204,691	420,647	409,381
OWDA Loans	0	0	30,729,741	9,443,524	30,729,741	9,443,524
Bresler Termination Agreement	0	0	1,704,990	1,847,072	1,704,990	1,847,072
Notes Payable	605,010	660,587	0	15,620,482	605,010	16,281,069
Total	\$ 2,673,239	\$ 1,811,028	\$ 67,349,016	\$ 46,569,466	\$ 70,022,255	\$ 48,380,494

The general obligation bonds are composed of (1) 2010 Lighting Improvement Project bonds, 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 five 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 third OWDA loan was granted in 2010. Proceeds are being used to fund construction on a carbon filter project at the water treatment plant. Loans number 4 and 5 were also granted in 2010 and were used to fund improvements to the City's storm water system. None of the loans granted in 2010 have payment schedules created as of the end of 2010.

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

CITY OF LIMA – ALLEN COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2010

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. These notes were subsequently retired with a general obligation loan from Huntington National Bank. In addition to retiring the notes, the loan also funded several smaller capital project and equipment acquisitions.

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

Current Financial Issues

The City administration is currently working with businesses to occupy several industrial parks within the City limits. Extension of City utilities to new areas is an ongoing process. In addition, the City's Utilities department is in the 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, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 12,543,439	\$ 11,326,432	\$ 23,869,871
With Fiscal Agents and Escrow Agents	15,641	0	15,641
Taxes Receivable	4,507,126	0	4,507,126
Accounts Receivable	678,941	4,147,581	4,826,522
Intergovernmental Receivable	14,863,966	0	14,863,966
Special Assessments Receivable	5,005,948	2,237,087	7,243,035
Accrued Interest Receivable	53,888	0	53,888
Materials and Supplies Inventory	91,009	103,727	194,736
Notes Receivable	874,937	0	874,937
Prepaid Items	41,311	67,978	109,289
Unamortized Bond Issuance Costs	51,802	658,249	710,051
Internal Balances	(119,480)	119,480	0
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	0	496,232	496,232
Cash and Cash Equivalents with Fiscal and Escrow Agents	12,401	2,872,764	2,885,165
Nondepreciable Capital Assets	16,714,085	46,643,117	63,357,202
Depreciable Capital Assets, Net	35,636,020	52,877,397	88,513,417
Total Assets	90,971,034	121,550,044	212,521,078
Liabilities			
Accounts Payable	596,544	534,110	1,130,654
Contracts Payable	652,670	1,354,950	2,007,620
Accrued Wages	410,749	103,825	514,574
Retainage Payable	142,058	1,117,636	1,259,694
Intergovernmental Payable	1,334,203	205,584	1,539,787
Deferred Revenue	16,676,469	0	16,676,469
Accrued Interest Payable	17,385	342,282	359,667
Claims Payable	373,155	0	373,155
Payable from Restricted Assets:			
Refundable Deposits	0	496,232	496,232
Long-Term Liabilities:			
Due Within One Year	952,871	3,087,070	4,039,941
Due In More Than One Year	4,359,055	65,167,148	69,526,203
Total Liabilities	25,515,159	72,408,837	97,923,996
Net Assets			
Invested in Capital Assets, Net of Related Debt	49,676,862	32,171,497	81,848,359
Restricted for:			
Capital Projects	1,406,929	0	1,406,929
Debt Service	761,623	0	761,623
Other Purposes	5,975,922	0	5,975,922
Unrestricted	7,634,539	16,969,710	24,604,249
Total Net Assets	\$ 65,455,875	\$ 49,141,207	\$ 114,597,082

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY
Statement of Activities
For the Year Ended December 31, 2010

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Security of Persons and Property	\$ 15,742,649	\$ 569,575	\$ 196,712	\$ 55,000	\$ (14,921,362)	\$ 0	\$ (14,921,362)
Leisure Time Activities	1,061,948	60,801	30,120	49,500	(921,527)	0	(921,527)
Community Environment	4,529,530	341,993	3,608,859	900,208	321,530	0	321,530
Transportation	6,015,443	426,972	103,606	9,763,403	4,278,538	0	4,278,538
General Government	8,555,199	7,383,785	187,535	0	(983,879)	0	(983,879)
Interest and Fiscal Charges	97,438	0	0	0	(97,438)	0	(97,438)
Total Governmental Activities	36,002,207	8,783,126	4,126,832	10,768,111	(12,324,138)	0	(12,324,138)
Business-Type Activities:							
Water	9,595,208	10,347,062	0	45,091	0	796,945	796,945
Sewer	9,935,479	8,973,291	0	0	0	(962,188)	(962,188)
Refuse	2,597,847	2,889,606	0	0	0	291,759	291,759
Storm Water	48,021	2,237,087	0	592,633	0	2,781,699	2,781,699
Total Business-Type Activities	22,176,555	24,447,046	0	637,724	0	2,908,215	2,908,215
Totals	\$ 58,178,762	\$ 33,230,172	\$ 4,126,832	\$ 11,405,835	(12,324,138)	2,908,215	(9,415,923)
General Revenues							
Property Taxes Levied for:							
General Purposes					1,182,230	0	1,182,230
Income Tax Levied for:							
General Purposes					15,003,484	0	15,003,484
Other Local Taxes					151,253	0	151,253
Intergovernmental Revenue					4,103,727	0	4,103,727
Rebate on RZ and BAB Bonds					8,590	107,164	115,754
Gain on Sale of Capital Asset					47,078	9,992	57,070
Investment Earnings					(116,390)	56,654	(59,736)
Miscellaneous					124,343	0	124,343
Total General Revenues					20,504,315	173,810	20,678,125
Transfers					(1,088,635)	1,088,635	0
Total General Revenues and Transfers					19,415,680	1,262,445	20,678,125
Change in Net Assets					7,091,542	4,170,660	11,262,202
Net Assets Beginning of Year					58,364,333	44,970,547	103,334,880
Net Assets End of Year					\$ 65,455,875	\$ 49,141,207	\$ 114,597,082

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY

*Balance Sheet
Governmental Funds
December 31, 2010*

	General	Vine St RRGs Capital	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 3,232,417	\$ 44,199	\$ 7,507,832	\$ 10,784,448
With Fiscal and Escrow Agents	0	0	15,641	15,641
Receivables:				
Taxes	4,478,317	0	28,809	4,507,126
Accounts	678,941	0	0	678,941
Intergovernmental	758,023	3,335,861	10,770,082	14,863,966
Special Assessments	0	0	5,005,948	5,005,948
Accrued Interest	52,835	0	1,053	53,888
Interfund Receivable	0	0	57,500	57,500
Materials and Supplies Inventory	0	0	20,987	20,987
Due From Other Funds	0	0	165,380	165,380
Notes Receivable	0	0	874,937	874,937
Prepaid Items	41,311	0	0	41,311
Restricted Assets:				
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	0	12,401	12,401
Advances to Other Funds	891,959	0	0	891,959
Total Assets	\$ 10,133,803	\$ 3,380,060	\$ 24,460,570	\$ 37,974,433
Liabilities				
Accounts Payable	\$ 206,536	\$ 0	\$ 274,201	\$ 480,737
Contracts Payable	0	0	652,670	652,670
Interfund Payable	0	0	57,500	57,500
Accrued Wages	380,820	0	29,929	410,749
Compensated Absences Payable	2,587	0	0	2,587
Retainage Payable	0	142,058	0	142,058
Intergovernmental Payable	888,264	0	445,939	1,334,203
Deferred Revenue	3,825,587	2,249,241	15,232,919	21,307,747
Due To Other Funds	0	0	165,380	165,380
Advances from Other Funds	0	0	846,981	846,981
Total Liabilities	5,303,794	2,391,299	17,705,519	25,400,612
Fund Balances				
Reserved for Encumbrances	450,510	0	3,121,301	3,571,811
Reserved for Notes Receivable	0	0	874,937	874,937
Reserved for Inventory	0	0	20,987	20,987
Reserved for Prepaids	41,311	0	0	41,311
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	4,338,188	0	0	4,338,188
Special Revenue Funds	0	0	2,552,313	2,552,313
Debt Service Funds	0	0	761,623	761,623
Capital Projects Funds	0	988,761	(576,110)	412,651
Total Fund Balances	4,830,009	988,761	6,755,051	12,573,821
Total Liabilities and Fund Balances	\$ 10,133,803	\$ 3,380,060	\$ 24,460,570	\$ 37,974,433

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, 2010*

Total Governmental Funds Balances		\$12,573,821
 <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		52,350,105
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	\$ 193,598	
Income Tax	1,781,909	
Intergovernmental	2,655,771	
Unamortized Bond Issuance Costs	51,802	
Total		4,683,080
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	1,304,332	
Internal Balances	(128,739)	
Total		1,175,593
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds	(1,805,702)	
Bond Anticipation Notes	(605,010)	
Compensated Absences	(2,526,099)	
Capital Leases Payable	(262,528)	
Judgments Payable	(110,000)	
Accrued Interest Payable	(17,385)	
Total		(5,326,724)
 <i>Net Assets of Governmental Activities</i>		 \$65,455,875

CITY OF LIMA - ALLEN COUNTY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2010

	General	Vine St RRGs Capital	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$ 1,387,801	\$ 0	\$ 0	\$ 1,387,801
Municipal Income Taxes	14,750,034	0	0	14,750,034
Other Local Taxes	0	0	151,253	151,253
Intergovernmental	2,940,217	7,036,082	8,556,779	18,533,078
Charges for Services	5,310,397	0	776,843	6,087,240
Fees, Licenses and Permits	757,283	0	0	757,283
Fines and Forfeitures	1,004,575	0	628,536	1,633,111
Special Assessments	0	0	66,606	66,606
Investment Income	(172,513)	0	84,454	(88,059)
Miscellaneous	228,046	0	59,284	287,330
Total Revenues	26,205,840	7,036,082	10,323,755	43,565,677
Expenditures				
Current:				
Security of Persons and Property	15,251,038	0	466,551	15,717,589
Leisure Time Activities	917,359	0	41,705	959,064
Community Development	870,487	0	3,599,704	4,470,191
Transportation	1,572,448	0	1,994,288	3,566,736
General Government	7,844,912	0	436,046	8,280,958
Capital Outlay	493,194	6,073,075	5,148,065	11,714,334
Debt Service:				
Principal Retirement	725,545	0	265,000	990,545
Interest and Fiscal Charges	45,910	0	79,013	124,923
Total Expenditures	27,720,893	6,073,075	12,030,372	45,824,340
Excess of Revenues Under Expenditures	(1,515,053)	963,007	(1,706,617)	(2,258,663)
Other Financing Sources (Uses)				
Premium on General Obligation Bonds	5,010	0	0	5,010
Proceeds of Bonds	600,000	0	1,125,000	1,725,000
Rebates on RZ and BAB Bonds	0	0	8,590	8,590
Proceeds from Sale of Capital Assets	31,435	0	3,000	34,435
Inception of Capital Lease	128,383	0	0	128,383
Operating Transfers - In	0	0	67,470	67,470
Operating Transfers - Out	0	0	(67,470)	(67,470)
Total Other Financing Sources	764,828	0	1,136,590	1,901,418
Net Change in Fund Balances	(750,225)	963,007	(570,027)	(357,245)
Fund Balances Beginning of Year	5,580,234	25,754	7,325,078	12,931,066
Fund Balances End of Year	\$ 4,830,009	\$ 988,761	\$ 6,755,051	\$ 12,573,821

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, 2010

	<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	\$ 1,387,801	\$ 185,801
Municipal Income Taxes	15,500,000	15,500,000	15,029,769	(470,231)
Intergovernmental	2,884,255	2,884,255	2,910,340	26,085
Charges for Services	5,173,100	5,173,100	5,275,263	102,163
Fees, Licenses and Permits	830,500	830,500	757,283	(73,217)
Fines and Forfeitures	1,125,000	1,125,000	993,259	(131,741)
Investment Income	900,000	900,000	434,961	(465,039)
Miscellaneous	145,000	145,000	228,046	83,046
Total Revenues	<u>27,759,855</u>	<u>27,759,855</u>	<u>27,016,722</u>	<u>(743,133)</u>
Expenditures				
Current:				
Security of Persons and Property	15,805,976	16,023,756	15,357,764	665,992
Leisure Time Activities	953,871	971,652	928,536	43,116
Community Development	865,909	908,382	867,393	40,989
Transportation	1,656,013	1,893,828	1,716,630	177,198
General Government	8,656,630	8,823,649	8,232,713	590,936
Capital Outlay	200,000	563,103	550,514	12,589
Debt Service:				
Principal Retirement	655,000	655,000	655,000	0
Interest and Fiscal Charges	22,106	27,206	27,106	100
Total Expenditures	<u>28,815,505</u>	<u>29,866,576</u>	<u>28,335,656</u>	<u>1,530,920</u>
Excess of Revenues Under Expenditures	<u>(1,055,650)</u>	<u>(2,106,721)</u>	<u>(1,318,934)</u>	<u>787,787</u>
Other Financing Sources (Uses)				
Proceeds of Bonds	600,000	600,000	605,010	5,010
Proceeds from Disposition of Fixed Assets	10,000	10,000	31,435	21,435
Operating Transfers - Out	(100,000)	0	0	0
Advances - In	0	(150,220)	(5,485)	144,735
Total Other Financing Sources	<u>510,000</u>	<u>459,780</u>	<u>630,960</u>	<u>171,180</u>
Net Change in Fund Balance	(545,650)	(1,646,941)	(687,974)	958,967
Fund Balance Beginning of Year	3,094,440	3,094,440	3,094,440	0
Prior Year Encumbrances Appropriated	<u>473,618</u>	<u>473,618</u>	<u>473,618</u>	<u>0</u>
Fund Balance End of Year	<u>\$ 3,022,408</u>	<u>\$ 1,921,117</u>	<u>\$ 2,880,084</u>	<u>\$ 958,967</u>

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY
Statement of Net Assets
Proprietary Funds
December 31, 2010

	Enterprise Funds					Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Storm Water	Total	
Assets						
<i>Current Assets:</i>						
Equity in Pooled Cash and Cash Equivalents	\$ 3,250,589	\$ 7,365,860	\$ 709,983	\$ 0	\$ 11,326,432	\$ 1,758,991
Receivables:						
Accounts	1,664,328	1,827,875	655,378	0	4,147,581	0
Special Assessments	0	0	0	2,237,087	2,237,087	0
Materials and Supplies Inventory	82,554	21,173	0	0	103,727	70,022
Prepaid Items	34,390	32,786	802	0	67,978	0
Unamortized Bond Issuance Costs	166,236	492,013	0	0	658,249	0
Total Current Assets	5,198,097	9,739,707	1,366,163	2,237,087	18,541,054	1,829,013
<i>Noncurrent Assets:</i>						
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	496,232	0	0	0	496,232	0
Cash and Cash Equivalents with Fiscal and Escrow Agents	638,024	2,234,740	0	0	2,872,764	0
Capital Assets:						
Nondepreciable Capital Assets	32,391,912	14,251,205	0	0	46,643,117	0
Depreciable Capital Assets, Net	22,898,344	28,305,941	0	1,673,112	52,877,397	0
Total Noncurrent Assets	56,424,512	44,791,886	0	1,673,112	102,889,510	0
Total Assets	61,622,609	54,531,593	1,366,163	3,910,199	121,430,564	1,829,013

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY

*Statement of Net Assets
Proprietary Funds
December 31, 2010*

	Enterprise Funds					Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Storm Water	Total	
Liabilities						
<i>Current Liabilities:</i>						
Accounts Payable	\$ 199,815	\$ 174,964	\$ 156,308	\$ 3,023	\$ 534,110	\$ 115,807
Contracts Payable	1,162,964	191,986	0	0	1,354,950	0
Accrued Wages	61,466	40,689	1,670	0	103,825	0
Compensated Absences Payable	4,743	0	0	0	4,743	0
Retainage Payable	741,379	376,257	0	0	1,117,636	0
Intergovernmental Payable	148,039	55,240	2,305	0	205,584	0
Accrued Interest Payable	4,602	38,369	0	0	42,971	0
Claims Payable	0	0	0	0	0	373,155
Advances From Other Funds	0	0	0	9,259	9,259	35,719
Capital Leases Payable	24,402	24,402	0	0	48,804	0
OWDA Loans Payable	0	354,966	0	0	354,966	0
Bresler Reservoir Termination Agreement	142,082	0	0	0	142,082	0
General Obligation Bonds Payable (Net, where applicable, of unamortized discount and accounting loss)	497,882	781,521	0	0	1,279,403	0
Total Current Liabilities	2,987,374	2,038,394	160,283	12,282	5,198,333	524,681
<i>Current Liabilities Payable from Restricted Assets:</i>						
Revenue Bonds Payable	363,175	893,897	0	0	1,257,072	0
Refundable Deposits	496,232	0	0	0	496,232	0
Interest Payable	65,080	234,231	0	0	299,311	0
Total Current Liabilities Payable from Restricted Assets	924,487	1,128,128	0	0	2,052,615	0
<i>Long-Term Liabilities:</i>						
Compensated Absences Payable (Net of Current Portion)	506,170	366,390	18,640	0	891,200	0
Capital Leases Payable (Net of Current Portion)	54,657	54,658	0	0	109,315	0
OWDA Loans Payable (Net of Current Portion)	25,936,836	4,119,544	0	318,395	30,374,775	0
Bresler Reservoir Termination Agreement	1,562,908	0	0	0	1,562,908	0
General Obligation Bonds Payable (Net of Current Portion, and where applicable, of unamortized discount and accounting loss)	521,118	3,991,091	0	0	4,512,209	0
Revenue Bonds Payable (Net of Current Portion)	6,502,334	21,205,148	0	0	27,707,482	0
Total Long-Term Liabilities	35,084,023	29,736,831	18,640	318,395	65,157,889	0
Total Liabilities	38,995,884	32,903,353	178,923	330,677	72,408,837	524,681
Net Assets						
Invested in Capital Assets, Net of Related Debt	19,684,861	11,131,919	0	1,354,717	32,171,497	0
Unrestricted	2,941,864	10,496,321	1,187,240	2,224,805	16,850,230	1,304,332
Total Net Assets	\$ 22,626,725	\$ 21,628,240	\$ 1,187,240	\$ 3,579,522	49,021,727	\$ 1,304,332

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:

119,480

Net assets of business-type activities

\$ 49,141,207

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, 2010*

	Enterprise Funds					Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Storm Water	Total	
Operating Revenues						
Charges for Services	\$ 9,581,434	\$ 8,916,858	\$ 2,755,257	\$ 2,237,087	\$ 23,490,636	\$ 5,895,857
Other Operating Revenues	765,628	56,433	134,349	0	956,410	248,893
<i>Total Operating Revenues</i>	<u>10,347,062</u>	<u>8,973,291</u>	<u>2,889,606</u>	<u>2,237,087</u>	<u>24,447,046</u>	<u>6,144,750</u>
Operating Expenses						
Salaries	2,739,128	1,936,746	80,730	0	4,756,604	0
Fringe Benefits	1,247,256	846,066	33,750	0	2,127,072	0
Claims Expense	0	0	0	0	0	5,043,501
Other Services and Charges	4,281,167	3,954,805	2,483,972	3,023	10,722,967	841,943
Depreciation	967,432	1,680,961	0	31,339	2,679,732	0
<i>Total Operating Expenses</i>	<u>9,234,983</u>	<u>8,418,578</u>	<u>2,598,452</u>	<u>34,362</u>	<u>20,286,375</u>	<u>5,885,444</u>
<i>Operating Income</i>	<u>1,112,079</u>	<u>554,713</u>	<u>291,154</u>	<u>2,202,725</u>	<u>4,160,671</u>	<u>259,306</u>
Non-Operating Revenues (Expenses)						
Gain (Loss) on Disposal of Fixed Assets	10,045	(53)	0	0	9,992	0
Rebate on RZ and BAB Bonds	0	107,164	0	0	107,164	0
Capital Contributions	0	308,818	0	283,815	592,633	0
Tap-in Fees	45,091	0	0	0	45,091	0
Investment Income	11,583	45,071	0	0	56,654	0
Interest and Fiscal Charges	(376,896)	(1,533,464)	0	(4,400)	(1,914,760)	0
Transfers	16,719	(25,466)	0	1,097,382	1,088,635	0
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(293,458)</u>	<u>(1,097,930)</u>	<u>0</u>	<u>1,376,797</u>	<u>(14,591)</u>	<u>0</u>
<i>Change in Net Assets</i>	<u>818,621</u>	<u>(543,217)</u>	<u>291,154</u>	<u>3,579,522</u>	<u>4,146,080</u>	<u>259,306</u>
<i>Net Assets Beginning of Year</i>	<u>21,808,104</u>	<u>22,171,457</u>	<u>896,086</u>	<u>0</u>		<u>1,045,026</u>
<i>Net Assets End of Year</i>	<u>\$ 22,626,725</u>	<u>\$ 21,628,240</u>	<u>\$ 1,187,240</u>	<u>\$ 3,579,522</u>		<u>\$ 1,304,332</u>
Some amounts reported for business-type activities in the statement of activities are different because a portion of the net expense of the internal service funds is reported with business-type activities.					<u>24,580</u>	
Change in net assets of business-type activities					<u>\$ 4,170,660</u>	

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2010

	Enterprise Funds					Internal Service Funds
	Water	Sewer	Refuse	Storm Water	Total	
Cash Flows from Operating Activities						
Cash Received from Customers	\$ 9,351,189	\$ 8,823,204	\$ 2,754,960	\$ 0	\$ 20,929,353	\$ 0
Cash Received from Interfund Services Provided	0	0	0	0	0	5,895,857
Other Cash Receipts	765,628	56,433	134,349	0	956,410	248,893
Cash Payments to Employees for Services	(2,720,355)	(1,925,841)	(80,278)	0	(4,726,474)	0
Cash Payments for Employee Benefits	(1,202,091)	(816,432)	(31,464)	0	(2,049,987)	0
Cash Payments for Other Services and Charges	(5,018,023)	(3,778,192)	(2,523,971)	0	(11,320,186)	(874,509)
Cash Payments for Claims	0	0	0	0	0	(4,905,280)
<i>Net Cash Provided by Operating Activities</i>	<u>1,176,348</u>	<u>2,359,172</u>	<u>253,596</u>	<u>0</u>	<u>3,789,116</u>	<u>364,961</u>
Cash Flows from Capital and Related Financing Activities						
Cash Received from Tap-in Fees	45,091	0	0	0	45,091	0
Proceeds from Sale of Revenue Bonds	7,049,584	10,296,035	0	0	17,345,619	0
Proceeds from OWDA Loan	21,309,843	308,818	0	607,069	22,225,730	0
Proceeds of Capital Grant	0	308,818	0	283,815	592,633	0
Rebate on Build America Bonds	0	107,164	0	0	107,164	0
Principal Paid on OWDA Debt	0	(650,839)	0	(288,674)	(939,513)	0
Principal Paid on General Obligation Bonds	(475,782)	(753,721)	0	0	(1,229,503)	0
Principal Paid on Revenue Bonds	(184,075)	(629,572)	0	0	(813,647)	0
Principal Paid on Bresler Reservoir Termination Agreement	(142,082)	0	0	0	(142,082)	0
Principal Paid on Bond Anticipation Notes	(6,321,284)	(9,299,198)	0	0	(15,620,482)	0
Principal Paid on Capital Lease	(23,286)	(23,286)	0	0	(46,572)	0
Interest Paid on Debt Obligation	(553,101)	(1,622,391)	0	(4,400)	(2,179,892)	0
Advances from Other Funds	0	0	0	9,259	9,259	24,961
Payments for Capital Acquisitions	(21,844,593)	(10,952,504)	0	(607,069)	(33,404,166)	0
<i>Net Cash (Used in) Provided by Capital and Related Financing Activities</i>	<u>(1,139,685)</u>	<u>(12,910,676)</u>	<u>0</u>	<u>0</u>	<u>(14,050,361)</u>	<u>24,961</u>
Cash Flows from Investing Activities						
Interest from Investments	11,583	45,071	0	0	56,654	0
Gain (Loss) on Sale of Assets	10,045	(53)	0	0	9,992	0
<i>Net Cash Provided by Investing Activities</i>	<u>21,628</u>	<u>45,018</u>	<u>0</u>	<u>0</u>	<u>66,646</u>	<u>0</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	<u>58,291</u>	<u>(10,506,486)</u>	<u>253,596</u>	<u>0</u>	<u>(10,194,599)</u>	<u>389,922</u>
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>4,326,554</u>	<u>20,107,086</u>	<u>456,387</u>	<u>0</u>	<u>24,890,027</u>	<u>1,369,069</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 4,384,845</u>	<u>\$ 9,600,600</u>	<u>\$ 709,983</u>	<u>\$ 0</u>	<u>\$ 14,695,428</u>	<u>\$ 1,758,991</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, 2010

	Enterprise Funds					Internal Service Funds
	Water	Sewer	Refuse	Storm Water	Total	
Reconciliation of Operating Gain to Net Cash Provided by Operating Activities						
Operating Gain	\$ 1,112,079	\$ 554,713	\$ 291,154	\$ 2,202,725	\$ 4,160,671	\$ 259,306
Adjustments:						
Depreciation	967,432	1,680,961	0	31,339	2,679,732	0
(Increase) Decrease in Assets:						
Accounts Receivable	(250,786)	(93,654)	(297)	(2,237,087)	(2,581,824)	0
Materials and Supplies Inventory	(15,702)	11,980	0	0	(3,722)	(4,709)
Prepaid Items	(3,678)	(2,074)	(802)	0	(6,554)	0
Increase (Decrease) in Liabilities:						
Accounts Payable	(641)	(77,941)	(39,639)	3,023	(115,198)	(27,857)
Contracts Payable	(1,023,059)	(139,254)	0	0	(1,162,313)	0
Accrued Wages	18,773	10,905	452	0	30,130	0
Compensated Absences Payable	45,165	29,634	2,286	0	77,085	0
Retainage Payable	283,039	376,257	0	0	659,296	0
Intergovernmental Payable	23,185	7,645	442	0	31,272	0
Increase in Claims Payable	0	0	0	0	0	138,221
Increase in Refundable Deposits	20,541	0	0	0	20,541	0
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 1,176,348</u>	<u>\$ 2,359,172</u>	<u>\$ 253,596</u>	<u>\$ 0</u>	<u>\$ 3,789,116</u>	<u>\$ 364,961</u>

See accompanying notes to the basic financial statements

CITY OF LIMA - ALLEN COUNTY
Combining Statement of Assets and Liabilities
Agency Funds
December 31, 2010

	<u>Agency</u>
Assets	
Equity Pooled in Cash and Cash Equivalents	\$ 176,331
Cash and Cash Equivalents in Segregated Accounts	544,754
Accounts Receivable	<u>3,070,707</u>
 <i>Total Assets</i>	 <u><u>\$ 3,791,792</u></u>
 Liabilities	
Accounts Payable	\$ 1,000
Intergovernmental Payable	17,057
Undistributed Monies	3,615,461
Deposits Held and Due to Others	<u>158,274</u>
 <i>Total Liabilities</i>	 <u><u>\$ 3,791,792</u></u>

See accompanying notes to the basic financial statements

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010

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 and a refuse force.

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, 2010**

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, 2010

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, refuse and storm water funds are the City's major enterprise funds.

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

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

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

C. Measurement Focus

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

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

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

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

D. Basis of Accounting

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

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

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

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

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

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes for which there is an enforceable legal claim as of December 31, 2010, but which were levied to finance fiscal year 2011 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. Changes in Accounting Principles

For the year ended December 31, 2010, the City has implemented GASB Statement No. 51, “Accounting and Financial Reporting for Intangible Assets,” GASB Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments,” and GASB Statement No. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies.”

GASB Statement No. 51 establishes standards of accounting and financial reporting for intangible assets for all state and local governments. Inconsistencies in the accounting and financial reporting for intangible assets, particularly in the areas of recognition, initial measurement, and amortization, have occurred in practice due to the absence of sufficiently specific authoritative guidance that addresses these questions. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code.

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

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

F. Pooled Cash and Cash Equivalents

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

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

Investments, except for repurchase agreements and non-negotiable certificates of deposit, are reported at fair value, which is based on quoted market prices. Repurchase agreements and non-negotiable certificates of deposit are reported at cost. STAROhio is an investment pool, managed by the Ohio State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's shared price, which is the price the investment could be sold for at December 31, 2010.

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 2010 amounted to (\$172,513). The negative investment income is attributed to unrealized loss on market value and several investments purchased in 2010 at a premium.

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.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2010, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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.

I. 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.

J. Unamortized Bond Issuance Costs

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

K. 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.

L. 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, 2010**

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:

	Interest Rate %	Outstanding 1/1/2010	Additions	(Reductions)	Outstanding 12/31/2010	Amounts Due Within One Year
Governmental Activities						
Unvoted General Obligation Bonds:						
1999 Various Purpose Refunding Bonds	4.00-5.80					
Municipal Center Refunding		\$ 195,000	\$ 0	\$ (195,000)	\$ 0	\$ 0
Parking Facility		600,000	0	(30,000)	570,000	30,000
2004 - YMCA Parking Lot Project	2.00-4.50	150,000	0	(10,000)	140,000	15,000
Unamortized Premium		751	0	(50)	701	75
2010 Lighting Improvement GO RZ Bonds	5.22	0	1,125,000	(30,000)	1,095,000	85,000
Total Unvoted General Obligation Bonds		945,751	1,125,000	(265,050)	1,805,701	130,075
Bond Anticipation Notes:						
Metcalf St Reconstruction	3.375	350,000	350,000	(350,000)	350,000	350,000
Purchase Fire Truck	3.375	305,000	250,000	(305,000)	250,000	250,000
Unamortized Premium		5,587	5,010	(5,587)	5,010	5,010
Total Bond Anticipation Notes		660,587	605,010	(660,587)	605,010	605,010
Other Long-Term Obligations:						
Compensated Absences		2,519,246	2,528,686	(2,519,246)	2,528,686	34,667
Capital Lease-Cisco Phone System	4.69	204,690	0	(46,571)	158,119	48,803
Capital Lease-Ambulance	4.75	0	128,383	(23,974)	104,409	24,316
Judgment Payable		110,000	0	0	110,000	110,000
Total Other Long-Term Obligations		2,833,936	2,657,069	(2,589,791)	2,901,214	217,786
Total Governmental Activities		4,440,274	4,387,079	(3,515,428)	5,311,925	952,871

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 \$630,934. This interest is associated with the Ohio Water Development Authority loan used to construct a new reservoir, \$619,371 and an Ohio Water Development Authority loan used to make improvements at the City’s Water Treatment Plant, \$11,563.

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. 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.

N. 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, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. 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.

P. 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.

Q. 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, 2010**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. 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.

S. 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.

T. 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.

U. 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 2010.

V. 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, 2010**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

W. 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.

NOTE 3: BUDGETARY BASIS OF ACCOUNTING

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

The Statement 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:

**CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2010**

NOTE 3: BUDGETARY BASIS OF ACCOUNTING (Continued)

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Cash accounts which are held separately by the City 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	\$ (750,225)
Revenue accruals	682,499
Expenditure accruals	(107,356)
Encumbrances	(512,892)
 Budget Basis	 \$ (687,974)

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4: DEPOSITS AND INVESTMENTS

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

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

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

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

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

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;

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4: DEPOSITS AND INVESTMENTS (Continued)

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and;
6. The State Treasury Asset Reserve (STAR Ohio).

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

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

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

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, 2010**

NOTE 4: DEPOSITS AND INVESTMENTS (Continued)

Investments

As of December 31, 2010, the City had the following investments and maturities:

Investment	Fair Value	Investment Maturities		
		Less than 1 Year	1 to 2 Years	2 to 5 Years
Repurchase Agreements	\$ 1,582,154	\$ 1,582,154	\$ 0	\$ 0
Huntington Bank Money Market	354,524	354,524	0	0
Fifth Third Bank Money Market	31,837	31,837	0	0
Union Bank Money Market	5,730,181	5,730,181	0	0
FHLB Bonds	6,429,020	0	3,505,430	2,923,590
FHLMC Securities	2,952,075	0	0	2,952,075
FNMA Securities	3,876,160	0	0	3,876,160
STAR Ohio Account	71,984	71,984	0	0
	<u>\$ 21,027,935</u>	<u>\$ 7,770,680</u>	<u>\$ 3,505,430</u>	<u>\$ 9,751,825</u>

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

Credit Risk – The City’s repurchase agreement is an unrated investment. As of June 30, 2010, the City’s investment in STAR Ohio was rated AAAM by Standard & Poor’s. As of December 31, 2010, Moody’s rated the City’s investments in Federal Home Loan Bank Bonds AAA. Moody’s also rated the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association bonds AAA.

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4: 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, 2010.

Investment	Fair Value	Percentage of Total
Federal Agency Securities	\$ 13,257,255	63.05%
Repurchase Agreements	1,582,154	7.52%
Huntington Bank Money Market Account	354,524	1.69%
Fifth Third Bank Money Market Account	31,837	0.15%
Union Bank Money Market Account	5,730,181	27.25%
STAR Ohio Account	71,984	0.34%
	\$ 21,027,935	100.00%

NOTE 5: INCOME TAX

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

NOTE 6: PROPERTY TAXES

Property taxes include amounts levied against all real and public property, and tangible personal property located in the City. Real property tax revenues received in 2010 represent the collection of 2009 taxes. For 2010, real property taxes were levied after October 1, 2009, on the assessed value as of January 1, 2009, the lien date. These taxes will be collected in and are intended to finance 2010 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, 2010**

NOTE 6: PROPERTY TAXES (Continued)

Public utility real and tangible personal property were levied after October 1, 2009, on the assessed values as of December 31, 2009, 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 2010 (other than public utility property) represent the collection of 2010 taxes. For 2010, tangible personal property taxes were levied after April 1, 2009, on the value as of December 31, 2009, the lien date. For 2010, 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 2010 operations.

**CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2010**

NOTE 6: PROPERTY TAXES (Continued)

The full tax rate for all City operations for the year ended December 31, 2010 was 3.30 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2009 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$ 240,455,570
Commercial/Industrial	137,762,495
Public Utilities	156,100
Public Utility	17,550,630
Total	\$ 395,924,795

NOTE 7: RECEIVABLES

Receivables at December 31, 2010 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	\$ 1,664,328
Sewer	1,827,875
Refuse	655,378
Total	\$ 4,147,581

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 \$1,087,316 with uncollectible of \$212,380 at December 31, 2010. The notes are recorded net of an allowance for uncollectibles in the amount of \$874,937.

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 7: RECEIVABLES (Continued)

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities:	
Indigent Defense Reimbursement	\$ 45,349
Homestead and Rollback	81,174
Local Government	631,500
2009-JG-A02-6721	50,000
Motor Vehicle License Tax	143,000
Gasoline Excise Tax	515,500
Permissive Tax	128,300
JAG 2010-DJ-BX-0187	60,116
FEMA EMW-2009-FO-08958	99,456
CRP 2009RKW0659	708,210
Home Program Grant	559,061
Community Development	
Block Grant (CDBG)	1,959,448
Law Enforcement Training Assistance	80
2007 PS AGI 314	31,968
2008 DJ BS 0308	17,804
EDA 06 78 05329	183,746
ALL-Lima Traffic PID 82576	775,853
NS Program A-Z-08-284-1	1,330,667
HPRP/S-09-MY-39-0014	204,721
ALL-Lima Streetscape	165,003
ALL-University Blvd	84,559
ALL-Cole St Sidewalks	200,000
ALL-Lima Bikepath Grant	72,911
ODOD JRS Grant	342,031
ALL-Lima Grade Separation Grant	2,374,012
ECDD Roadwork Development	500,000
Ottawa River Bikeway Phase IV	16,136
Vine St RRGs PID 86297	3,335,861
FEMA EMW-2009-FV-03334	247,500
Total Intergovernmental Receivable	\$ 14,863,966

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 8: CAPITAL ASSETS

A summary of changes in capital assets during 2010 follows:

	Balance 12/31/2009	Additions	Deletions	Transfers	Balance 12/31/2010
Governmental Activities:					
<i>Capital Assets Not Being Depreciated:</i>					
Land	\$ 7,167,423	\$ 0	\$ 0	\$ 0	\$ 7,167,423
Construction in progress	1,527,132	8,621,718	(602,188)	0	9,546,662
<i>Total Capital Assets Not Being Depreciated</i>	8,694,555	8,621,718	(602,188)	0	16,714,085
<i>Capital Assets, Being Depreciated:</i>					
Buildings	13,332,371	149,505	(33,443)	0	13,448,433
Improvements	2,288,494	549,849	0	0	2,838,343
Machinery and equipment	4,204,475	458,393	(35,844)	7,410	4,634,434
Furniture and fixtures	51,247	23,253	0	0	74,500
Vehicles	5,140,547	903,458	(477,934)	137,806	5,703,877
Infrastructure:					
Roads	30,638,283	1,361,855	0	0	32,000,138
Sidewalks	1,373,275	160,879	0	0	1,534,154
Bridges	5,575,466	0	0	0	5,575,466
Signals and traffic lights	4,720,735	219,230	0	0	4,939,965
Curbs	6,787,108	225,585	0	(1,172,216)	5,840,477
Rail sidings	1,443,375	0	0	0	1,443,375
<i>Total Capital Assets, Being Depreciated</i>	75,555,376	4,052,007	(547,221)	(1,027,000)	78,033,162
<i>Less Accumulated Depreciation:</i>					
Buildings	5,848,577	294,306	(27,126)	0	6,115,757
Improvements	1,221,946	97,532	0	0	1,319,478
Machinery and equipment	3,033,280	267,012	(35,844)	7,410	3,271,858
Furniture and fixtures	32,603	4,206	0	0	36,809
Vehicles	4,313,082	390,623	(466,642)	129,059	4,366,122
Infrastructure:					
Roads	18,005,966	1,857,173	0	0	19,863,139
Sidewalks	297,562	35,132	0	0	332,694
Bridges	923,545	82,893	0	0	1,006,438
Signals and traffic lights	2,808,174	235,062	0	0	3,043,236
Curbs	2,747,912	146,012	0	(74,834)	2,819,090
Rail sidings	150,352	72,169	0	0	222,521
<i>Total Accumulated Depreciation</i>	39,382,999	3,482,120	(529,612)	61,635	42,397,142
<i>Total capital assets being depreciated, net</i>	36,172,377	569,887	(17,609)	(1,088,635)	35,636,020
<i>Total Governmental Activities Capital Assets, Net</i>	\$ 44,866,932	\$ 9,191,605	\$ (619,797)	\$ (1,088,635)	\$ 52,350,105

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 8: CAPITAL ASSETS (Continued)

	Balance 12/31/2009	Additions	Deletions	Transfers	Balance 12/31/2010
Business-Type Activities:					
<i>Capital Assets Not Being Depreciated:</i>					
Land	\$ 5,081,176	\$ 34,750	\$ 0	\$ 0	\$ 5,115,926
Construction in progress	11,481,044	31,586,269	(1,540,122)	0	41,527,191
<i>Total Capital Assets Not Being Depreciated</i>	16,562,220	31,621,019	(1,540,122)	0	46,643,117
<i>Capital Assets, Being Depreciated:</i>					
Improvements	2,390,697	0	0	0	2,390,697
Buildings	44,807,448	1,016,536	0	0	45,823,984
Machinery and equipment	20,551,645	491,682	(123,356)	(7,410)	20,912,561
Furniture and fixtures	46,597	0	0	0	46,597
Vehicles	4,096,821	178,593	(167,380)	(137,806)	3,970,228
Capitalized interest	3,173,947	631,151	0	0	3,805,098
Intangible assets	317,988	0	0	0	317,988
Storm Water Infrastructure	0	606,852	0	1,172,216	1,779,068
Sewer lines	20,791,495	523,586	0	0	21,315,081
Water lines	22,761,208	165,604	0	0	22,926,812
<i>Total Capital Assets, Being Depreciated</i>	118,937,846	3,614,004	(290,736)	1,027,000	123,288,114
<i>Less Accumulated Depreciation:</i>					
Improvements	1,050,883	99,894	0	0	1,150,777
Buildings	21,480,728	880,030	0	0	22,360,758
Machinery and equipment	14,440,995	926,031	(95,564)	(7,410)	15,264,052
Furniture and fixtures	22,542	1,833	0	0	24,375
Vehicles	3,371,179	252,893	(158,633)	(129,059)	3,336,380
Capitalized interest	2,733,689	203,035	0	0	2,936,724
Intangible assets	317,989	0	0	0	317,989
Storm Water Infrastructure	0	31,328	0	74,834	106,162
Sewer lines	13,912,166	196,623	0	0	14,108,789
Water lines	10,462,449	342,262	0	0	10,804,711
<i>Total Accumulated Depreciation</i>	67,792,620	2,933,929	(254,197)	(61,635)	70,410,717
<i>Total capital assets being depreciated, net</i>	51,145,226	680,075	(36,539)	1,088,635	52,877,397
<i>Total Business-Type Capital Assets, Net</i>	<u>\$ 67,707,446</u>	<u>\$ 32,301,094</u>	<u>\$ (1,576,661)</u>	<u>\$ 1,088,635</u>	<u>\$ 99,520,514</u>

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 8: CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 153,448
Security of Persons and Property	308,785
Leisure Time Activities	115,972
Community Development	19,079
Transportation	<u>2,884,836</u>
Total	<u>\$ 3,482,120</u>

NOTE 9: RISK MANAGEMENT

A. Self Insurance Program

The City has elected to provide employee medical and life benefits through a self-insured program. All funds of the City participate in the program and make payments to the Health Benefits Internal Service Fund based on the amounts needed to pay prior and current year claims. This plan provides a medical plan with a \$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, 2010, are estimated based on past experience in payment of claims at \$373,155.

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>End of Year Liability</u>
2009	\$ 300,041	\$ 4,415,822	\$ 4,480,929	\$ 234,934
2010	234,934	5,043,501	4,905,280	373,155

**CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2010**

NOTE 9: RISK MANAGEMENT (Continued)

B. Other Insurance Coverage

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2010 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, 2010**

NOTE 10: DEFINED BENEFIT PENSION PLANS

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

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

Unpaid compensated absences at year end are reported on the statement of net assets, Governmental Activities in the amount of \$2,494,020 due within more than one year and \$34,667 due within one year. Unpaid compensated absences for Business-Type Activities as of year end are reported on the statement of net assets as \$891,200 due within more than one year and \$4,743 due within one year.

NOTE 11: DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

The City contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple employer defined benefit plan administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. The report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 10% for employees other than law enforcement and public safety. In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consists of sheriffs, deputy sheriffs and township police with an employee contribution rate of 11.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continue to contribute at 10.5%.

The 2010 employer contribution rate for state employers was 14% of covered payroll. For local government employer units the rate was 14% of covered payroll. The 2010 employer contribution rate for both the law enforcement and public safety division was 17.87% of covered payroll. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to PERS

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)

for the years ended December 31, 2010, 2009 and 2008 were \$1,642,089, \$1,756,679, and \$1,735,567, 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, 2010, 2009 and 2008 were 1,865,989, \$1,920,088, and \$1,909,732, respectively, equal to the required contributions for each year.

NOTE 12: POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling 614-222-5601 or 800-222-7377.

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 12: POSTEMPLOYMENT BENEFITS (Continued)

A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, state and local employers contributed at a rate 14.00% of covered payroll and public safety and law enforcement employers contributed at 17.87%. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00% of covered payroll for state and local employer units and 18.1% of covered payroll for law and public safety employer units. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5% from January 1 through February 28, 2010 and 5.0% form March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010 and 4.23% from March 1 through December 31, 2010. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's actual contributions for 2010 that were used to fund postemployment benefits were \$593,295.

B. Ohio Police and Fire Pension Fund

The City of Lima contributes to the Ohio Police and Fire Pension Fund (OP & F) sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP & F. OP & F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents. OP & F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP & F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. The Ohio Revised Code allows, but does not mandate OP & F to provide OPEB benefits. Authority for the OP & F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits 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 for the Plan. That report may be obtained by writing to OP & F, 140 East Town Street, Columbus, OH 43215-5164.

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 12: POSTEMPLOYMENT BENEFITS (Continued)

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP & F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP & F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP & F Board of Trustees. The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h). The OP & F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's actual contributions for 2010 that were used to fund postemployment benefits were \$579,183. The OP&F's total health care expenses for the year ended December 31, 2009 (the latest information available) were \$168,744,032, which was net of member contributions of \$59,148,831. The number of OP&F participants eligible to receive health care benefits as of December 31, 2009 was 14,797 for police and 10,915 for firefighters.

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 13: LONG-TERM OBLIGATIONS

The changes in the City's long-term obligations during 2010 were as follows:

	Interest Rate %	Outstanding 1/1/2010	Additions	(Reductions)	Outstanding 12/31/2010	Amounts Due Within One Year
Governmental Activities						
Unvoted General Obligation Bonds:						
1999 Various Purpose Refunding Bonds	4.00-5.80					
Municipal Center Refunding		\$ 195,000	\$ 0	\$ (195,000)	\$ 0	\$ 0
Parking Facility		600,000	0	(30,000)	570,000	30,000
2004 - YMCA Parking Lot Project	2.00-4.50	150,000	0	(10,000)	140,000	15,000
Unamortized Premium		751	0	(50)	701	75
2010 Lighting Improvement GO RZ Bonds	5.22	0	1,125,000	(30,000)	1,095,000	85,000
Total Unvoted General Obligation Bonds		945,751	1,125,000	(265,050)	1,805,701	130,075
Bond Anticipation Notes:						
Metcalf St Reconstruction	3.375	350,000	350,000	(350,000)	350,000	350,000
Purchase Fire Truck	3.375	305,000	250,000	(305,000)	250,000	250,000
Unamortized Premium		5,587	5,010	(5,587)	5,010	5,010
Total Bond Anticipation Notes		660,587	605,010	(660,587)	605,010	605,010
Other Long-Term Obligations:						
Compensated Absences		2,519,246	2,528,686	(2,519,246)	2,528,686	34,667
Capital Lease-Cisco Phone System	4.69	204,690	0	(46,571)	158,119	48,803
Capital Lease-Ambulance	4.75	0	128,383	(23,974)	104,409	24,316
Judgment Payable		110,000	0	0	110,000	110,000
Total Other Long-Term Obligations		2,833,936	2,657,069	(2,589,791)	2,901,214	217,786
Total Governmental Activities		4,440,274	4,387,079	(3,515,428)	5,311,925	952,871

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

	Interest Rate %	Outstanding 1/1/2010	Additions	(Reductions)	Outstanding 12/31/2010	Amounts Due Within One Year
Business-Type Activities						
General Obligation Bonds:						
Water Refunding - 1999 Issue	4.00-5.30	\$ 1,365,000	\$ 0	\$ (420,000)	\$ 945,000	\$ 460,000
Unamortized Accounting Loss		(77,075)	23,716	0	(53,359)	(25,974)
Unamortized Discount		(19,305)	5,941		(13,364)	(6,506)
Total Water Refunding - 1999 Issue		<u>1,268,620</u>	<u>29,657</u>	<u>(420,000)</u>	<u>878,277</u>	<u>427,520</u>
Water Refunding - 2004 Issue	2.00-4.50	225,000	0	(85,000)	140,000	70,000
Unamortized Premium		1,162	0	(439)	723	362
Total Water Refunding - 2004 Issue		<u>226,162</u>	<u>0</u>	<u>(85,439)</u>	<u>140,723</u>	<u>70,362</u>
Total Water General Obligation Bonds		<u>1,494,782</u>	<u>29,657</u>	<u>(505,439)</u>	<u>1,019,000</u>	<u>497,882</u>
Sewer Refunding - 1999 Issue	4.00-5.30	1,435,000	0	(450,000)	985,000	480,000
Unamortized Accounting Loss		(84,232)	26,415	0	(57,817)	(28,176)
Unamortized Discount		(21,040)	6,598	0	(14,442)	(7,037)
Total Sewer Refunding - 1999 Issue		<u>1,329,728</u>	<u>33,013</u>	<u>(450,000)</u>	<u>912,741</u>	<u>444,787</u>
Sewer - 2004 Issue	2.00-4.50	4,175,000	0	(335,000)	3,840,000	335,000
Unamortized Premium		21,605	0	(1,734)	19,871	1,734
Total Sewer Refunding - 2004 Issue		<u>4,196,605</u>	<u>0</u>	<u>(336,734)</u>	<u>3,859,871</u>	<u>336,734</u>
Total Sewer General Obligation Bonds		<u>5,526,333</u>	<u>33,013</u>	<u>(786,734)</u>	<u>4,772,612</u>	<u>781,521</u>
Total Unvoted General Obligation Bonds		<u>7,021,115</u>	<u>62,670</u>	<u>(1,292,173)</u>	<u>5,791,612</u>	<u>1,279,403</u>
Revenue Bonds:						
Sewer Improvement TE Issue - 2009	2.00-2.50	2,150,000	0	(390,000)	1,760,000	430,000
Unamortized Premium		32,582	0	(5,910)	26,672	6,516
Sewer Improvement BAB Issue - 2009	3.89-6.675	10,250,000	0	0	10,250,000	0
Sewer Improvement - 2010	2.00-4.30	0	10,355,000	(235,000)	10,120,000	460,000
Unamortized Discount		0	1,338	(58,965)	(57,627)	(2,619)
Total Sewer Revenue Bonds		<u>12,432,582</u>	<u>10,356,338</u>	<u>(689,875)</u>	<u>22,099,045</u>	<u>893,897</u>
Water Improvement - 2010	2.00-4.25	0	7,085,000	(185,000)	6,900,000	365,000
Unamortized Discount		0	925	(35,416)	(34,491)	(1,825)
Total Water Revenue Bonds		<u>0</u>	<u>7,085,925</u>	<u>(220,416)</u>	<u>6,865,509</u>	<u>363,175</u>
Total Revenue Bonds		<u>12,432,582</u>	<u>17,442,263</u>	<u>(910,291)</u>	<u>28,964,554</u>	<u>1,257,072</u>

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

Business-Type Activities (continued)	Interest Rate %	Outstanding 1/1/2010	Additions	(Reductions)	Outstanding 12/31/2010	Amounts Due Within One Year
Bond Anticipation Notes:						
Sewer System Improvements	4.06	\$ 8,400,000	\$ 0	\$ (8,400,000)	\$ 0	\$ 0
Unamortized Premium		30,576	0	(30,576)	0	0
Sewer System Building Acquisition	1.50	864,000	0	(864,000)	0	0
Unamortized Premium		4,622	0	(4,622)	0	0
Water System Improvements	4.10	5,000,000	0	(5,000,000)	0	0
Unamortized Premium		18,350	0	(18,350)	0	0
Water System Building Acquisition	1.50	1,296,000	0	(1,296,000)	0	0
Unamortized Premium		6,934	0	(6,934)	0	0
Total Bond Anticipation Notes		<u>15,620,482</u>	<u>0</u>	<u>(15,620,482)</u>	<u>0</u>	<u>0</u>
Other Long-Term Obligations:						
Bresler Termination Agreement	0.0	1,847,072	0	(142,082)	1,704,990	142,082
OWDA Loan	3.75	4,816,531	0	(342,021)	4,474,510	354,967
OWDA Loan-Reservoir	4.32	4,626,993	20,189,192	0	24,816,185	0
OWDA Loan-Carbon Filter Project	3.83	0	1,120,651	0	1,120,651	0
OWDA-ARRA Sewer Lining Project	0.00	0	308,818	(308,818)	0	0
OWDA Loan-Storm Water Project	3.25	0	270,773	(4,859)	265,914	0
OWDA-ARRA Storm Water Project	0.00	0	283,815	(283,815)	0	0
OWDA Loan-Storm Water Project II	2.66	0	52,481	0	52,481	0
Capital Lease-Cisco Phone System						
Water Fund Portion	4.69	102,345	0	(23,286)	79,059	24,402
Sewer Fund Portion	4.69	102,346	0	(23,286)	79,060	24,402
Compensated Absences		818,858	895,943	(818,858)	895,943	4,743
Total Other Long-Term Obligations		<u>12,314,145</u>	<u>23,121,673</u>	<u>(1,947,025)</u>	<u>33,488,793</u>	<u>550,596</u>
Total Business-Type Activities		<u>47,388,324</u>	<u>40,626,606</u>	<u>(19,769,971)</u>	<u>68,244,959</u>	<u>3,087,071</u>
Totals		<u>\$ 51,828,598</u>	<u>\$ 45,013,685</u>	<u>\$ (23,285,399)</u>	<u>\$ 73,556,884</u>	<u>\$ 4,039,942</u>

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 13: 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 \$98,970 towards these interfund assessments.

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

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, 2010 the City had requested total draws of \$24,816,185. Payments on this loan are anticipated to begin in 2012. As of the end of 2010 the payment schedule had not been determined.

**CITY OF LIMA – ALLEN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 DECEMBER 31, 2010**

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

In 2010 the City’s water utility entered into a loan agreement with OWDA to fund construction of a carbon filter system at the water treatment plant. The maximum amount available under this agreement is \$16,081,088. As of December 31, 2010 the City had requested total draws of \$1,120,651. Payments on this loan are anticipated to begin in 2012. A payment schedule had not been determined as of December 31, 2010.

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 2010, \$350,000 in bond anticipation notes were issued for street reconstruction. \$250,000 in bond anticipation notes were issued to purchase a ladder truck for the fire department.

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

	General Obligation (Gross)	
	Principal	Interest
2011	\$ 130,000	\$ 95,820
2012	145,000	89,222
2013	155,000	81,803
2014	160,000	73,567
2015	170,000	65,069
2016-2020	930,000	173,563
2021	115,000	6,004
Total	<u>\$ 1,805,000</u>	<u>\$ 585,048</u>

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

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

	Bresler		General Obligation		OWDA Loans	
	Termination Agreement		(Gross)		Principal	Interest
	Principal	Interest	Principal	Interest		
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	142,082	0	225,000	125,510	411,841	107,624
2016-2020	710,410	0	1,275,000	473,195	2,305,236	292,145
2021-2025	284,170	0	1,240,000	151,985	254,894	4,779
Total	\$ 1,704,990	\$ 0	\$ 5,910,000	\$ 1,518,637	\$ 4,474,510	\$ 979,866

	Revenue Bonds		Total	
	(Gross)		Principal	Interest
	Principal	Interest		
2011	\$ 1,255,000	\$ 1,212,189	\$ 3,097,049	\$ 1,654,196
2012	1,280,000	1,187,089	3,195,485	1,550,580
2013	1,300,000	1,161,489	2,029,430	1,441,965
2014	1,330,000	1,134,376	2,083,903	1,391,667
2015	1,360,000	1,103,326	2,138,923	1,336,460
2016-2020	7,265,000	4,782,485	11,555,646	5,547,825
2021-2025	7,580,000	3,233,192	9,359,064	3,389,956
2026-2029	7,660,000	1,060,954	7,660,000	1,060,954
Total	\$ 29,030,000	\$ 14,875,100	\$ 41,119,500	\$ 17,373,603

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 14: 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 2010 totaled \$46,572 in governmental-type activities and \$46,572 in business-type activities. Capital lease payments in governmental funds are reflected as program expenditures.

The City entered into a capital lease in 2010 to purchase a new ambulance for the City's fire department. This lease meets the criteria of a capital lease pursuant to generally accepted accounting principles. A capital asset has been recorded in the government-type activities section in the amount of \$128,383. 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. Principal payments in 2010 totaled \$23,974.

The schedule of future minimum lease payments required for all capital leases is as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2011	\$ 84,450	\$ 55,179
2012	84,450	55,179
2013	84,450	55,179
2014	33,869	4,598
Total Minimum Lease Payments	287,219	170,135
Less: Amount Representing Interest	(24,690)	(12,016)
Present Value of Minimum Lease Payments	<u>\$ 262,529</u>	<u>\$ 158,119</u>

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 15: INTERFUND TRANSACTIONS

A. Interfund Transactions

Interfund transactions are used by the City to fund small special assessment projects. As of December 31, 2010, 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	\$ 57,500	\$ 0	\$ 0	\$ 165,381
Capital Projects	0	57,500	165,381	0
Totals	<u>\$ 57,500</u>	<u>\$ 57,500</u>	<u>\$ 165,381</u>	<u>\$ 165,381</u>

B. Reconciliation of Interfund Transfers

Interfund transfers occurred from the debt service fund to the capital projects fund to cover internal sidewalk manuscript bonds. Collections are originally receipted into a debt service fund, however the projects are completed and funded from the capital projects funds. The transfers allow the City to retire the debt within the fund type that will be generating the revenues legally obligated to make the debt service payments.

	<u>Transfers In</u>	<u>Tranfers Out</u>
Debt Service	\$ 0	\$ 67,470
Capital Projects	67,470	0
Totals	<u>\$ 67,470</u>	<u>\$ 67,470</u>

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 15: INTERFUND TRANSACTIONS (Continued)

C. Advances To/From Other Funds Transactions

As of December 31, 2010, advances to and from other fund transactions were as follows:

	<u>Advances To Other Funds</u>	<u>Advances From Other Funds</u>
General Fund	\$ 891,959	\$ 0
Other Governmental Funds:		
2009-JG-A02-6721 LPD	0	50,000
CHRP 2009RKWX0659	0	2,944
Land Utilization Fund	0	1,579
JAG-2008-DJ-BX-0308	0	1,407
EDA 06-78-05329 Grant	0	51,531
NS Program Grant	0	204,192
ODOD JRS Grant	0	481,418
ECDD Roadwork Grant	0	24,972
Special Assessment Debt	0	28,938
Internal Service Fund:		
Gasoline Fund	0	35,719
Enterprise Fund:		
Storm Water Utility	0	9,259
Totals	<u>\$ 891,959</u>	<u>\$ 891,959</u>

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 16: DEFERRED REVENUE

Deferred revenue at December 31, 2010 consisted of the following:

	<u>Statement of Net Assets</u>	<u>Balance Sheet</u>
Property Taxes Receivable	\$ 1,377,292	\$ 1,570,890
Income Taxes Receivable	0	1,781,909
Grants Receivable	10,293,229	12,949,000
Special Assessments Receivable	5,005,948	5,005,948
Deferred Revenue	<u>\$ 16,676,469</u>	<u>\$ 21,307,747</u>

NOTE 17: CONTRACTUAL COMMITMENTS

As of December 31, 2010, the City had contractual commitments for the following projects:

	<u>Contractual Commitment</u>	<u>Expended</u>	<u>Balance 12/31/2010</u>
Kohli & Kaliher - Southside Grade Separation	\$ 850,970	\$ 734,956	\$ 116,014
Ben's Construction - Neighborhood Stabilization Grant - Demolition	500,000	273,473	226,527
York Electric - Electrical and Raw Water Screening Improvements	1,877,000	1,759,407	117,593
MWH Americas - Granular Activated Carbon Filtration Project	945,000	579,150	365,850
Peterson Construction - Carbon Filtration Project	13,957,000	0	13,957,000
American Structurepoint - Eastside Grade Separation	243,496	234,645	8,851
Peterson Construction - Pumping Station - New Reservoir	5,278,305	5,258,725	19,580
Atlas Excavation - Transmission Mains - New Reservoir	3,434,975	3,009,390	425,585
E. S. Wagner Company - New Upground Reservoir	14,410,497	12,733,569	1,676,928
RD Jones/Tuttle - Southside Grade Separation	7,084,508	2,741,208	4,343,300
American Structurepoint - Southside Grade Separation	708,450	223,662	484,788
Tuttle Construction - Downtown Streetscape Project	1,496,627	834,095	662,532
Peterson Construction - Wastewater Treatment Plant Electrical	9,046,000	8,578,367	467,633
BBC&M Engineering - New Reservoir Design	1,600,000	1,575,038	24,962
Totals	<u>\$ 61,432,828</u>	<u>\$ 38,535,685</u>	<u>\$ 22,897,143</u>

**CITY OF LIMA – ALLEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 18: CONTINGENT LIABILITIES

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2010.

B. Litigation

As of December 31, 2010, the City was a party to various legal proceedings seeking damages or injunctive relief, arising in the course of ordinary business. The ultimate disposition of these proceedings is not presently determinable, but will not, in the opinion of the City Attorney, have a material adverse effect on the overall financial condition of the City.

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

NOTE 19: SUBSEQUENT EVENTS

In February 2011, the City's water utility entered into a loan agreement with OWDA to fund construction of a new 1.5 million gallon elevated water storage tank. Maximum amount of the loan is \$2,869,267. The loan will be paid with water utility revenue.

In April 2011, the City entered into a loan agreement with the Huntington National Bank to fund various capital equipment purchases as well as retire outstanding bond anticipation notes. The amount of this loan is \$1,060,000.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

June 29, 2011

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 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 (the City) as of and for the year ended December 31, 2010, and have issued our report thereon dated June 29, 2011. 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 of Lima's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but 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 over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of City of Lima in a separate letter dated June 29, 2011.

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

Rea & Associates, Inc.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

June 29, 2011

Mayor and Members of Council
City of Lima
Lima, Ohio

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance 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 material noncompliance 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 over compliance 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 solely for the information and use of management, Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.

CITY OF LIMA - ALLEN COUNTY
Schedule of Expenditures of Federal Awards
Year ended December 31, 2010

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	\$ 1,339,236
Community Development Block Grant Recovery - Entitlement (ARRA)	14.253	MY-39-0014	43,653
Total Community Development Block Grant - Entitlement Cluster			<u>1,382,889</u>
Community Development Block Grant - Non Entitlement Grants (ARRA)	14.228	MY-39-0014	626,209
Home Investment Partnership Program	14.239	MC-39-0219	874,393
Total U.S. Department of Housing and Urban Development			<u>2,883,491</u>
U.S. Department of Justice			
<u>Pass through Programs (Ohio Department of Justice):</u>			
Edward Byrne Memorial Justice Assistance Grant	16.738	2007-DJ-BX-0333	19,481
Edward Byrne Memorial Justice Assistance Grant	16.738	2008-DJ-BX-0308	2,803
Edward Byrne Memorial Justice Assistance Grant	16.738	2009-HG-A02-6721	50,000
Edward Byrne Memorial Justice Assistance Grant	16.738	2009-DJ-BX-0344	54,003
Edward Byrne Memorial Justice Assistance Grant (ARRA)	16.804	2009-SB-B9-0323	139,518
Total Edward Byrne Memorial Justice Assistance Grant Cluster			<u>265,805</u>
Asset Forfeiture	16.000		205
Public Safety Partnership and Community Policing Grant (ARRA)	16.710	2009 RKWX0659	97,676
Total U.S. Department of Justice			<u>363,686</u>
U.S. Department of Transportation			
<u>Pass through Programs (Ohio Department of Transportation):</u>			
Lima Railroad Grade Separation	20.205	PID-80441	173,769
Lima Traffic Study	20.205	PID-82576	141,162
Lima Streetscape	20.205	PID-85907	834,095
University	20.205	PID-84141	60,885
Vine Street Railroad Grade Separation (ARRA)	20.205	PID-86297	5,931,017
Total Highway Planning and Construction			<u>7,140,928</u>
Total U.S. Department of Transportation			<u>7,140,928</u>
U.S. Department of Commerce - Economic Development Administration			
<u>Direct Programs:</u>			
Economic Development - Technical Assistance	11.303	06-78-05329	27,496
Total U.S. Department of Commerce			<u>27,496</u>
U.S. Department of Energy			
<u>Direct Programs:</u>			
Energy Efficiency and Conservation Block Grant (ARRA)	81.128	DE-EE0002224	169,964
Total U.S. Department of Energy			<u>169,964</u>
Total Federal Financial Assistance			<u>\$ 10,585,565</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, 2010**

(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, 2010*

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)?	No
(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 Non-Entitlement CFDA #14.228 Federal Highway Planning & Construction CFDA #20.205 Energy Efficiency & Conservation Block Grant CFDA #81.128
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	\$317,567
(d) (1) (ix)	Low Risk Auditee?	Yes

CITY OF LIMA – ALLEN COUNTY
Part III – Schedule of Findings and Questioned Costs (Continued)
OMB Circular A-133, Section .505
December 31, 2010

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

None noted.

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, 2010*

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2009-001	The City had appropriations that materially exceeded the certified estimated resources.	Yes	
2009-002	The City made significant purchases without following the appropriate budgetary procedures to encumber the funds prior to expending.	Yes	

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Dave Yost • Auditor of State

CITY OF LIMA

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 30, 2011