



Dave Yost • Auditor of State

**CITY OF LIMA
ALLEN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Lima
Allen County
50 Town Square
Lima, Ohio 45801

To the Members of Council:

Report on the Financial Statements

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, Allen County, Ohio (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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 City of Lima, Allen County, Ohio, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 20 to the financial statements, during the year ended December 31, 2012, the City adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the City's basic financial statements taken as a whole.

The Schedule of Federal Award Expenditures (the Schedule) presents additional analysis as required by the 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 financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2013, on our consideration of the City'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

October 16, 2013

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**CITY OF LIMA
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED**

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, 2012. 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 2012 are as follows:

- General Revenues accounted for \$20.7 million in revenue or 32 percent of all revenues. Program specific revenues in the form of charges for services and sales; operating and capital grants, and contributions, and interest; accounted for \$45.1 million or 68 percent of total revenues of \$65.8 million.
- Total program expenses were \$64.5 million, \$34.2 million in governmental activities and \$30.3 million in business-type activities.
- In total, net position increased \$1,264,456. Net position of governmental activities increased \$1,507,780, which represents a 2.1 percent increase from 2011. Net position of business-type activities decreased \$243,324 or 0.4 percent from 2011.
- Outstanding debt increased from \$83,147,233 to \$92,912,534. The City did refund the 2015 and later maturities of the 2004 general obligation issue. In addition, the City issued additional general obligation debt for various purposes, including sanitary sewer improvements, governmental building improvements and safety services equipment and vehicles.

In addition to the bond issue, the City issued new debt for the water utility. 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 was \$30,639,757 and repayment began in 2012. The City's water utility also continued to draw on 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 \$16,834,815. As of December 31, 2012 the City had requested total draws of \$16,744,408. Payments on this loan are anticipated to begin in 2013.

The City's water utility also has entered into two loan agreements with the Ohio Water Development Authority to construct a new elevated water storage tank and make improvements at the Bresler Reservoir pump station. The maximum amount the City is authorized to draw on the elevated storage tank loan is \$2,895,566. At the end of 2012 the City had drawn down \$2,556,215 of this loan. Payments are expected to begin in 2013. The maximum amount the City is authorized to draw on the Bresler pump station loan is \$2,535,492. At the end of 2012 the City had drawn down \$1,711,478 of this loan. Payments are expected to begin in 2013.

Also in 2012, the City's water utility entered into a loan agreement with the Ohio Water Development Authority to make improvements to the water treatment plant softening basins. The maximum amount the City is authorized to draw on this loan is \$889,904. At the end of 2012 the City had drawn \$557,427 of this loan. Payments are expected to begin in 2013.

CITY OF LIMA
ALLEN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)

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 position and the statement of changes in net position provide information from a summary perspective showing the effects of the operations for the year 2012 and how they affected the operations of the City as a whole.

Reporting the City of Lima as a Whole

Statement of Net Position and the Statement of Activities

The *statement of net position 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 non-major 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 2012?" The statement of net position 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 position and changes in net position*. This change in net position 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 position 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, refuse, and storm water funds are reported as business activities.

**CITY OF LIMA
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

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 fund is the general 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 which is the only fund considered to be a major fund. 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.

The City of Lima as a Whole

Recall that the statement of net position provides the perspective of the City as a whole.

Table 1 provides a summary of the City's net position for 2012 compared to 2011:

**CITY OF LIMA
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

**(Table 1)
Net Position**

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------|--------------------------------|--------------|---------------------------------|--------------|---------------|---------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Assets: | | | | | | |
| Current and Other Assets | \$32,782,291 | \$26,838,527 | \$23,632,316 | \$22,242,842 | \$ 56,414,607 | \$ 49,081,369 |
| Capital Assets | 57,827,785 | 59,647,199 | 124,913,149 | 119,035,321 | 182,740,934 | 178,682,520 |
| Total Assets | 90,610,076 | 86,485,726 | 148,545,465 | 141,278,163 | 239,155,541 | 227,763,889 |
| Liabilities: | | | | | | |
| Long-Term Liabilities | 6,256,535 | 5,294,318 | 89,852,909 | 81,215,665 | 96,109,444 | 86,509,983 |
| Other Liabilities | 11,444,460 | 9,790,107 | 3,382,267 | 4,508,885 | 14,826,727 | 14,298,992 |
| Total Liabilities | 17,700,995 | 15,084,425 | 93,235,176 | 85,724,550 | 110,936,171 | 100,808,975 |
| Net Position: | | | | | | |
| Net Investment in | | | | | | |
| Capital Assets | 53,973,918 | 56,821,196 | 35,854,478 | 38,714,090 | 89,828,396 | 95,535,286 |
| Restricted | 6,562,424 | 5,811,178 | | | 6,562,424 | 5,811,178 |
| Unrestricted | 12,372,739 | 8,768,927 | 19,455,811 | 16,839,523 | 31,828,550 | 25,608,450 |
| Total Net Position | \$72,909,081 | \$71,401,301 | \$55,310,289 | \$55,553,613 | \$128,219,370 | \$126,954,914 |

Total assets increased by \$11.4 million with governmental assets increasing \$4.1 million and business-type assets increasing \$7.3 million. Governmental activities current and other assets increased by \$5.9 million in 2012. This is largely the result of an increase in the cash balances of these funds of \$4.2 million. This increase is the result of improved income tax collections as well as the sale of land for economic development purposes. The change in current assets also includes an increase of \$1.3 million in special assessments receivable. This increase is due to an increase in property maintenance assessment as well as an increase in building demolition activity. Charges for both of these items are assessed to the property owner and are considered receivables of the City. The \$1.8 million decrease to capital assets is discussed in the capital asset section of the MD & A.

The \$1.4 million increase in business-type activities current and other assets is due to an increase in accounts receivable of \$886,431. The \$5.9 million increase to business-type activities capital assets is also discussed later in this MD & A.

Total liabilities increased by \$10.1 million, with business-type liabilities increasing \$7.5 million and governmental activities liabilities increasing \$2.6 million. The increase in business-type liabilities was the result of the increase of outstanding debt by \$8.6 million. The increase in Governmental activities liabilities was caused by an increase in deferred revenue of \$1.3 million. Governmental activities also saw an increase of \$576,476 in contracts payable. This increase was due to several construction projects that were still in progress in 2012.

Total net position increased by \$1.3 million. This number reflects an increase in governmental activities of \$1.5 million and a decrease in the net assets of the business-type activities of \$243,324.

Table 2 shows the changes in net assets for fiscal year 2012. This table also compares changes in net assets between 2012 and 2011. 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, 2012
UNAUDITED
(Continued)**

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

| | Governmental Activities | | Business-Type Activities | | Total | |
|---------------------------------------|------------------------------------|--------------------|-------------------------------------|--------------------|--------------------|---------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$9,730,747 | \$9,314,095 | \$27,773,900 | \$26,077,915 | \$37,504,647 | \$35,392,010 |
| Operating Grants | 4,332,290 | 4,046,753 | | | 4,332,290 | 4,046,753 |
| Capital Grants | 3,225,836 | 7,085,608 | 47,708 | 37,437 | 3,273,544 | 7,123,045 |
| General Revenue: | | | | | | |
| Property Taxes | 1,148,105 | 1,253,445 | | | 1,148,105 | 1,253,445 |
| Income Taxes | 15,770,639 | 15,201,098 | | | 15,770,639 | 15,201,098 |
| Other Local Taxes | 181,827 | 179,510 | | | 181,827 | 179,510 |
| Intergovernmental Transfers | 1,687,911 | 2,803,517 | | | 1,687,911 | 2,803,517 |
| Rebate on RZ and BAB Bonds | 19,553 | 31,691 | (19,553) | (31,691) | | |
| Gain (Loss) on Sale of Capital Assets | 23,798 | 25,726 | 214,741 | 214,327 | 238,539 | 240,053 |
| Investments | 727,446 | 52,288 | 148,737 | 17,912 | 876,183 | 70,200 |
| Contributed Capital | 143,015 | 556,065 | 33,293 | 51,838 | 176,308 | 607,903 |
| Miscellaneous | (1,893,336) | (527,031) | 1,893,336 | 527,031 | | |
| Total Revenues | <u>35,727,867</u> | <u>40,181,327</u> | <u>30,092,162</u> | <u>26,894,769</u> | <u>65,820,029</u> | <u>67,076,096</u> |
| Program Expenses: | | | | | | |
| General Government | 8,088,003 | 8,220,143 | | | 8,088,003 | 8,220,143 |
| Security of Persons and Property | 15,639,553 | 16,553,253 | | | 15,639,553 | 16,553,253 |
| Transportation | 5,821,889 | 4,314,809 | | | 5,821,889 | 4,314,809 |
| Community Environment | 3,482,018 | 3,888,424 | | | 3,482,018 | 3,888,424 |
| Leisure Time Activities | 1,054,416 | 1,110,824 | | | 1,054,416 | 1,110,824 |
| Interest and Fiscal Charges | 134,208 | 148,448 | | | 134,208 | 148,448 |
| Enterprise Operations: | | | | | | |
| Water | | | 17,605,865 | 8,939,535 | 17,605,865 | 8,939,535 |
| Sewer | | | 8,580,426 | 7,787,811 | 8,580,426 | 7,787,811 |
| Refuse | | | 2,775,197 | 2,747,615 | 2,775,197 | 2,747,615 |
| Storm water | | | 1,373,998 | 1,007,402 | 1,373,998 | 1,007,402 |
| Total Program Expenses | <u>34,220,087</u> | <u>34,235,901</u> | <u>30,335,486</u> | <u>20,482,363</u> | <u>64,555,573</u> | <u>54,718,264</u> |
| Increase (Decrease) in Net Position | <u>\$1,507,780</u> | <u>\$5,945,426</u> | <u>(\$ 243,324)</u> | <u>\$6,412,406</u> | <u>\$1,264,456</u> | <u>\$12,357,832</u> |

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 including intergovernmental, 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.

**CITY OF LIMA
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

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 (Security of Persons and Property) represent the largest expense of the Governmental Activities. This expense of \$15,639,553 represents 45.7 percent of the total governmental services expenses. These two departments operate out of the General fund.

General government expenses equaled \$8,088,003 or 23.6 percent of the total government services expenses. This category includes expenses associated with those City departments not associated with the other cost centers.

Our Transportation Department employs 29 full time employees who provide the City and its citizens many services that include public road salting, leaf and debris pickup, paint striping and alley profiling. This department operates out of both the General fund and the Street Repair Special Revenue fund. This department had expenses of \$5,821,889 or 17 percent of the total governmental services expenses.

The City's Community Development Department accounts for the Community Environment expenses. This department provides services such as code enforcement, home repair assistance, some economic development work and other community environment related services. Community Environment expenses equaled \$3,482,018 in 2012. This is 10.2 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 \$1,054,416 in 2012 equaling 3.1 percent of the total governmental services expenses.

Business-Type Activities

Business-type activities include water, sewer, refuse, and storm water operations. The revenues are generated primarily from charges for services. In 2012, charges for services of \$27,773,901 accounted for 92.3 percent of the revenues. The total expenses for the utilities were \$30,335,486, leaving a decrease in net assets of \$243,324 for the business-type activities.

The City's Funds

Information about the City's governmental funds begins on page 1J. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues net of other financing sources of \$36,875,274, a decrease of \$5,115,250 or 12.2 percent over 2011. All governmental funds also had expenditures net of other financing uses of \$36,495,574, a decrease of \$6,636,594, 15.4 percent over 2011. 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 2I. These funds are accounted for on an accrual basis. All enterprise funds had operating revenues of \$27,773,900, an increase of \$1,695,985 or 6.5 percent from 2011. Enterprise funds operating expenses totaled \$27,443,235, an increase of \$8,708,401 or 46.5 percent over 2011. The City is consistent with reviews of these funds, and the necessary adjustments are made to ensure strength in our enterprise funds.

**CITY OF LIMA
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

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 2012, 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 \$27.6 million, \$934,928 over the final budget estimates of \$26.6 million. Property tax was under projections by \$91,194. Municipal income tax revenues were over the projected amount by \$441,037. Intergovernmental revenues and charges for services revenues were over projections by \$243,572 and \$64,780 respectively. Also coming in over projections were fees, licenses and permits revenue by \$66,134 and fines and forfeitures revenues by \$193,647. Investment income was lower than estimated by \$22,213.

Actual expenditures of \$26.2 million were \$1.4 million lower than the final appropriations of \$27.6 million. All of the City's departments came in under budget in 2012 due to uncertainties in the economy forcing the City to maintain a conservative approach to spending. The higher than estimated revenues and lower than estimated expenditures caused the general fund balance to increase by \$2,959,502.

Capital Assets and Debt Administration

Capital Assets

At the end of year 2012, the City had \$182.7 million invested in land, buildings, improvements, machinery and equipment, furniture and fixtures, vehicles, and infrastructure. A total of \$57.8 million of this was for governmental activities with the remainder of \$124.9 million attributable to business-type activities. Table 3 shows fiscal year 2012 balances compared with 2011.

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

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Land | \$ 6,537,075 | \$ 7,191,912 | \$ 5,115,926 | \$ 5,115,926 | \$ 11,653,001 | \$ 12,307,838 |
| Construction in Progress | 705,146 | 15,039,052 | 24,418,507 | 61,746,947 | 25,123,653 | 76,785,999 |
| Buildings and Improvements | 8,496,918 | 8,617,725 | 59,957,886 | 23,691,477 | 68,454,804 | 32,309,202 |
| Furniture and Equipment | 1,301,823 | 1,408,947 | 7,013,018 | 4,939,756 | 8,314,841 | 6,348,703 |
| Vehicles | 1,283,441 | 1,439,123 | 1,560,700 | 1,690,329 | 2,844,141 | 3,129,452 |
| Capitalized Interest | | | 2,470,793 | 665,350 | 2,470,793 | 665,350 |
| Infrastructure | 39,503,382 | 25,950,440 | 24,376,318 | 21,185,536 | 63,879,700 | 47,135,976 |
| Totals | <u>\$57,827,785</u> | <u>\$59,647,199</u> | <u>\$124,913,148</u> | <u>\$119,035,321</u> | <u>\$182,740,933</u> | <u>\$178,682,520</u> |

Total capital assets increased by \$4.1 million in 2012. Governmental activities capital assets decreased \$1.8 million. Construction in progress in the governmental activities decreased by \$14.3 million, largely due to the completion of the South Side Rail Grade Separation project. Business-type activities saw an increase in capital assets of \$5.9 million. Construction in progress decreased by \$37.3 million due to completion of a new above ground reservoir and a carbon filtration project for the water utility and critical equipment and electrical upgrades at the wastewater treatment plant. Note 9 provides capital asset activity during the 2012 year.

**CITY OF LIMA
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

Debt Administration

The outstanding debt for the City as of December 31, 2012 was \$92,912,534. This balance reflects an increase of \$9,765,304 from the previous year's balance of \$83,147,230, an increase of 11.8 percent. Table 4 summarizes outstanding debt.

(Table 4)

Outstanding Debt, at December 31,

| | Governmental Activities | | Business-Type Activities | | Total | |
|-------------------------------|--------------------------------|--------------------|---------------------------------|---------------------|---------------------|---------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| General Obligation Bonds | \$3,737,433 | \$2,632,126 | \$ 4,962,807 | \$ 4,512,209 | \$ 8,700,240 | \$ 7,144,335 |
| Revenue Bonds | | | 26,425,445 | 27,707,482 | 26,425,445 | 27,707,482 |
| Capital Leases | 116,430 | 193,873 | 58,173 | 109,315 | 174,603 | 303,188 |
| OWDA Loans | | | 56,191,420 | 46,429,317 | 56,191,420 | 46,429,317 |
| Bresler Termination Agreement | | | 1,420,826 | 1,562,908 | 1,420,826 | 1,562,908 |
| Total | \$3,853,863 | \$2,825,999 | \$89,058,671 | \$80,321,231 | \$92,912,534 | \$83,147,230 |

The general obligation bonds are composed of (1) 2011 Various Purpose bonds used to retire outstanding bond anticipation notes as well as fund several small capital projects and equipment purchases. These bonds will be repaid from general governmental activities revenue.; (2) 2010 Lighting Improvement Project bonds, un-voted debt issue repaid from general governmental activities revenue; (3) Un-refunded portion of the 2004 un-voted debt issue for improvements to a City owned parking lot; (4) 2012 various purpose bonds used to refund the 1999 Parking Facility bonds as well as the 2015 and later maturities of the 2004 parking lot and sanitary sewer improvement bonds, as well as additional improvements (5) 1999 Water and Sewer Bond Refunding un-voted 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. These bonds were the final maturity on these bonds was in 2012; (6) 2004 Water and Sewer Bonds issued for refunding un-voted issue of the remaining portion of the 1992 issued water and sewer revenue bonds, 2004 Sewer system screen project, 2004 Wastewater Treatment Laboratory construction and renovation un-voted issue, to be repaid from business-type activities charges for services revenue. Bonds in this 2004 issue maturing in 2015 or later were refunded in 2012.

The revenue bonds issued by the Water and Sewer Utilities are composed of (1) 2009 Sewer issue comprised of both tax exempt revenue bonds as well as Build America Bonds issued to pay costs of improving the sanitary sewer collection and treatment system at the treatment plant and lift stations;(2) 2010 Sewer issue for the purpose of retiring outstanding bond anticipation notes as well as various lift station improvements and treatment plant improvements. In addition, a portion of this issue was used to acquire buildings for the Utilities department Customer Service offices;(3) 2010 Water issue for the purpose of retiring outstanding bond anticipation notes as well as acquiring land for a 640 acre reservoir and various other equipment and vehicle purchases. In addition, a portion of this issue was used to acquire buildings for the Utilities department Customer Service offices.

The City has eight 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 \$30.6 million and payments began in 2012. 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. Payments for these loans began in 2011. Loans number 6 and 7 were awarded in 2011 and used to fund an elevated water storage tank and improvements to the Bresler Reservoir pump station respectively. Loan eight was awarded in 2012 and is being used to make improvements to the water treatment plant softening basins.

**CITY OF LIMA
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
UNAUDITED
(Continued)**

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

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

Current Financial Issues

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

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**CITY OF LIMA
ALLEN COUNTY**

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

| | Primary Government | | |
|---|------------------------------------|-------------------------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Assets: | | | |
| Equity in Pooled Cash and Cash Equivalents | \$17,095,906 | \$11,443,013 | \$28,538,919 |
| Taxes Receivable | 4,324,077 | | 4,324,077 |
| Accounts Receivable | 794,045 | 7,585,513 | 8,379,558 |
| Intergovernmental Receivable | 2,683,263 | 107,577 | 2,790,840 |
| Special Assessments Receivable | 7,326,607 | | 7,326,607 |
| Accrued Interest Receivable | 49,865 | | 49,865 |
| Materials and Supplies Inventory | 37,697 | 119,315 | 157,012 |
| Notes Receivable | 576,184 | | 576,184 |
| Prepaid Items | 70,581 | 123,283 | 193,864 |
| Unamortized Bond Issuance Costs | 87,049 | 656,246 | 743,295 |
| Internal Balances | (284,428) | 284,428 | |
| Restricted Assets: | | | |
| Equity in Pooled Cash and Cash Equivalents | | 530,783 | 530,783 |
| Cash and Cash Equivalents with Fiscal and Escrow Agents | 21,445 | 2,782,158 | 2,803,603 |
| Nondepreciable Capital Assets | 7,242,221 | 29,534,432 | 36,776,653 |
| Depreciable Capital Assets, Net | 50,585,564 | 95,378,717 | 145,964,281 |
| Total Assets | 90,610,076 | 148,545,465 | 239,155,541 |
| Liabilities: | | | |
| Accounts Payable | 335,598 | 686,328 | 1,021,926 |
| Contracts Payable | 1,206,391 | 276,184 | 1,482,575 |
| Accrued Wages | 474,923 | 204,415 | 679,338 |
| Retainage Payable | | 303,874 | 303,874 |
| Intergovernmental Payable | 787,673 | 249,328 | 1,037,001 |
| Deferred Revenue | 8,346,053 | | 8,346,053 |
| Accrued Interest Payable | 9,721 | 1,131,355 | 1,141,076 |
| Claims Payable | 284,101 | | 284,101 |
| Payable from Restricted Assets: | | | |
| Refundable Deposits | | 530,783 | 530,783 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 650,769 | 3,569,480 | 4,220,249 |
| Due In More Than One Year | 5,605,766 | 86,283,429 | 91,889,195 |
| Total Liabilities | 17,700,995 | 93,235,176 | 110,936,171 |
| Net Position: | | | |
| Net Investment in Capital Assets | 53,973,918 | 35,854,478 | 89,828,396 |
| Restricted for: | | | |
| Capital Projects | 1,064,702 | | 1,064,702 |
| Debt Service | 347,738 | | 347,738 |
| Other Purposes | 5,149,984 | | 5,149,984 |
| Unrestricted | 12,372,739 | 19,455,811 | 31,828,550 |
| Total Net Position | \$72,909,081 | \$55,310,289 | \$128,219,370 |

See accompanying notes to the basic financial statements.

**CITY OF LIMA
ALLEN COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | Program Revenues | | | |
|---------------------------------------|-------------------------|---|---|---|
| | Expenses | Charges for Services and Sales | Operating Grants, Contributions and Interest | Capital Grants and Contributions |
| Governmental Activities: | | | | |
| Security of Persons and Property | \$15,639,553 | \$625,269 | \$567,853 | |
| Leisure Time Activities | 1,054,416 | 52,673 | 24,632 | |
| Community Environment | 3,482,018 | 362,979 | 2,044,829 | \$6,830 |
| Transportation | 5,821,889 | 491,280 | 1,678,443 | 3,219,006 |
| General Government | 8,088,003 | 8,198,546 | 16,533 | |
| Interest and Fiscal Charges | 134,208 | | | |
| Total Governmental Activities | 34,220,087 | 9,730,747 | 4,332,290 | 3,225,836 |
| Business-Type Activities: | | | | |
| Water | 17,605,866 | 12,283,503 | | 47,708 |
| Sewer | 8,580,426 | 10,144,675 | | |
| Refuse | 2,775,197 | 2,980,027 | | |
| Storm Water | 1,373,998 | 2,365,696 | | |
| Total Business-Type Activities | 30,335,487 | 27,773,901 | | 47,708 |
| Totals | \$64,555,574 | \$37,504,648 | \$4,332,290 | \$3,273,544 |

General Revenues:

Property Taxes Levied for:

General Purposes

Income Tax Levied for:

General Purposes

Other Local Taxes

Intergovernmental Revenue

Contributed Capital

Rebate on RZ and BAB Bonds

Gain on Sale of Capital Asset

Investment Earnings

Miscellaneous

Total General Revenues

Transfers

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See accompanying notes to the basic financial statements.

| Net (Expense) Revenue and Changes in Net Position | | |
|--|---------------------------------|----------------------|
| Primary Government | | |
| Governmental Activities | Business-Type Activities | Total |
| (\$14,446,431) | | (\$14,446,431) |
| (977,111) | | (977,111) |
| (1,067,380) | | (1,067,380) |
| (433,160) | | (433,160) |
| 127,076 | | 127,076 |
| (134,208) | | (134,208) |
| <u>(16,931,214)</u> | | <u>(16,931,214)</u> |
| | (\$5,274,655) | (5,274,655) |
| | 1,564,249 | 1,564,249 |
| | 204,830 | 204,830 |
| | 991,698 | 991,698 |
| | <u>(2,513,878)</u> | <u>(2,513,878)</u> |
| <u>(16,931,214)</u> | <u>(2,513,878)</u> | <u>(19,445,092)</u> |
| 1,148,105 | | 1,148,105 |
| 15,770,639 | | 15,770,639 |
| 181,827 | | 181,827 |
| 1,687,911 | | 1,687,911 |
| (1,893,336) | 1,893,336 | |
| 23,798 | 214,741 | 238,539 |
| 727,446 | 148,737 | 876,183 |
| 143,015 | 33,293 | 176,308 |
| 630,036 | | 630,036 |
| <u>18,419,441</u> | <u>2,290,107</u> | <u>20,709,548</u> |
| <u>19,553</u> | <u>(19,553)</u> | |
| 1,507,780 | (243,324) | 1,264,456 |
| <u>71,401,301</u> | <u>55,553,613</u> | <u>126,954,914</u> |
| <u>\$72,909,081</u> | <u>\$55,310,289</u> | <u>\$128,219,370</u> |

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**CITY OF LIMA
ALLEN COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|---|---|
| Assets: | | | |
| Equity in Pooled Cash and Cash Equivalents | \$8,599,296 | \$6,176,098 | \$14,775,394 |
| Receivables: | | | |
| Taxes | 4,293,094 | 30,983 | 4,324,077 |
| Accounts | 593,372 | 199,753 | 793,125 |
| Intergovernmental | 645,488 | 2,037,775 | 2,683,263 |
| Special Assessments | | 7,326,607 | 7,326,607 |
| Accrued Interest | 48,044 | 1,821 | 49,865 |
| Interfund Receivable | | 163,000 | 163,000 |
| Materials and Supplies Inventory | | 15,950 | 15,950 |
| Due From Other Funds | | 118,580 | 118,580 |
| Notes Receivable | | 576,184 | 576,184 |
| Prepaid Items | 67,454 | 3,127 | 70,581 |
| Restricted Assets: | | | |
| Cash and Cash Equivalents with Fiscal and Escrow Agents | | 21,445 | 21,445 |
| Advances to Other Funds | 168,023 | | 168,023 |
| Total Assets | <u>14,414,771</u> | <u>16,671,323</u> | <u>31,086,094</u> |
| Liabilities: | | | |
| Accounts Payable | 167,751 | 67,280 | 235,031 |
| Contracts Payable | 11,418 | 1,194,973 | 1,206,391 |
| Interfund Payable | | 163,000 | 163,000 |
| Accrued Wages | 428,060 | 46,863 | 474,923 |
| Compensated Absences Payable | 3,257 | 11,339 | 14,596 |
| Retainage Payable | | | |
| Intergovernmental Payable | 750,103 | 37,570 | 787,673 |
| Deferred Revenue | 3,584,992 | 7,975,600 | 11,560,592 |
| Due To Other Funds | | 118,580 | 118,580 |
| Advances from Other Funds | | 168,023 | 168,023 |
| Total Liabilities | <u>4,945,581</u> | <u>9,783,228</u> | <u>14,728,809</u> |
| Fund Balances: | | | |
| Nonspendable | 483,693 | 19,077 | 502,770 |
| Restricted | | 5,818,782 | 5,818,782 |
| Committed | | 818,006 | 818,006 |
| Assigned | 539,932 | 409,553 | 949,485 |
| Unassigned | 8,445,565 | (177,323) | 8,268,242 |
| Total Fund Balances | <u>9,469,190</u> | <u>6,888,095</u> | <u>16,357,285</u> |
| Total Liabilities and Fund Balances | <u>\$14,414,771</u> | <u>\$16,671,323</u> | <u>\$31,086,094</u> |

See accompanying notes to the basic financial statements.

**CITY OF LIMA
ALLEN COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

| | | |
|--|-------------|--------------|
| Total Governmental Funds Balances | | \$16,357,285 |
| Amounts reported for governmental activities in the statement of net position are different because | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | | 57,827,785 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: | | |
| Property Taxes | \$246,944 | |
| Income Tax | 1,909,453 | |
| Intergovernmental | 1,058,142 | |
| Unamortized Bond Issuance Costs | 87,049 | |
| Total | 3,301,588 | 3,301,588 |
| 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 position. | | |
| Net Position | 1,958,511 | |
| Internal Balances | (284,428) | |
| Total | 1,674,083 | 1,674,083 |
| 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 | (3,737,433) | |
| Compensated Absences | (2,278,076) | |
| Capital Leases Payable | (116,430) | |
| Judgments Payable | (110,000) | |
| Accrued Interest Payable | (9,721) | |
| Total | (6,251,660) | (6,251,660) |
| Net Position of Governmental Activities | | \$72,909,081 |

See accompanying notes to the financial statements.

**CITY OF LIMA
ALLEN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|--------------------|---|---|
| Revenues: | | | |
| Property Taxes | \$1,110,806 | | \$1,110,806 |
| Municipal Income Taxes | 15,714,825 | | 15,714,825 |
| Other Local Taxes | | \$181,827 | 181,827 |
| Intergovernmental | 1,774,684 | 7,703,914 | 9,478,598 |
| Charges for Services | 6,221,733 | 441,972 | 6,663,705 |
| Fees, Licenses and Permits | 831,922 | | 831,922 |
| Fines and Forfeitures | 1,217,493 | 527,203 | 1,744,696 |
| Special Assessments | | 69,336 | 69,336 |
| Investment Income | 123,623 | 40,753 | 164,376 |
| Miscellaneous | 174,275 | 740,908 | 915,183 |
| Total Revenues | <u>27,169,361</u> | <u>9,705,913</u> | <u>36,875,274</u> |
| Expenditures: | | | |
| Current: | | | |
| Security of Persons and Property | 14,877,362 | 542,564 | 15,419,926 |
| Leisure Time Activities | 907,214 | 63,395 | 970,609 |
| Community Development | 856,147 | 2,587,895 | 3,444,042 |
| Transportation | 872,475 | 3,567,869 | 4,440,344 |
| General Government | 7,425,016 | 366,566 | 7,791,582 |
| Capital Outlay | 117,032 | 3,151,979 | 3,269,011 |
| Debt Service: | | | |
| Principal Retirement | 224,943 | 788,703 | 1,013,646 |
| Interest and Fiscal Charges | 30,650 | 115,764 | 146,414 |
| Total Expenditures | <u>25,310,839</u> | <u>11,184,735</u> | <u>36,495,574</u> |
| Excess of Revenues Under Expenditures | <u>1,858,522</u> | <u>(1,478,822)</u> | <u>379,700</u> |
| Other Financing Sources (Uses): | | | |
| Premium on General Obligation Bonds | | 34,430 | 34,430 |
| Proceeds of Bonds | | 1,985,000 | 1,985,000 |
| Rebates on RZ and BAB Bonds | | 23,798 | 23,798 |
| Proceeds from Sale of Capital Assets | 1,357,561 | | 1,357,561 |
| Operating Transfers - In | | 61,410 | 61,410 |
| Operating Transfers - Out | | (61,410) | (61,410) |
| Total Other Financing Sources | <u>1,357,561</u> | <u>2,043,228</u> | <u>3,400,789</u> |
| Net Change in Fund Balances | 3,216,083 | 564,406 | 3,780,489 |
| Fund Balances Beginning of Year | <u>6,253,107</u> | <u>6,323,689</u> | <u>12,576,796</u> |
| Fund Balances End of Year | <u>\$9,469,190</u> | <u>\$6,888,095</u> | <u>\$16,357,285</u> |

See accompanying notes to the basic financial statements.

**CITY OF LIMA
ALLEN COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | | |
|---|--------------------|---------------------------|
| Net Change in Fund Balances - Total Governmental Funds | | \$3,780,489 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | | |
| Capital Outlay | \$2,507,674 | |
| Depreciation | <u>(4,327,088)</u> | |
| Total | | (1,819,414) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Property Taxes | 37,299 | |
| Income Tax | 55,814 | |
| Intergovernmental | <u>(152,411)</u> | |
| Total | | (59,298) |
| Other financing sources in the governmental funds that increase long-term liabilities in the statement of net position. | | |
| General Obligation Bonds | | (1,985,000) |
| Premiums on bond or note issuances are realized when received in the governmental funds, but reduce interest expense on the statement of activities | | |
| | | 1,623 |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | | |
| | | 912,500 |
| Payment on a capital lease is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | | |
| | | 77,443 |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. | | |
| | | 504 |
| In the statement of activities, interest expense is reduced for bond issuance costs, whereas in governmental funds these costs are expensed in the year incurred. | | |
| | | 33,782 |
| Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | |
| Compensated Absences | | 16,830 |
| The internal service funds used by management to charge the costs of insurance and gasoline to individual funds are not reported in the entity-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. | | |
| Change in Net Position | 685,520 | |
| Internal Balances | <u>(137,199)</u> | |
| Total | | <u>548,321</u> |
| Change in Net Position of Governmental Activities | | <u><u>\$1,507,780</u></u> |

See accompanying notes to the basic financial statements.

**CITY OF LIMA
ALLEN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET (NON-GAAP) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget |
|---|-------------------------|--------------------|--------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues: | | | | |
| Property Taxes | \$1,202,000 | \$1,202,000 | \$1,110,806 | (\$91,194) |
| Municipal Income Taxes | 15,585,556 | 15,585,556 | 16,026,593 | 441,037 |
| Intergovernmental | 1,651,428 | 1,651,428 | 1,895,000 | 243,572 |
| Charges for Services | 6,092,205 | 6,092,205 | 6,156,985 | 64,780 |
| Fees, Licenses and Permits | 830,500 | 830,500 | 896,634 | 66,134 |
| Fines and Forfeitures | 1,000,000 | 1,000,000 | 1,193,647 | 193,647 |
| Investment Income | 150,000 | 150,000 | 127,787 | (22,213) |
| Miscellaneous | 132,400 | 132,400 | 171,565 | 39,165 |
| Total Revenues | <u>26,644,089</u> | <u>26,644,089</u> | <u>27,579,017</u> | <u>934,928</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Security of Persons and Property | 15,446,082 | 15,857,691 | 15,271,967 | 585,724 |
| Leisure Time Activities | 862,577 | 935,209 | 901,588 | 33,621 |
| Community Development | 885,577 | 903,588 | 860,119 | 43,469 |
| Transportation | 853,662 | 935,386 | 912,079 | 23,307 |
| General Government | 8,076,172 | 8,381,723 | 7,874,150 | 507,573 |
| Capital Outlay | 309,093 | 340,528 | 148,935 | 191,593 |
| Debt Service: | | | | |
| Principal Retirement | 197,120 | 197,120 | 147,500 | 49,620 |
| Interest and Fiscal Charges | | | 22,415 | (22,415) |
| Total Expenditures | <u>26,630,283</u> | <u>27,551,245</u> | <u>26,138,753</u> | <u>1,412,492</u> |
| Excess of Revenues Under Expenditures | <u>13,806</u> | <u>(907,156)</u> | <u>1,440,264</u> | <u>2,347,420</u> |
| Other Financing Sources (Uses): | | | | |
| Proceeds from Disposition of Capital Assets | 10,000 | 10,000 | 1,357,561 | 1,347,561 |
| Operating Transfers - Out | | (21,829) | (21,829) | |
| Advances - In/Out | | (563,600) | 183,506 | 747,106 |
| Total Other Financing Sources | <u>10,000</u> | <u>(575,429)</u> | <u>1,519,238</u> | <u>2,094,667</u> |
| Net Change in Fund Balance | 23,806 | (1,482,585) | 2,959,502 | 4,442,087 |
| Fund Balance Beginning of Year | 4,717,070 | 4,717,070 | 4,717,070 | |
| Prior Year Encumbrances Appropriated | <u>344,945</u> | <u>344,945</u> | <u>344,945</u> | |
| Fund Balance End of Year | <u>\$5,085,821</u> | <u>\$3,579,430</u> | <u>\$8,021,517</u> | <u>\$4,442,087</u> |

See accompanying notes to the basic financial statements.

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CITY OF LIMA
ALLEN COUNTY

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

| | Enterprise Funds | | | | Governmental Activities Internal Service Funds | |
|---|-------------------|-------------------|------------------|------------------|---|------------------|
| | Water | Sewer | Refuse | Storm Water | | Total |
| Assets: | | | | | | |
| Current Assets: | | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$4,075,658 | \$5,761,311 | \$911,490 | \$694,554 | \$11,443,013 | \$2,320,512 |
| Receivables: | | | | | | |
| Accounts | 1,771,230 | 2,336,620 | 709,290 | 2,768,373 | 7,585,513 | 920 |
| Intergovernmental Receivable | | 107,577 | | | 107,577 | |
| Materials and Supplies Inventory | 70,904 | 48,411 | | | 119,315 | 21,747 |
| Due From Other Funds | | 317,000 | | | 317,000 | |
| Prepaid Items | 63,601 | 55,953 | 3,729 | | 123,283 | |
| Unamortized Bond Issuance Costs | 138,699 | 517,547 | | | 656,246 | |
| Total Current Assets | <u>6,120,092</u> | <u>9,144,419</u> | <u>1,624,509</u> | <u>3,462,927</u> | <u>20,351,947</u> | <u>2,343,179</u> |
| Noncurrent Assets: | | | | | | |
| Restricted Assets: | | | | | | |
| Equity in Pooled Cash and Cash Equivalents | 530,783 | | | | 530,783 | |
| Cash and Cash Equivalents with Fiscal and Escrow Agents | 639,161 | 2,142,997 | | | 2,782,158 | |
| Capital Assets: | | | | | | |
| Nondepreciable Capital Assets | 10,341,075 | 19,181,180 | | 12,177 | 29,534,432 | |
| Depreciable Capital Assets, Net | 64,014,894 | 26,301,818 | | 5,062,005 | 95,378,717 | |
| Total Noncurrent Assets | <u>75,525,913</u> | <u>47,625,995</u> | | <u>5,074,182</u> | <u>128,226,090</u> | |
| Total Assets | <u>81,646,005</u> | <u>56,770,414</u> | <u>1,624,509</u> | <u>8,537,109</u> | <u>148,578,037</u> | <u>2,343,179</u> |
| Liabilities: | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts Payable | 310,921 | 164,895 | 201,620 | 8,892 | 686,328 | 100,567 |
| Contracts Payable | 127,838 | 28,732 | | 119,614 | 276,184 | |
| Accrued Wages | 113,604 | 74,244 | 2,398 | 14,169 | 204,415 | |
| Compensated Absences Payable | 67,476 | 33,941 | | 5,669 | 107,086 | |
| Retainage Payable | 121,224 | 182,650 | | | 303,874 | |
| Intergovernmental Payable | 182,110 | 51,258 | 2,236 | 13,724 | 249,328 | |
| Accrued Interest Payable | 714,733 | 123,166 | | 4,720 | 842,619 | |
| Claims Payable | | | | | | 284,101 |
| Due To Other Funds | | | | 317,000 | 317,000 | |
| Capital Leases Payable | 26,796 | 26,797 | | | 53,593 | |
| OWDA Loans Payable | 1,269,868 | 375,311 | | 12,509 | 1,657,688 | |
| Bresler Reservoir Termination Agreement | 142,082 | | | | 142,082 | |
| General Obligation Bonds Payable (Net, where applicable, of unamortized discount and accounting loss) | | 306,895 | | | 306,895 | |
| Total Current Liabilities | <u>3,076,652</u> | <u>1,367,889</u> | <u>206,254</u> | <u>496,297</u> | <u>5,147,092</u> | <u>384,668</u> |
| Current Liabilities Payable from Restricted Assets: | | | | | | |
| Revenue Bonds Payable | 373,125 | 929,011 | | | 1,302,136 | |
| Refundable Deposits | 530,783 | | | | 530,783 | |
| Interest Payable | 60,792 | 227,944 | | | 288,736 | |
| Total Current Liabilities Payable from Restricted Assets | <u>964,700</u> | <u>1,156,955</u> | | | <u>2,121,655</u> | |

(Continued)

CITY OF LIMA
ALLEN COUNTY

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

| | Enterprise Funds | | | | Governmental Activities Internal Service Funds |
|---|------------------|--------------|-------------|----------------|---|
| | Water | Sewer | Refuse | Storm Water | |
| Long-Term Liabilities: | | | | | |
| Compensated Absences Payable (Net of Current Portion) | 369,586 | 264,532 | 19,140 | 33,894 | 687,152 |
| Capital Leases Payable (Net of Current Portion) | 2,290 | 2,290 | | | 4,580 |
| OWDA Loans Payable (Net of Current Portion) | 50,685,318 | 3,561,741 | | 286,673 | 54,533,732 |
| Bresler Reservoir Termination Agreement | 1,278,744 | | | | 1,278,744 |
| General Obligation Bonds Payable (Net of Current Portion, and where applicable, of unamortized discount and accounting loss) | | 4,655,912 | | | 4,655,912 |
| Revenue Bonds Payable (Net of Current Portion) | 5,761,059 | 19,362,250 | | | 25,123,309 |
| Total Long-Term Liabilities | 58,096,997 | 27,846,725 | 19,140 | 320,567 | 86,283,429 |
| Total Liabilities | 62,138,349 | 30,371,569 | 225,394 | 816,864 | 93,552,176 |
| Net Position: | | | | | |
| Net Investment in Capital Assets | 14,816,687 | 16,262,791 | | 4,775,000 | 35,854,478 |
| Unrestricted | 4,690,969 | 10,136,054 | 1,399,115 | 2,945,245 | 19,171,383 |
| Total Net Position | \$19,507,656 | \$26,398,845 | \$1,399,115 | \$7,720,245 | 55,025,861 |
| Net position reported for business-type activities in the statement of net assets are different because they include accumulated overpayments to the internal service funds: | | | | 284,428 | |
| Net position of Business-Type Activities | | | | \$55,310,289 | |

See accompanying notes to the basic financial statements.

**CITY OF LIMA
ALLEN COUNTY**

**STATEMENT OF REVENUES
EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | <u>Enterprise Funds</u> | | | | | Governmental Activities Internal Service Funds |
|---|-------------------------|---------------------|--------------------|------------------------|-------------------|---|
| | <u>Water</u> | <u>Sewer</u> | <u>Refuse</u> | <u>Storm Water</u> | <u>Total</u> | |
| Operating Revenues: | | | | | | |
| Charges for Services | \$11,412,923 | \$10,057,103 | \$2,979,318 | \$2,342,266 | \$26,791,610 | \$6,156,634 |
| Other Operating Revenues | 870,580 | 87,572 | 709 | 23,430 | 982,291 | 274,259 |
| Total Operating Revenues | <u>12,283,503</u> | <u>10,144,675</u> | <u>2,980,027</u> | <u>2,365,696</u> | <u>27,773,901</u> | <u>6,430,893</u> |
| Operating Expenses: | | | | | | |
| Salaries | 2,812,294 | 2,012,945 | 84,238 | 528,045 | 5,437,522 | |
| Fringe Benefits | 1,142,860 | 791,394 | 40,813 | 243,551 | 2,218,618 | |
| Claims Expense | | | | | | 4,493,246 |
| Other Services and Charges | 9,588,408 | 2,717,098 | 2,652,754 | 423,977 | 15,382,237 | 1,261,440 |
| Depreciation | 2,439,486 | 1,774,630 | | 190,742 | 4,404,858 | |
| Total Operating Expenses | <u>15,983,048</u> | <u>7,296,067</u> | <u>2,777,805</u> | <u>1,386,315</u> | <u>27,443,235</u> | <u>5,754,686</u> |
| Operating Income | <u>(3,699,545)</u> | <u>2,848,608</u> | <u>202,222</u> | <u>979,381</u> | <u>330,666</u> | <u>676,207</u> |
| Non-Operating Revenues (Expenses): | | | | | | |
| Gain (Loss) on Disposal of Capital Assets | (2,528) | 151,265 | | | 148,737 | |
| Rebate on RZ and BAB Bonds | | 214,741 | | | 214,741 | |
| Tap-in Fees | 47,708 | | | | 47,708 | |
| Contributed Capital | | | | 1,893,336 | 1,893,336 | |
| Investment Income | 19,003 | 14,290 | | | 33,293 | |
| Interest and Fiscal Charges | (1,671,176) | (1,348,731) | | (9,543) | (3,029,450) | |
| Transfers | (9,375) | (10,179) | | | (19,554) | 9,313 |
| Total Non-Operating Revenues (Expenses) | <u>(1,616,368)</u> | <u>(978,614)</u> | | <u>1,883,793</u> | <u>(711,189)</u> | <u>9,313</u> |
| Change in Net Position | (5,315,913) | 1,869,994 | 202,222 | 2,863,174 | (380,523) | 685,520 |
| Net Position Beginning of Year | <u>24,823,569</u> | <u>24,528,851</u> | <u>1,196,893</u> | <u>4,857,071</u> | | <u>1,272,991</u> |
| Net Position End of Year | <u>\$19,507,656</u> | <u>\$26,398,845</u> | <u>\$1,399,115</u> | <u>\$7,720,245</u> | | <u>\$1,958,511</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.

137,199

Change in net position of business-type Activities

(\$243,324)

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, 2012

| | Enterprise Funds | | | | | Internal Service Funds |
|---|--------------------|--------------------|----------------|------------------|--------------------|------------------------------|
| | Water | Sewer | Refuse | Storm Water | Total | |
| Cash Flows from Operating Activities: | | | | | | |
| Cash Received from Customers | \$11,267,385 | \$9,809,022 | \$2,882,355 | \$2,132,518 | \$26,091,280 | |
| Cash Received from Interfund Services Provided | | | | | | \$6,156,634 |
| Other Cash Receipts | 870,580 | 87,572 | 709 | 23,430 | 982,291 | 273,339 |
| Cash Payments to Employees for Services | (2,757,483) | (1,981,952) | (86,046) | (519,162) | (5,344,643) | |
| Cash Payments for Employee Benefits | (1,205,075) | (828,881) | (34,703) | (252,400) | (2,321,059) | |
| Cash Payments for Other Services and Charges | (9,919,879) | (2,799,752) | (2,636,972) | (421,824) | (15,778,427) | (1,186,342) |
| Cash Payments for Claims | | | | | | (4,653,487) |
| Net Cash Provided by (Used in) Operating Activities | <u>(1,744,472)</u> | <u>4,286,009</u> | <u>125,343</u> | <u>962,562</u> | <u>3,629,442</u> | <u>590,144</u> |
| Cash Flows from Noncapital Financing Activities: | | | | | | |
| Due (To) From Other Funds | | 131,000 | | (131,000) | | |
| Advances from Other Funds | | | | | | |
| Transfers In (Out) | (4,657) | (4,656) | | | (9,313) | 9,313 |
| Net Cash Provided by (Used in) Noncapital Financing Activities | <u>(4,657)</u> | <u>126,344</u> | | <u>(131,000)</u> | <u>(9,313)</u> | <u>9,313</u> |
| Cash Flows from Capital and Related Financing Activities: | | | | | | |
| Cash Received from Tap-in Fees | 47,708 | | | | 47,708 | |
| Proceeds from OWDA Loan | 10,204,873 | | | | 10,204,873 | |
| Proceeds from General Obligation Bond Issue | | 4,825,000 | | | 4,825,000 | |
| Premium on General Obligation Bond Issue | | 40,325 | | | 40,325 | |
| Rebate on Build America Bonds | | 107,164 | | | 107,164 | |
| Principal Paid on OWDA Debt | (254,099) | (182,491) | | (6,180) | (442,770) | |
| Principal Paid on General Obligation Bonds | (555,000) | (3,590,000) | | | (4,145,000) | |
| Principal Paid on Revenue Bonds | (370,000) | (910,000) | | | (1,280,000) | |
| Principal Paid on Bresler Reservoir Termination Agreement | (142,082) | | | | (142,082) | |
| Principal Paid on Capital Lease | (25,572) | (25,572) | | | (51,144) | |
| Interest Paid on Debt Obligation | (911,422) | (1,323,932) | | (4,823) | (2,240,177) | |
| Payments for Capital Acquisitions | (6,059,730) | (3,582,848) | | (971,697) | (10,614,275) | |
| Net Cash (Used in) Provided by Capital and Related Financing Activities | <u>1,934,676</u> | <u>(4,642,354)</u> | | <u>(982,700)</u> | <u>(3,690,378)</u> | |
| Cash Flows from Investing Activities: | | | | | | |
| Interest from Investments | 19,003 | 14,290 | | | 33,293 | |
| Gain (Loss) on Sale of Assets | 11,059 | 148,294 | | | 159,353 | |
| Net Cash Provided by Investing Activities | <u>30,062</u> | <u>162,584</u> | | | <u>192,646</u> | |
| Net (Decrease) Increase in Cash and Cash Equivalents | 215,609 | (67,417) | 125,343 | (151,138) | 122,397 | 599,457 |
| Cash and Cash Equivalents Beginning of Year | 5,029,993 | 7,971,725 | 786,147 | 845,692 | 14,633,557 | 1,721,055 |
| Cash and Cash Equivalents End of Year | <u>5,245,602</u> | <u>7,904,308</u> | <u>911,490</u> | <u>694,554</u> | <u>14,755,954</u> | <u>2,320,512</u> |

CITY OF LIMA
ALLEN COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

| | Enterprise Funds | | | | Internal Service Funds | |
|---|------------------|-------------|-----------|----------------|------------------------------|-----------|
| | Water | Sewer | Refuse | Storm Water | | Total |
| Reconciliation of Operating Gain to Net Cash Provided by Operating Activities: | | | | | | |
| Operating Gain (Loss) | (3,699,545) | 2,848,608 | 202,222 | 979,381 | 330,666 | 676,207 |
| Adjustments: | | | | | | |
| Depreciation | 2,439,486 | 1,774,630 | | 190,742 | 4,404,858 | |
| (Increase) Decrease in Assets: | | | | | | |
| Accounts Receivable | (330,639) | (248,081) | (96,963) | | (675,683) | (920) |
| Special Assessments Receivable | | | | (209,748) | (209,748) | |
| Materials and Supplies Inventory | (16,484) | (36,098) | | | (52,582) | 54,226 |
| Prepaid Items | (23,505) | (19,228) | (3,502) | 777 | (45,458) | |
| Increase (Decrease) in Liabilities: | | | | | | |
| Accounts Payable | 55,366 | (6,124) | 19,284 | 1,342 | 69,868 | 19,481 |
| Contracts Payable | (172,732) | (21,145) | | | (193,877) | |
| Accrued Wages | 54,811 | 30,993 | 596 | 8,883 | 95,283 | |
| Compensated Absences Payable | (56,718) | (34,476) | 3,874 | (12,876) | (100,196) | |
| Intergovernmental Payable | (28,079) | (3,070) | (168) | 4,061 | (27,256) | |
| Increase in Claims Payable | | | | | | (158,850) |
| Increase in Refundable Deposits | 33,567 | | | | 33,567 | |
| Net Cash Provided by (Used In) Operating Activities | (\$1,744,472) | \$4,286,009 | \$125,343 | \$962,562 | \$3,629,442 | \$590,144 |

See accompanying notes to the basic financial statements.

**CITY OF LIMA
ALLEN COUNTY**

**COMBINING STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2012**

| | <u>Agency</u> |
|--|--------------------|
| Assets: | |
| Equity Pooled in Cash and Cash Equivalents | \$223,886 |
| Cash and Cash Equivalents in Segregated Accounts | 605,318 |
| Accounts Receivable | 2,323,115 |
| Total Assets | <u>3,152,319</u> |
| Liabilities: | |
| Intergovernmental Payable | 16,393 |
| Undistributed Monies | 2,928,433 |
| Deposits Held and Due to Others | 207,493 |
| Total Liabilities | <u>\$3,152,319</u> |

See accompanying notes to the basic financial statements.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012**

1. REPORTING ENTITY

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

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

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.

The City is associated with certain organizations which are defined as joint ventures, jointly governed organizations, and insurance pools. These organizations are presented in Notes 10B, 21, and 22 to the basic financial statements. These organizations are Ohio Plan Risk Management, Lima-Allen County Downtown Construction, Lima-Allen County Regional Planning Commission, and Lima-Allen County Joint Parking Commission.

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 most significant of the City's accounting policies are described below.

A. Basis of Presentation

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

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Government-wide Financial Statements

The statement of net position 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 position 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.

2. 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. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

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

1. 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 City's only major governmental fund is the General Fund:

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

2. Proprietary Fund Type

Proprietary fund reporting focuses on the determination of operating income, changes in net position, net 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.

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.

3. 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.

4. Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. 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 Law Library Resources Board.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus

1. 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 position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

2. Fund Financial Statements

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total net position. 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.

1. 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.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-exchange 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.

2. Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance 2013 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

3. Expenses/Expenditures

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

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

E. Pooled Cash and Cash Equivalents

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

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented 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 Municipal Court funds are recorded as "Cash and Cash Equivalents in Segregated Accounts." Money held by the City which represents utility deposits is presented as "Restricted Equity in Pooled Cash and Cash Equivalents" Investments, non-negotiable certificates of deposit, are reported at fair value, which is based on quoted market prices. STAR Ohio 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. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's shared price, which is the price the investment could be sold for at December 31, 2012.

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, State statutes, and grant requirements. Investment income credited to the General Fund during 2012 amounted to \$123,623 which includes \$87,333 assigned from other City funds.

For the purposes of the combined statements of cash flows and for presentation on the balance sheet, investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Materials and Supplies Inventory

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

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

H. Notes Receivable

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

I. Unamortized Bond Issuance Costs

Bond issuance costs for governmental and proprietary fund types are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Restricted Assets/Liabilities

Certain resources set aside for debt repayment, are classified as restricted assets on the statement of position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants are recorded as "Cash and Cash Equivalents with Fiscal and Escrow Agents – Restricted".

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

K. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net position 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 position and in the respective funds.

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

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

| <u>Description</u> | <u>Governmental Activities Estimated Lives</u> | <u>Business-Type Activities Estimated Lives</u> |
|----------------------------|--|---|
| Land | N/A | N/A |
| Buildings and Improvements | 45 - 50 Years | 45 - 50 Years |
| Machinery and Equipment | 5 - 20 Years | 5 - 20 Years |
| Furniture | 20 Years | 20 Years |
| Infrastructure | 7 - 75 Years | |
| Vehicles | 6 - 10 Years | 6 - 10 Years |
| Water and Sewer Lines | | 30 - 99 Years |
| Storm Water Infrastructure | | 40 Years |

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

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. 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 \$638,206 during 2012. This interest is associated with the Ohio Water Development Authority loan used to make improvements at the City's Water Treatment Plant, \$543,444; an Ohio Water Development Authority loan used to make improvements to the Bresler Pump Station, \$4,669; an Ohio Water Development Authority loan used to construct a new elevated water supply tank, \$90,074; and an Ohio Water Development Authority loan use to make improvements to the Water Treatment plant, \$19.

L. Interfund Balances

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

Amounts between funds for manuscript debt activity are reported as "due to/due from" on the fund financial statements.

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

M. Compensated Absences

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

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

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

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Accrued Liabilities and Long-term Obligations

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

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

O. Net Position

Net position represents the difference between assets and liabilities. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Net position restricted for other purposes consists primarily of monies held for law enforcement and education.

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

P. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Non-spendable – The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. The committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance.

Unassigned – Unassigned fund balance is the residual classification for the General fund and includes all spendable amounts not contained in the other classification. In the other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City does not have a formal policy dictating the order of use of fund balance. Thus, it considers restricted amounts used first, followed by committed, assigned and unassigned. City Council is the City's highest level of decision making. Fund balance commitments are established, modified, or rescinded by City Council action through passage of an ordinance. Assigned fund balance includes amounts that have an intended use by City Council or the Mayor. Intent for the use of assigned amounts is demonstrated through passage of appropriation ordinances or encumbrances.

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water, sewer, refuse, and storm water 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 non-operating.

R. Contributions of Capital

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

S. Interfund Activity

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

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2012.

U. Estimates

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

V. Budgetary Data

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

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

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

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

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) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year-end encumbrances are treated as expenditure/expenses (budget basis) rather than as restricted, committed, or assigned fund balance (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 | \$3,216,083 |
| Revenue accruals | 409,656 |
| Expenditure accruals | (200,015) |
| Encumbrances | <u>(466,222)</u> |
| Budget Basis | <u>\$2,959,502</u> |

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.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

4. DEPOSITS AND INVESTMENTS

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

Interim monies may be invested in the following:

1. United States Treasury Notes, Bills, Bonds, Notes, or any other obligation or security issued by the United States or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and;
6. The State Treasury Asset Reserve (STAR Ohio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

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

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

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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

A. 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. The City has no policy for custodial credit risk beyond the requirements of State statute.

B. Investments

As of December 31, 2012, the City had the following investments and maturities:

| <u>Investment</u> | <u>Fair Value</u> | <u>Investment Maturities</u> | |
|-------------------|---------------------|------------------------------|---------------------|
| | | <u>Less than 1 Year</u> | <u>2 to 5 Years</u> |
| FFCB Securities | \$ 1,003,690 | | \$ 1,003,690 |
| FHLB Securities | 5,998,800 | | 5,998,800 |
| FNMA Securities | 12,036,195 | | 12,036,195 |
| STAR Ohio Account | 72,079 | \$72,079 | |
| | <u>\$19,110,764</u> | <u>\$72,079</u> | <u>\$19,038,685</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 - As of December 31, 2012, the City's investment in STAR Ohio was rated AAAM by Standard & Poor's. As of December 31, 2012, Moody's rated the City's investments in Federal Farm Credit Bank bonds AAA. Moody's also rated the Federal Home Loan Bank and the Federal National Mortgage Association bonds AAA.

Custodial Credit Risk - The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to delivery of the securities representing such investments to the Treasurer or qualified trustee.

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, 2012.

| <u>Investment</u> | <u>Fair Value</u> | <u>Percentage of Total</u> |
|---------------------------|---------------------|----------------------------|
| Federal Agency Securities | \$19,038,685 | 99.62% |
| STAR Ohio Account | 72,079 | 0.38% |
| | <u>\$19,110,764</u> | <u>100.00%</u> |

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

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.

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 2012 represent the collection of 2011 taxes. For 2012, real property taxes were levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. These taxes were collected in and were intended to finance 2012 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.

Public utility real and tangible personal property were levied after October 1, 2011, on the assessed values as of December 31, 2010 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.

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 2012 operations.

The full tax rate for all City operations for the year ended December 31, 2012 was 3.30 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2012 property tax receipts were based are as follows:

| <u>Category</u> | <u>Assessed Value</u> |
|--------------------------|-----------------------------|
| Real Estate: | |
| Residential/Agricultural | \$238,767,160 |
| Commercial/Industrial | 138,602,240 |
| Public Utilities | 177,770 |
| Public Utility | 18,380,960 |
| Total | <u><u>\$395,928,130</u></u> |

7. FUND BALANCES

Fund balance is classified as non-spendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on the fund balance for the major governmental funds and all other governmental funds are presented on the following page.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

7. FUND BALANCES (Continued)

| Fund Balances | General | Non-Major Governmental Funds | Total |
|-------------------------------------|--------------------|------------------------------------|---------------------|
| Non-Spendable: | | | |
| Pre-paids | \$ 67,454 | \$ 3,127 | \$70,581 |
| Unclaimed Monies | 248,216 | | 248,216 |
| Inventory | | 15,950 | 15,950 |
| Advances to Other Funds | 168,023 | | 168,023 |
| Total Non-spendable | <u>483,693</u> | <u>19,077</u> | <u>502,770</u> |
| Restricted for: | | | |
| Road Improvements | | 1,740,320 | 1,740,320 |
| Law Enforcement Activities | | 726,246 | 726,246 |
| Law Enforcement Equipment | | 461,343 | 461,343 |
| Parks Equipment | | 8,575 | 8,575 |
| Fire Vehicles | | 4,835 | 4,835 |
| Community Development | | 50,679 | 50,679 |
| DARE Program | | 39,507 | 39,507 |
| Vine St Railroad Grade Separation | | 343 | 343 |
| Federal HOME Program Activities | | 761,414 | 761,414 |
| Various Lighting Improvements | | 130,348 | 130,348 |
| Various Land Improvements | | 44,995 | 44,995 |
| Municipal Court Projects | | 809,360 | 809,360 |
| Fire and EMS Projects | | 78,494 | 78,494 |
| Transportation Capital Projects | | 213,210 | 213,210 |
| Alcohol /Drug Treatment & Education | | 597,010 | 597,010 |
| Other Capital Projects | | 51,000 | 51,000 |
| Various Building Improvements | | 101,103 | 101,103 |
| Total Restricted | | <u>5,818,782</u> | <u>5,818,782</u> |
| Committed to: | | | |
| Sidewalk Projects | | 9,413 | 9,413 |
| Recreation Activities | | 60,889 | 60,889 |
| Traffic & Parking Services | | 331,828 | 331,828 |
| Travel and Tourism Support | | 415,876 | 415,876 |
| Total Committed | | <u>818,006</u> | <u>818,006</u> |
| Assigned to: | | | |
| Debt Services | | 347,738 | 347,738 |
| G-TV 2 Operations | | 5,774 | 5,774 |
| Vehicle and Asset Repair | 22,969 | | 22,969 |
| Park Improvements | 50,741 | | 50,741 |
| Other Purposes | 466,222 | 56,041 | 522,263 |
| Total Assigned | <u>539,932</u> | <u>409,553</u> | <u>949,485</u> |
| Unassigned | 8,445,565 | (177,323) | 8,268,242 |
| Total Fund Balances | <u>\$9,469,190</u> | <u>\$6,888,095</u> | <u>\$16,357,285</u> |

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

8. RECEIVABLES

Receivables at December 31, 2012 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 | \$1,771,230 |
| Sewer | 2,336,620 |
| Refuse | 709,290 |
| Storm Water | <u>2,768,373</u> |
| Total | <u><u>\$7,585,513</u></u> |

Notes receivable represent low interest notes for development projects and home improvements granted to eligible City residents and businesses under the Federal Community Development Block Grant, the Community Housing Improvement Program, and the Urban Development Action Grant. The notes bear interest at an annual rate of 7 to 8 percent. The notes are to be repaid over periods ranging from five to fifteen years. The gross notes receivable are \$861,123 with uncollectible of \$284,939 at December 31, 2012. The notes are recorded net of an allowance for un-collectibles in the amount of \$576,184.

A summary of the principal items of intergovernmental receivables follows:

| | Amount |
|---|---------------------------|
| Homestead and Rollback | \$ 79,790 |
| Local Government | 487,105 |
| Motor Vehicle License Tax | 126,500 |
| Gasoline Excise Tax | 507,000 |
| Permissive Tax | 145,000 |
| CRP 2009RKW0659 | 49,366 |
| CRP 2011UMWX0143 | 22,476 |
| Home Program Grant | 32,453 |
| Community Development Block Grant (CDBG) | 253,897 |
| ALL-Lima Traffic PID 82576 | 111,264 |
| ALL-Elm St PID 90185 | 218,940 |
| State Issue I Funds | 434,382 |
| ALL-Lima Grade Separation Grant | 124,220 |
| Fines and Forfeitures | 78,593 |
| RZ Bond Interest Subsidy | 11,933 |
| Vine St RRGs PID 86297 | <u>344</u> |
| Total Intergovernmental Receivable | <u><u>\$2,683,263</u></u> |

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

9. CAPITAL ASSETS

A summary of changes in capital assets during 2012 follows:

| | Balance 12/31/2011 | Additions | Deletions | Transfers | Balance 12/31/2012 |
|---|-------------------------------|---------------------|-----------------------|----------------------|-------------------------------|
| Governmental Activities: | | | | | |
| Capital Assets Not Being Depreciated: | | | | | |
| Land | \$7,191,912 | \$19,729 | \$(674,566) | | \$6,537,075 |
| Construction in progress | 15,039,052 | 2,083,037 | (16,416,943) | | 705,146 |
| Total Capital Assets Not Being Depreciated | <u>22,230,964</u> | <u>2,102,766</u> | <u>(17,091,509)</u> | | <u>7,242,221</u> |
| Capital Assets, Being Depreciated: | | | | | |
| Buildings | 13,606,703 | 1,404,497 | | (\$1,168,000) | 13,843,200 |
| Improvements | 2,863,973 | 67,627 | | | 2,931,600 |
| Machinery and equipment | 4,821,409 | 194,520 | | 4,707 | 5,020,636 |
| Furniture and fixtures | 74,500 | | | | 74,500 |
| Vehicles | 5,933,299 | 472,869 | (216,950) | 163,199 | 6,352,417 |
| Infrastructure: | | | | | |
| Roads | 33,562,886 | 3,002,123 | | | 36,565,009 |
| Sidewalks | 3,387,230 | 474,610 | | | 3,861,840 |
| Bridges | 5,749,305 | 12,608,913 | | | 18,358,218 |
| Signals and traffic lights | 5,786,939 | 488,302 | | | 6,275,241 |
| Curbs | 5,840,477 | 725,336 | | (725,336) | 5,840,477 |
| Rail sidings | 1,443,375 | | | | 1,443,375 |
| Total Capital Assets, Being Depreciated | <u>83,070,096</u> | <u>19,438,797</u> | <u>(216,950)</u> | <u>(1,725,430)</u> | <u>100,566,513</u> |
| Less Accumulated Depreciation: | | | | | |
| Buildings | 6,410,757 | 298,021 | | | 6,708,778 |
| Improvements | 1,442,194 | 126,910 | | | 1,569,104 |
| Machinery and equipment | 3,445,365 | 298,660 | | 2,903 | 3,746,928 |
| Furniture and fixtures | 41,597 | 4,788 | | | 46,385 |
| Vehicles | 4,494,176 | 636,987 | (216,950) | 154,763 | 5,068,976 |
| Infrastructure: | | | | | |
| Roads | 21,777,370 | 2,064,976 | | | 23,842,346 |
| Sidewalks | 390,822 | 89,419 | | | 480,241 |
| Bridges | 1,091,359 | 338,548 | | | 1,429,907 |
| Signals and traffic lights | 3,300,429 | 309,882 | | | 3,610,311 |
| Curbs | 2,965,102 | 146,012 | | | 3,111,114 |
| Rail sidings | 294,690 | 72,169 | | | 366,859 |
| Total Accumulated Depreciation | <u>45,653,861</u> | <u>4,386,372</u> | <u>(216,950)</u> | <u>157,666</u> | <u>49,980,949</u> |
| Total capital assets being depreciated, net | <u>37,416,235</u> | <u>15,052,425</u> | <u>(216,950)</u> | <u>(1,883,096)</u> | <u>50,585,564</u> |
| Total Governmental Activities Capital Assets, Net | <u>\$59,647,199</u> | <u>\$17,155,191</u> | <u>(\$17,091,509)</u> | <u>(\$1,883,096)</u> | <u>\$57,827,785</u> |

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

9. CAPITAL ASSETS (Continued)

| | <u>Balance 12/31/2011</u> | <u>Additions</u> | <u>Deletions</u> | <u>Transfers</u> | <u>Balance 12/31/2012</u> |
|--|-------------------------------|---------------------|-----------------------|--------------------|-------------------------------|
| Business-Type Activities: | | | | | |
| Capital Assets Not Being Depreciated: | | | | | |
| Land | \$5,115,926 | | | | \$5,115,926 |
| Construction in progress | 61,746,947 | \$11,476,799 | (\$48,805,239) | | 24,418,507 |
| Total Capital Assets Not Being Depreciated | <u>66,862,873</u> | <u>11,476,799</u> | <u>(48,805,239)</u> | | <u>29,534,433</u> |
| Capital Assets, Being Depreciated: | | | | | |
| Improvements | 2,390,697 | 16,540,273 | | | 18,930,970 |
| Buildings | 45,826,824 | 20,511,481 | | \$1,168,000 | 67,506,305 |
| Machinery and equipment | 20,990,005 | 3,041,984 | (84,475) | (4,707) | 23,942,807 |
| Furniture and fixtures | 46,597 | | | | 46,597 |
| Vehicles | 4,995,759 | 586,288 | (122,697) | (163,199) | 5,296,151 |
| Capitalized interest | 3,805,098 | 1,978,365 | | | 5,783,463 |
| Intangible assets | 317,988 | | | | 317,988 |
| Storm Water Infrastructure | 2,347,899 | 728,259 | | 725,336 | 3,801,494 |
| Sewer lines | 21,334,331 | 129,547 | | | 21,463,878 |
| Water lines | 23,103,686 | 2,234,195 | (421) | | 25,337,460 |
| Total Capital Assets, Being Depreciated | <u>125,158,884</u> | <u>45,750,392</u> | <u>(207,593)</u> | <u>1,725,430</u> | <u>172,427,113</u> |
| Less Accumulated Depreciation: | | | | | |
| Improvements | 1,250,671 | 856,642 | | | 2,107,313 |
| Buildings | 23,275,373 | 1,096,703 | | | 24,372,076 |
| Machinery and equipment | 16,070,803 | 952,943 | (72,273) | (2,903) | 16,948,570 |
| Furniture and fixtures | 26,043 | 1,773 | | | 27,816 |
| Vehicles | 3,305,430 | 697,320 | (112,536) | (154,763) | 3,735,451 |
| Capitalized interest | 3,139,748 | 172,922 | | | 3,312,670 |
| Intangible assets | 317,989 | | | | 317,989 |
| Storm Water Infrastructure | 156,426 | 74,943 | | | 231,369 |
| Sewer lines | 14,310,775 | 204,829 | | | 14,515,604 |
| Water lines | 11,133,178 | 346,783 | (421) | | 11,479,540 |
| Total Accumulated Depreciation | <u>72,986,436</u> | <u>4,404,858</u> | <u>(185,230)</u> | <u>(157,666)</u> | <u>77,048,398</u> |
| Total capital assets being depreciated, net | <u>52,172,448</u> | <u>41,345,534</u> | <u>(22,363)</u> | <u>1,883,096</u> | <u>95,378,715</u> |
| Total Business-Type Capital Assets, Net | <u>\$119,035,321</u> | <u>\$52,822,333</u> | <u>(\$48,827,602)</u> | <u>\$1,883,096</u> | <u>\$124,913,148</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------------|--------------------|
| General Government | \$ 165,852 |
| Security of Persons and Property | 530,334 |
| Leisure Time Activities | 111,410 |
| Community Development | 45,552 |
| Transportation | <u>3,533,224</u> |
| Total | <u>\$4,386,372</u> |

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

10. RISK MANAGEMENT

A. Self-Insurance Program

The City has elected to provide employee medical and life benefits through a self-insured program. All funds of the City participate in the program and make payments to the Health Benefits Internal Service Fund based on the amounts needed to pay prior and current year claims. This plan provides a medical plan with a \$200 single and a \$400 family deductible for all employees. Under this program, the fund provides coverage for up to a maximum of \$100,000 for each individual. The City purchases stop-loss coverage for claims in excess of \$100,000 and up to a maximum of \$1,000,000. Settled claims have not exceeded stop-loss coverage for the last three years. The City utilizes a third party administrator to review all claims, which are then paid by the City.

Claims payable is based on the requirements of the Governmental Accounting Standards Board Statement No. 30 "Risk Financing Omnibus," which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated claim adjustment expenses. Claims payable at December 31, 2012, are estimated based on past experience in payment of claims at \$284,101.

| | Beginning of Year Liability | Claims and Changes in Estimates | Claims Payments | End of Year Liability |
|------|--|--|----------------------------|----------------------------------|
| 2011 | \$373,155 | \$5,142,702 | \$5,072,906 | \$442,951 |
| 2012 | 442,951 | 4,493,246 | 4,652,096 | 284,101 |

B. Other Insurance Coverage

The City belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 767 and 765 members as of December 31, 2012 and 2011 respectively.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

10. RISK MANAGEMENT (Continued)

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011.

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and members' equity at December 31, 2011 for both OPRM:

| | 2012 | 2011 |
|-----------------|--------------|--------------|
| | OPRM | OPRM |
| Assets | \$13,100,381 | \$12,501,280 |
| Liabilities | (6,687,193) | (5,328,761) |
| Members' Equity | \$ 6,413,188 | \$ 7,172,519 |

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

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 2012 the City contracted with a third party for insurance as follows:

Stolly Insurance Agency, Inc.

| | |
|----------------------------|---------------|
| Building and Contents | \$119,526,873 |
| General Liability | \$8,000,000 |
| Law Enforcement Officers' | \$8,000,000 |
| Professional Liability | \$8,000,000 |
| Auto Liability | \$8,000,000 |
| Commercial Blanket Bond | \$8,000,000 |
| Employee Benefit Liability | \$8,000,000 |
| Public Officials Liability | \$8,000,000 |
| Boiler and Machinery | \$30,000,000 |
| Inland Marine | \$6,071,981 |

* 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.

All employees of the City are covered by a blanket bond, while certain individuals in policy making roles are covered by a separate, higher limit bond coverage.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

10. RISK MANAGEMENT (Continued)

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.

11. COMPENSATED ABSENCES

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 their 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 positions, Governmental Activities in the amount of \$2,278,076 due within more than one year and \$14,596 due within one year. Unpaid compensated absences for Business-Type Activities as of year-end are reported on the statement of net position as \$687,152 due within more than one year and \$107,086 due within one year.

12. DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year).

Under the member directed plan, members accumulate retirement assets equal to the value of the member and (vested) employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to, but not less than, the Traditional Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand alone financial report that may be obtained by visiting <https://www.opers.org/investments/caf.shtml>, writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

For 2012, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the traditional pension plan.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

12. DEFINED BENEFIT PENSION PLANS (Continued)

For the year ended December 31, 2012, the members of all three plans, except those in law enforcement participating in the traditional plan, were required to contribute 10.0 percent of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 12.1 percent of their annual covered salary. The City's contribution rate for pension benefits for 2012 was 14.0 percent, except for those plan members in law enforcement. For that classification, the City's pension contributions were 18.1 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contributions allocated to health care for members of the Traditional Plan was 4%. The portion of employer contributions allocated to health care for members in the combined plan was 6.05 percent. Employer contribution rates are actuarially determined.

The City's contributions to OPERS for the years ended December 31, 2012, 2011 and 2010 were \$1,665,597, \$1,203,860, and \$1,642,089 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 43215-5164.

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, 2012, 2011 and 2010 were \$1,833,868, \$1,365,884, and \$1,865,989 respectively, equal to the required contributions for each year.

13. POST-EMPLOYMENT BENEFITS

A. Ohio 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 Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

13. POST-EMPLOYMENT BENEFITS (Continued)

Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>.

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 2012, state and local employers contributed at a rate 14.00% of covered payroll and public safety and law enforcement employers contributed at 18.1%. 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 4.0% for calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% for calendar year 2012. 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 2012 that were used to fund postemployment benefits were \$475,861.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

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, 2012
(Continued)**

13. POST-EMPLOYMENT 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, 2012, 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 2012 that were used to fund postemployment benefits were \$568,059. The OP&F's total health care expenses for the year ended December 31, 2011 (the latest information available) were \$113,812,105, which was net of member contributions of \$62,528,377. The number of OP&F participants eligible to receive health care benefits as of January 1, 2012 was 15,572 for police and 11,506 for firefighters.

14. LONG-TERM OBLIGATIONS

The changes in the City's long-term obligations during 2012 were as follows:

| | <u>Interest Rate %</u> | <u>Outstanding 1/1/2012</u> | <u>Additions</u> | <u>(Reductions)</u> | <u>Outstanding 12/31/2012</u> | <u>Amounts Due Within One Year</u> |
|--|----------------------------|---------------------------------|------------------|---------------------|-----------------------------------|--|
| Governmental Activities | | | | | | |
| Un-voted General Obligation Bonds: | | | | | | |
| 1999 Various Purpose Refunding Bonds | | | | | | |
| Parking Facility | 4.00-5.80 | \$540,000 | | (\$540,000) | | |
| 2004 - YMCA Parking Lot Project | 2.00-4.50 | 125,000 | | (95,000) | \$ 30,000 | \$15,000 |
| Unamortized Premium | | 626 | | (476) | 150 | 75 |
| 2010 Lighting Improvement GO RZ Bonds | 5.22 | 1,010,000 | | (90,000) | 920,000 | 90,000 |
| 2011 Various Purpose Bond | 3.50 | 956,500 | | (92,500) | 864,000 | 95,500 |
| 2012 Various Purpose Bonds | 1.00-3.00 | | \$1,985,000 | (95,000) | 1,890,000 | 240,000 |
| Unamortized Premium | | | 34,430 | (1,147) | 33,283 | 4,410 |
| Total Un-voted General Obligation Bonds | | <u>2,632,126</u> | <u>2,019,430</u> | <u>(914,123)</u> | <u>3,737,433</u> | <u>444,985</u> |

(Continued)

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

14. LONG-TERM OBLIGATIONS (Continued)

| | Interest Rate % | Outstanding 1/1/2012 | Additions | (Reductions) | Outstanding 12/31/2012 | Amounts Due Within One Year |
|---|--------------------|-------------------------|-----------|--------------|---------------------------|-----------------------------------|
| Other Long-Term Obligations: | | | | | | |
| Compensated Absences | | 2,358,319 | 2,292,672 | (2,358,319) | 2,292,672 | 14,596 |
| Capital Lease-Cisco Phone System | 4.69 | 109,316 | | (51,142) | 58,174 | 53,593 |
| Capital Lease-Ambulance | 4.75 | 80,093 | | (25,470) | 54,623 | 26,679 |
| Capital Lease-Copier | 9.70 | 4,464 | | (831) | 3,633 | 916 |
| Judgment Payable | | 110,000 | | | 110,000 | 110,000 |
| Total Other Long-Term Obligations | | 2,662,192 | 2,292,672 | (2,435,762) | 2,519,102 | 205,784 |
| Total Governmental Activities | | 5,294,318 | 4,312,102 | (3,349,885) | 6,256,535 | 650,769 |
| Business-Type Activities | | | | | | |
| General Obligation Bonds: | | | | | | |
| Water Refunding - 1999 Issue | 4.00-5.30 | 485,000 | | (485,000) | | |
| Unamortized Accounting Loss | | (27,385) | 27,385 | | | |
| Unamortized Discount | | (6,858) | 6,858 | | | |
| Total Water Refunding - 1999 Issue | | 450,757 | 34,243 | (485,000) | | |
| Water Refunding - 2004 Issue | 2.00-4.50 | 70,000 | | (70,000) | | |
| Unamortized Premium | | 361 | | (361) | | |
| Total Water Refunding - 2004 Issue | | 70,361 | | (70,361) | | |
| Total Water General Obligation Bonds | | 521,118 | 34,243 | (555,361) | | |
| Sewer Refunding - 1999 Issue | 4.00-5.30 | 505,000 | | (505,000) | | |
| Unamortized Accounting Loss | | (29,641) | 29,641 | | | |
| Unamortized Discount | | (7,405) | 7,405 | | | |
| Total Sewer Refunding - 1999 Issue | | 467,954 | 37,046 | (505,000) | | |
| Sewer - 2004 Issue | 2.00-4.50 | 3,505,000 | | (3,085,000) | 420,000 | 205,000 |
| Sewer Refunding - 1999 Issue | 4.00-5.30 | 505,000 | | (505,000) | | |
| Unamortized Premium | | 18,137 | | (15,963) | 2,174 | 1,061 |
| Total Sewer Refunding - 2004 Issue | | 3,523,137 | | (3,100,963) | 422,174 | 206,061 |
| Sewer - 2012 Issue | | | 3,065,000 | | 3,065,000 | 50,000 |
| Unamortized Premium | | | 50,326 | | 50,326 | 821 |
| Unamortized Accounting Loss | | | (324,692) | | (324,692) | (5,297) |
| Total Sewer Refunding - 2012 Issue | | | 2,790,634 | | 2,790,634 | 45,524 |
| Sewer - 2012 Issue | | | 1,760,000 | | 1,760,000 | 55,000 |
| Unamortized Discount | | | (10,001) | | (10,001) | (313) |
| Total Sewer Improvement - 2012 Issue | | | 1,749,999 | | 1,749,999 | 54,687 |
| Total Sewer General Obligation Bonds | | 3,991,091 | 4,577,679 | (3,605,963) | 4,962,807 | 306,272 |
| Total Un-voted General Obligation Bonds | | 4,512,209 | 4,611,922 | (4,161,324) | 4,962,807 | 306,272 |

(Continued)

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

14. LONG-TERM OBLIGATIONS (Continued)

| | Interest Rate % | Outstanding 1/1/2012 | Additions | (Reductions) | Outstanding 12/31/2012 | Amounts Due Within One Year |
|-------------------------------------|--------------------|-------------------------|---------------------|-----------------------|---------------------------|-----------------------------------|
| Revenue Bonds: | | | | | | |
| Sewer Improvement TE Issue - 2009 | 2.00-2.50 | 1,330,000 | | (435,000) | 895,000 | 445,000 |
| Unamortized Premium | | 20,156 | | (6,592) | 13,564 | 6,744 |
| Sewer Improvement BAB Issue - 2009 | 3.89-6.675 | 10,250,000 | | | 10,250,000 | |
| Sewer Improvement - 2010 | 2.00-4.30 | 9,660,000 | | (475,000) | 9,185,000 | 480,000 |
| Unamortized Discount | | (55,008) | 2,705 | | (52,303) | (2,733) |
| Total Sewer Revenue Bonds | | <u>21,205,148</u> | <u>2,705</u> | <u>(916,592)</u> | <u>20,291,261</u> | <u>929,011</u> |
| Water Improvement - 2010 | 2.00-4.25 | 6,535,000 | | (370,000) | 6,165,000 | 375,000 |
| Unamortized Discount | | (32,666) | 1,850 | | (30,816) | (1,875) |
| Total Water Revenue Bonds | | <u>6,502,334</u> | <u>1,850</u> | <u>(370,000)</u> | <u>6,134,184</u> | <u>373,125</u> |
| Total Revenue Bonds | | <u>27,707,482</u> | <u>4,555</u> | <u>(1,286,592)</u> | <u>26,425,445</u> | <u>1,302,136</u> |
| Other Long-Term Obligations: | | | | | | |
| Bresler Termination Agreement | 0.0 | 1,562,908 | | (142,082) | 1,420,826 | 142,082 |
| OWDA Loan | 3.75 | 4,119,543 | | (182,491) | 3,937,052 | 375,311 |
| OWDA Loan-Reservoir | 4.32 | 30,212,656 | 427,101 | (254,099) | 30,385,658 | 524,783 |
| OWDA Loan-Carbon Filter Project | 3.83 | 10,916,275 | 5,828,133 | | 16,744,408 | 474,388 |
| OWDA Loan-Bresler Pump Station | 3.49 | 8,881 | 1,702,597 | | 1,711,478 | 131,362 |
| OWDA Loan-Elevated Storage Tank | 4.64 | 866,600 | 1,689,615 | | 2,556,215 | 92,167 |
| OWDA Loan-Softening Basin | 3.17 | | 557,427 | | 557,427 | 47,168 |
| OWDA Loan-Storm Water Project | 3.25 | 255,958 | | (5,100) | 250,858 | 10,449 |
| OWDA Loan-Storm Water Project II | 2.66 | 49,404 | | (1,080) | 48,324 | 2,060 |
| Capital Lease-Cisco Phone System | | | | | | |
| Water Fund Portion | 4.69 | 54,657 | | (25,571) | 29,086 | 26,796 |
| Sewer Fund Portion | 4.69 | 54,658 | | (25,571) | 29,087 | 26,797 |
| Compensated Absences | | 894,434 | 794,238 | (894,434) | 794,238 | 107,086 |
| Total Other Long-Term Obligations | | <u>48,995,974</u> | <u>10,999,111</u> | <u>(1,530,428)</u> | <u>58,464,657</u> | <u>1,960,449</u> |
| Total Business-Type Activities | | <u>81,215,665</u> | <u>15,615,588</u> | <u>(6,978,344)</u> | <u>89,852,909</u> | <u>3,568,857</u> |
| Totals | | <u>\$86,509,983</u> | <u>\$19,927,690</u> | <u>(\$10,328,229)</u> | <u>\$96,109,444</u> | <u>\$4,219,626</u> |

General Obligation Bonds – All general obligation bonds are supported by the full faith and credit of the City. General obligation bonds presented as a liability in the statement of net positions will be retired through the debt service fund.

Special Assessment Bonds – The City 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 \$103,680 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.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

14. LONG-TERM OBLIGATIONS (Continued)

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, require 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.

Bresler Termination Agreement - Bresler reservoir was constructed in 1970 with the State of Ohio paying a percentage of the construction and thus retained rights to a portion of the water in the reservoir. In 2003, the City entered into the Bresler Termination agreement in order to remove the State's claim to the water and to repay the State's share of the construction costs over a 20 year period at 0% interest. Total amount to be repaid is \$2,841,646.

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 \$30,639,757. As of December 31, 2012 the City had requested total draws of \$30,639,757. Payments on this loan are scheduled to begin in 2012.

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 \$16,834,815. As of December 31, 2012 the City had requested total draws of \$16,744,408. Payments on this loan are scheduled to begin in 2013.

In 2011 the City's water utility entered into a loan agreement with OWDA to fund construction on an elevated water storage tank. The maximum available under this agreement is \$2,895,566. As of December 31, 2012 the City had requested total draws of \$2,556,215. Payments on this loan are scheduled to begin in 2013.

In 2011 the City's water utility entered into a loan agreement with OWDA to fund construction on a pump station upgrade at the Bresler reservoir. The maximum available under this agreement is \$2,535,492. As of December 31, 2012 the City had requested total draws of \$1,711,478. Payments on this loan are scheduled to begin in 2013.

The OWDA loans for the carbon filter project, the elevated storage tank, the softening basin, and the Bresler pump station are not completed and therefore, currently do not have a finalized amortization schedule.

In 2012, the City borrowed \$3,065,000 to refund a portion of 2004 GO Bonds for Sewer. The City also issued new debt in 2012 for various construction and equipment related purposes in the amount of \$1,760,000 in the Sewer GO Bonds and \$1,985,000 in Governmental Various Purpose GO Bonds of which \$90,000 was to refund a portion of the 2004 Parking Lot Construction and \$515,000 to refund 1999 issue bonds for a parking facility.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

14. LONG-TERM OBLIGATIONS (Continued)

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

| | General Obligation (Gross) | |
|-----------|-----------------------------------|------------------|
| | Principal | Interest |
| 2013 | \$ 440,500 | \$116,656 |
| 2014 | 444,000 | 105,531 |
| 2015 | 452,500 | 91,756 |
| 2016 | 480,500 | 78,078 |
| 2017 | 389,500 | 65,963 |
| 2018-2022 | 1,332,000 | 136,077 |
| 2023-2027 | 70,000 | 19,529 |
| 2028-2032 | 95,000 | 8,805 |
| Total | <u>\$3,704,000</u> | <u>\$622,395</u> |

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

| | Bresler Termination Agreement | | General Obligation (Gross) | | OWDA Loans | |
|-----------|--------------------------------------|-----------------|-----------------------------------|--------------------|---------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2013 | \$ 142,082 | | \$ 310,000 | \$ 132,185 | \$ 912,604 | \$ 1,459,905 |
| 2014 | 142,082 | | 320,000 | 122,499 | 950,192 | 1,423,029 |
| 2015 | 142,082 | | 325,000 | 111,273 | 989,264 | 1,383,954 |
| 2016 | 142,082 | | 335,000 | 104,803 | 1,029,951 | 1,343,267 |
| 2017 | 142,082 | | 335,000 | 101,143 | 1,072,322 | 1,300,898 |
| 2018-2022 | 710,416 | | 1,800,000 | 371,334 | 5,536,786 | 5,819,845 |
| 2023-2027 | | | 980,000 | 189,034 | 4,481,819 | 4,786,952 |
| 2028-2032 | | | 385,000 | 114,500 | 5,498,437 | 3,726,499 |
| 2033-2037 | | | 455,000 | 48,650 | 6,731,342 | 2,427,840 |
| 2038-2041 | | | | | 7,419,175 | 824,089 |
| Total | <u>\$1,420,826</u> | <u>\$0</u> | <u>\$5,245,000</u> | <u>\$1,295,421</u> | <u>\$34,621,892</u> | <u>\$24,496,278</u> |

| | Revenue Bonds (Gross) | | Total | |
|-----------|------------------------------|---------------------|---------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2013 | \$ 1,300,000 | \$ 1,061,489 | \$ 2,664,686 | \$ 2,653,579 |
| 2014 | 1,330,000 | 1,134,372 | 2,742,274 | 2,679,900 |
| 2015 | 1,360,000 | 1,103,325 | 2,816,346 | 2,598,552 |
| 2016 | 1,410,000 | 1,062,849 | 2,917,033 | 2,510,919 |
| 2017 | 1,450,000 | 1,013,821 | 2,999,404 | 2,415,862 |
| 2018-2022 | 7,220,000 | 4,210,148 | 15,267,202 | 10,401,327 |
| 2023-2027 | 8,405,000 | 2,459,088 | 13,866,819 | 7,435,074 |
| 2028-2032 | 4,020,000 | 332,744 | 9,903,437 | 4,173,743 |
| 2033-2037 | | | 7,186,342 | 2,476,490 |
| 2038-2041 | | | 7,419,175 | 824,089 |
| Total | <u>\$26,495,000</u> | <u>\$12,377,836</u> | <u>\$67,782,718</u> | <u>\$38,169,535</u> |

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

15. CAPITAL LEASES – LESSEE DISCLOSURE

The City entered into a capital lease in 2009 for a new VoIP phone system from Cisco. This lease meets the criteria of a capital lease pursuant to generally accepted accounting principles. Capital lease payments are reflected as debt service expenditures in the governmental fund statements and as a reduction of the liability in the entity wide statements and enterprise fund statements. A capital asset has been recorded in the amount of \$491,016 and allocated 50% to governmental activities, 25% to the water fund and 25% to the sewer fund. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the long term liabilities section of the entity wide statements and enterprise fund statements. Principal payments in 2012 totaled \$51,142 in governmental-type activities and \$51,142 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 2012 totaled \$25,470.

The City entered into a capital lease in 2011 to purchase a new copier 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 \$4,850. 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 2012 totaled \$831.

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

| Year Ending December 31, | Governmental-type Activities | Business-type Activities |
|---|---|-------------------------------------|
| 2013 | \$ 85,678 | \$55,179 |
| 2014 | 35,097 | 4,598 |
| 2015 | 1,228 | |
| 2016 | 615 | |
| Total Minimum Lease Payments | 122,618 | 59,777 |
| Less: Amount Representing Interest | (6,188) | (1,604) |
| Present Value of Minimum Lease Payments | <u>\$116,430</u> | <u>\$58,173</u> |

16. INTERFUND TRANSACTIONS

A. Interfund Transactions

Interfund transactions are used by the City to fund small special assessment projects. As of December 31, 2012, receivable and payables that resulted from interfund transactions for governmental manuscript debt and the reimbursement of expenditures in enterprise funds were as follows

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

16. INTERFUND TRANSACTIONS (Continued)

| | <u>Interfund Receivable</u> | <u>Interfund Payable</u> | <u>Due to Other Funds</u> | <u>Due from Other Funds</u> |
|----------------------------|---------------------------------|------------------------------|-------------------------------|---------------------------------|
| Governmental Funds: | | | | |
| Debt Service | \$163,000 | | | \$118,580 |
| Capital Projects | | \$163,000 | \$118,580 | |
| Total Governmental Funds | <u>163,000</u> | <u>163,000</u> | <u>118,580</u> | <u>118,580</u> |
| Enterprise Funds: | | | | |
| Sanitary Sewer Fund | | | | 317,000 |
| Storm Water Fund | | | 317,000 | |
| Total Enterprise Funds | | | <u>317,000</u> | <u>317,000</u> |
| Total All Funds | <u>\$163,000</u> | <u>\$163,000</u> | <u>\$435,580</u> | <u>\$435,580</u> |

- B. Reconciliation of Interfund Transfers** which were necessary for repayment of prior year manuscript debt.

| | <u>Transfers In</u> | <u>Tranfers Out</u> |
|------------------|---------------------|---------------------|
| Debt Service | | \$61,410 |
| Capital Projects | \$61,410 | |
| Totals | <u>\$61,410</u> | <u>\$61,410</u> |

C. Advances To/From Other Funds Transactions

As of December 31, 2012, advances to and from other fund transactions to eliminate negative cash positions were as follows:

| | <u>Advances To Other Funds</u> | <u>Advances From Other Funds</u> |
|----------------------------------|------------------------------------|--------------------------------------|
| General Fund | \$168,023 | |
| Other Governmental Funds: | | |
| Weed/Property Cleanup | | \$ 54,100 |
| JAG 2010-DJ-BX-0187 | | 2,812 |
| BYRNE JAG 2011-DJ-BX-3248 | | 1,412 |
| 2011-JG-E01-6837 JAG | | 25,500 |
| Moving Ohio Forward Grant | | 5,903 |
| 2012-DJ-BX-0148 JAG | | 5,244 |
| Land Utilization Fund | | 9,500 |
| EDA Award 06-78-05329 | | 15,498 |
| Special Assessment Debt | | 48,054 |
| Totals | <u>\$168,023</u> | <u>\$168,023</u> |

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

17. DEFERRED REVENUE

Deferred revenue at December 31, 2012 consisted of the following:

| | Statement of Net Position | Balance Sheet |
|--------------------------------|--------------------------------------|--------------------------|
| Property Taxes Receivable | \$ 1,019,446 | \$ 1,266,390 |
| Income Taxes Receivable | | 1,909,453 |
| Grants Receivable | | 1,058,142 |
| Special Assessments Receivable | 7,326,607 | 7,326,607 |
| Deferred Revenue | \$ 8,346,053 | \$ 11,560,592 |

18. CONTRACTUAL COMMITMENTS

As of December 31, 2012, the City had contractual commitments for the following projects:

| | Contractual Commitment | Expended | Balance 12/31/2012 |
|--|-----------------------------------|--------------------|-------------------------------|
| Peterson Construction - Softening Basin Improvements | \$ 704,000 | \$ 554,303 | \$ 149,697 |
| Midwest Mole - Collett St Sewer Lining | 1,885,233 | 1,524,960 | 360,273 |
| The Shelly Company - Various Street Resurfacing | 730,148 | 295,766 | 434,382 |
| Tuttle Construction - Cambridge Center Improvements | 1,032,950 | | 1,032,950 |
| Muhlenkamp Building Corp - Municipal Building Entry | 37,699 | | 37,699 |
| Ben's Construction - Demo 1101 W North St | 17,300 | | 17,300 |
| Barr & Prevost - Market Street Corridor | 254,300 | 163,892 | 90,408 |
| Arcadis G&M - Pumping Stations | 747,000 | 664,367 | 82,633 |
| GEM Energy | 218,000 | 109,000 | 109,000 |
| Peterson Construction - Bresler Reservoir Pump Station Upgrade | 2,028,000 | 1,908,410 | 119,590 |
| Totals | \$7,654,630 | \$5,220,698 | \$2,433,932 |

19. CONTINGENT LIABILITIES

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City at December 31, 2012.

B. Litigation

As of December 31, 2012, the City was a party to various legal proceedings seeking damages or injunctive relief, arising in the course of ordinary business. The ultimate disposition of these proceedings is not presently determinable, but will not, in the opinion of the City Attorney, have a material adverse effect on the overall financial condition of the City.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

19. CONTINGENT LIABILITIES (Continued)

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.

20. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For 2012, the City has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the City.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 Financial Accounting Standards Board and American Institute of Certified Public Accountants pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the City.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows or resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the City's financial statements to incorporate the concepts of net position.

B. Deficit Fund Balances

At December 31, 2012, the Weed/Property Clean Up fund, JAG 2010 Grant, the Byrne JAG 2011 Grant, the JAG 2011 Grant, the Ohio Forward Demo Program fund, JAG 2012 Grant, the Land Utilization fund, the Byrne 2007 Grant, the Court Watch fund, EDA Award fund, and the Special Assessment Debt Service fund had deficit fund balances, in the amounts of \$52,473, \$2,812, \$1,412, \$25,500, \$26,590, \$6,407, \$3,576, \$1, \$1, \$15,498, and \$43,053, respectively, resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

21. JOINT VENTURE

Lima-Allen County Downtown Construction

The County and the City of Lima (City) entered into a joint funding agreement for the construction and funding of certain facilities, including the expansion of the Veteran's Memorial Civic and Convention Center, a parking garage, and a pedestrian overhead walkway (skywalk) from the Civic Center addition to the parking garage. The Civic Center expansion and the skywalk were constructed by and are owned by the County. The parking garage was constructed by and is owned by the City.

The operation and maintenance costs associated with the skywalk and the parking garage are the joint responsibility of the County and the City. The City and the County share equally the net revenue/(loss) derived from the garage. Complete financial information can be obtained from the Allen County Commissioners, Becky Saine, County Administrator, Allen County, Ohio.

The City of Lima has agreed to enter into a long-term lease agreement with the County offering the County a one-half ownership interest in the parking garage, which will be operated and maintained by the Lima-Allen County Joint Parking Commission, in accordance with the rules and regulations established for the JPC (Note 22). As of December 31, 2012 this lease has not been entered into.

22. JOINTLY GOVERNED ORGANIZATIONS

A. Lima-Allen County Regional Planning Commission

The Lima-Allen County Regional Planning Commission is a political organization as established and set forth under Section 713.21 et seq. of the Ohio Revised Code. Representation on the Commission consists of six delegates and six alternates appointed by the Allen County Board of Commissioners, one delegate and one alternate for each 5,000 persons determined by the last federal decennial census from each municipal corporation and each of the townships participating in the Commission; provided that in no event shall any cooperating municipality or township have less than one delegate and one alternate to the Commission.

Each participating municipality and township contributes in each calendar year twenty cents per capita according to the latest federal census. Duties of the Commission include making studies, maps, plans and other reports of the County and adjoining areas, showing recommendations for systems of transportation highways, park and recreational facilities, water supply, sewerage disposal, garbage disposal, civic centers and other public improvements and land uses which affect the development of the region.

The Commission has the authority to employ an Executive Director, engineers, accountants, attorneys, planners and others as may be necessary and set their compensation. Complete financial statements can be obtained from Marlene Schumaker, Grant Coordinator at the Lima-Allen County Regional Planning Commission, Allen County, Ohio.

B. Lima-Allen County Joint Parking Commission

The County and the City of Lima have established a joint parking commission (JPC) which will be responsible for developing and implementing a joint City-County parking system for the Central Business District in Lima, and will have management control over the downtown parking garage and various downtown surface lots placed under the administration of the JPC by the respective parties. The JPC establishes policies for the operation of the parking system under its' control, including rates to be charged.

The JPC is comprised of two members, one appointed by the Mayor of the City of Lima, and one appointed by the President of the Board of County Commissioners.

CITY OF LIMA
ALLEN COUNTY

SCHEDULE OF FEDERAL AWARD EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2012

| Federal Grantor/ Program Title | CFDA Number | Agency or Pass-Through Number | Federal Disbursements |
|---|----------------|----------------------------------|--------------------------|
| U. S. Department of Housing and Urban Development | | | |
| Direct Programs: | | | |
| Community Development Block Grants/Entitlement Grants | 14.218 | B11-MC-39-0014 | \$647,831 |
| Community Development Block Grants/Entitlement Grants | 14.218 | B12-MC-39-0014 | 393,589 |
| Home Investment Partnerships Program | 14.239 | M11-MC-39-0219 | 343,548 |
| ARRA - Homelessness Prevention and Rapid Re-Housing Program (HPRP) | 14.257 | S-09-MY-39-0014 | 32,967 |
| | | | <u>1,417,935</u> |
| <i>Passed through the Ohio Department of Development</i> | | | |
| ARRA - Neighborhood Stabilization Program | 14.228 | A-Z-08-240-1 | 665,902 |
| | | | <u>665,902</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>2,083,837</u> |
| U.S. Department of Justice | | | |
| Direct Program: | | | |
| Bulletproof Vest Partnership Program | 16.607 | | 4,200 |
| <i>Passed through Ohio Department of Public Safety - Office of Criminal Justice</i> | | | |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 2009-DJ-BX-0344 | 4,963 |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 2010-DJ-BX-0187 | 29,864 |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 2012-DJ-BX-0148 | 5,244 |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 2010-JG-E01-6837 | 25,500 |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 2011-DJ-BX-3248 | 32,565 |
| Total Edward Byrne Memorial Justice Assistance Grant Program | | | <u>98,136</u> |
| ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to Units of Local Government | 16.804 | 2009-SB-B9-0323 | 20,951 |
| | | | <u>20,951</u> |
| ARRA - Public Safety Partnership and Community Policing Grants | 16.710 | 2009 RKWX0659 | 232,558 |
| ARRA - Public Safety Partnership and Community Policing Grants | 16.710 | 2011 UMWX0143 | 43,093 |
| Total ARRA - Public Safety Partnership and Community Policing Grants | | | <u>275,651</u> |
| Total U.S. Department of Justice | | | <u>398,938</u> |
| U.S. Department of Transportation | | | |
| <i>Passed through Ohio Department of Transportation</i> | | | |
| Highway Planning and Construction - Lima Railroad Grade Separation | 20.205 | PID-80441 | 87,269 |
| Highway Planning and Construction - Lima Traffic Study | 20.205 | PID-82576 | 882,971 |
| Highway Planning and Construction -ALL Lima Traffic | 20.205 | PID-90948 | 44,568 |
| Highway Planning and Construction - ALL Elm Street Reconstuction | 20.205 | PID-90185 | 840,476 |
| Highway Planning and Construction - Vine Street Railroad Grade Separation | 20.205 | PID-86297 | 26,048 |
| ARRA Highway Planning and Construction- Vine Street Railroad Grade Separation | 20.205 | PID-86297 | 627,875 |
| Total U.S. Department of Transportation | | | <u>2,509,207</u> |
| U.S. Department of Commerce Economic Development Administration | | | |
| Direct Programs: | | | |
| Economic Development Technical Assistance | 11.303 | 06-78-05329 | 43,538 |
| Total U.S. Department of Commerce | | | <u>43,538</u> |
| U.S. Department of Homeland Security | | | |
| Direct Programs: | | | |
| Assistance to Firefighters Grant | 97.044 | EMW-2010-FP-00569 | 4,567 |
| Assistance to Firefighters Grant | 97.044 | EMW-2011-FO-03805 | 45,054 |
| Total U.S. Department of Homeland Security | | | <u>49,621</u> |
| U.S. Department of Agriculture | | | |
| Plant and Health Inspection Service | | | |
| <i>Passed through Ohio Department of Natural Resources</i> | | | |
| Plant and Animal Disease, Pest Control, and Animal Care | 10.025 | USDA-Grants-071411-001 | 2,041 |
| Total U.S. Department of Agriculture | | | <u>2,041</u> |
| Total Federal Financial Assistance | | | <u>\$5,087,182</u> |

See accompanying notes to the Schedule of Federal Awards Expenditures

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) reports the City of Lima (the City) federal award programs' disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B – SUB-RECIPIENTS

The City passes certain federal awards received from the U.S. Department of Housing and Urban Development to other governments or not-for-profit agencies (sub-recipients). As Note A describes, the City reports expenditures of Federal awards to sub-recipients when paid in cash.

As a sub-recipient, the City has certain compliance responsibilities, such as monitoring its sub-recipients to help assure they use these sub-awards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that sub-recipients achieve the award's performance goals.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

City of Lima
Allen County
50 Town Square
Lima, Ohio 45801

To the Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lima, Allen County, Ohio (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2013, wherein we noted the City adopted Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

October 16, 2013



Dave Yost • Auditor of State

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

City of Lima
Allen City
50 Town Square
Lima, Ohio 45801

To the Members of Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Lima's (the City) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the City of Lima's major federal programs for the year ended December 31, 2012. The *Summary of Audit Results* in the accompanying schedule of findings identifies the City's major federal programs.

Management's Responsibility

The City's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the City's compliance for each of the City's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect 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 our audit provides a reasonable basis for our compliance opinion on the City's major programs. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Lima complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2012.

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www.ohioauditor.gov

Report on Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the City's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined 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, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *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 federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

October 16, 2013

CITY OF LIMA
ALLEN COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2012

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|--|--|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unmodified |
| <i>(d)(1)(ii)</i> | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material internal control weaknesses reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any significant deficiencies in internal control reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unmodified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under § .510(a)? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Community Development Block Grant/Entitlement Grants CFDA#14.218 ARRA-Neighborhood Stabilization Program CFDA#14.228 HOME Investment Partnership Program CFDA#14.239 Highway Planning and Construction CFDA# 20.205 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | No |

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**CITY OF LIMA
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2012**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain |
|----------------|---|------------------|---|
| 2011-01 | Accuracy of Financial Reporting | No | Repeated in the management letter. |
| 2001-02 | <p>Noncompliance Citation – Material Weakness</p> <p>ARRA - Homelessness Prevention and Rapid Re-Housing Program (HPRP) - CFDA #14.257, ARRA Public Safety Partnership and Community Policing Grant –CFDA #16.710 and Highway Planning and Construction – (ARRA and non-ARRA) CFDA #20.205</p> <p>OMB Circular A-133, Subpart C, Section 300(d) and OMB Circular A-133, Subpart C, Section 310(b)(3) - the schedule of federal expenditures had reporting errors</p> | Yes | |
| 2011-03 | <p>Noncompliance Citation – Material Weakness / Reporting</p> <p>Homelessness Prevention and Rapid Re-Housing Program (HPRP) – ARRA - CFDA #14.257</p> <p>24 CFR 85.20 (b)(1) Not all of the amounts reported on the performance reports were supported by the City's accounting records and the grant was not separately identified on the schedule of federal expenditures</p> | Yes | |
| 2011-04 | <p>Noncompliance Citation / Material Weakness / Special Tests and Provisions</p> <p>ARRA Highway Planning and Construction – Vine Street Railroad Grade Separation - CFDA #20.205</p> <p>2 CFR Section 176.210(a) and 2 CFR Section 176.210(b) separate funds were not to use to account for the ARRA and non-ARRA portions of this grant and the ARRA expenditures were not separately reported from the non-ARRA expenditures on the schedule of federal expenditures.</p> | Yes | |



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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
NOVEMBER 12, 2013**