



Dave Yost • Auditor of State

**CITY OF LIMA
ALLEN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of Council:

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lima, Allen County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 20, during the year ended December 31, 2011, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Also, as described in Note 20, the Net Assets of the Proprietary Funds were restated.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2012, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements taken as a whole. The Schedule of Federal Award Expenditures provides additional information 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 basic financial statements. The Schedule of Federal Award Expenditures is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

November 27, 2012

**CITY OF LIMA
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(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, 2011. 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 2011 are as follows:

- General Revenues accounted for \$20.5 million in revenue or 30.5 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$46.6 million or 69.5 percent of total revenues of \$67.1 million.
- Total program expenses were \$54.7 million, \$34.2 million in governmental activities and \$20.5 million in business-type activities.
- In total, net assets increased \$12,357,832. Net assets of governmental activities increased \$5,945,426, which represents a 9.1 percent increase from 2010. Net assets of business-type activities increased \$6,412,406 or 13 percent from 2010.
- Outstanding debt increased from \$70,022,255 to \$83,147,229. The City did retire \$605,010 in bond anticipation notes originally issued in prior years with a \$1,060,000 various purpose general obligation bond. The bond is accounted for in the governmental type activities and was used to retire the outstanding bond anticipation note that had been used for street reconstruction, traffic signal improvements and to purchase a new ladder truck for the fire department. The remaining proceeds of the bond were used to purchase parking garage equipment, provide the local match for a fire truck grant and purchase various other pieces of safety services equipment.

In addition to the bond issue, the City issued new debt for the both the water and sewer utilities. The City's water utility continued to draw on a loan agreement with the Ohio Water Development Authority to finance the construction of a new above ground reservoir. The final amount of this loan will not be determined until construction is complete. The completion date is the end of the first quarter of 2012. Payments on this loan will begin in 2012. The maximum amount the City is authorized to borrow under this agreement is \$30,639,757. At the end of 2011 the City had drawn down \$30,212,656 of this loan. 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 \$16,400,646. As of December 31, 2011 the City had requested total draws of \$10,916,275. Payments on this loan are anticipated to begin in 2013.

The City's water utility also 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 2011 the City had drawn down \$866,600 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 2011 the City had drawn down \$8,881 of this loan. Payments are expected to begin in 2013.

The City also entered into a five year capital lease for a new copier for the fire department in 2011.

CITY OF LIMA
ALLEN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(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 assets and the statement of changes in net assets provide information from a summary perspective showing the effects of the operations for the year 2011 and how they affected the operations of the City as a whole.

Reporting the City of Lima as a Whole

Statement of Net Assets and the Statement of Activities

The *statement of net assets and statement of activities* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other 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 2011?" The statement of net assets and the statement of activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the City is divided into two distinct kinds of activities:

Governmental Activities - Most of the City's programs and services are reported here, including general government, security of persons and property, community environment, leisure time activities and transportation.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's water, sewer, 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, 2011
(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 funds are the general fund and the Vine St. Railroad Grade Separation capital project fund.

Governmental Funds - Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides.

Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance additional services or programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the Vine Street Railroad Grade Separation capital fund, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

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

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

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

The City of Lima as a Whole

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

Table 1 provides a summary of the City's net assets for 2011 compared to 2010:

**CITY OF LIMA
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)
(Continued)**

**(Table 1)
Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets						
Current and Other Assets	\$26,838,527	\$38,620,929	\$22,242,842	\$22,029,530	\$49,081,369	\$ 60,650,459
Capital Assets	59,647,199	52,350,105	119,035,321	99,520,514	178,682,520	151,870,619
Total Assets	<u>86,485,726</u>	<u>90,971,034</u>	<u>141,278,163</u>	<u>121,550,044</u>	<u>227,763,889</u>	<u>212,521,078</u>
Liabilities						
Long-Term Liabilities	5,294,318	5,311,926	81,215,665	68,254,218	86,509,983	73,566,144
Other Liabilities	9,790,107	20,203,233	4,508,885	4,154,619	14,298,992	24,357,852
Total Liabilities	<u>15,084,425</u>	<u>25,515,159</u>	<u>85,724,550</u>	<u>72,408,837</u>	<u>100,808,975</u>	<u>97,923,996</u>
Net Assets						
Invested in Capital Assets Net of Debt	56,821,196	49,676,862	38,714,090	32,171,497	95,535,286	81,848,359
Restricted	5,811,178	8,144,474			5,811,178	8,144,474
Unrestricted	8,768,927	7,634,539	16,839,523	16,969,710	25,608,450	24,604,249
Total Net Assets	<u>\$71,401,301</u>	<u>\$65,455,875</u>	<u>\$55,553,613</u>	<u>\$49,141,207</u>	<u>\$126,954,914</u>	<u>\$114,597,082</u>

Total assets increased by \$15.2 million with governmental assets decreasing \$4.5 million and business-type assets increasing \$19.7 million. Governmental activities current and other assets decreased by \$11.8 million in 2011. This is largely the result of a decrease in intergovernmental receivables of \$12.7 million. This reflects several large grants received in 2009 that are being used to complete capital projects over 2010 and 2011.

The change in current assets also includes an increase of \$1.03 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 \$7.3 million increase to capital assets is discussed in the capital asset section of the MD & A.

The \$213,312 increase in business-type activities current and other assets is due to an increase in the special assessments in the utility funds. This special assessments in the business-type activities comes from the storm water utility charges for services. The \$19.5 million increase to business-type activities capital assets is also discussed later in this MD & A.

Total liabilities increased by \$2.9 million, with business-type liabilities increasing \$13.3 million and governmental activities liabilities decreasing \$10.4 million. The increase in business-type liabilities was the result of the increase of outstanding debt by \$13 million. The decrease in Governmental activities liabilities was caused by a decrease in deferred revenue of \$9.6 million. This deferred revenue is related to several capital project related grants received by the City in 2009 and used to fund projects in 2011. There was also a decrease of \$484,371 in the governmental activities intergovernmental payables. This decrease was caused by the completion of several grant funded projects in 2011.

Total net assets increased by \$12.3 million. This number reflects an increase in governmental activities of \$5.9 million and an increase in the net assets of the business-type activities of \$6.4 million.

**CITY OF LIMA
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)
(Continued)**

Table 2 shows the changes in net assets for fiscal year 2011. This table also compares changes in net assets between 2011 and 2010. This will enable the reader to draw further conclusion about the City's financial status and possibly project future issues.

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for Services	\$9,314,095	\$8,783,126	\$26,077,915	\$24,447,046	\$35,392,010	\$33,230,172
Operating Grants	4,046,753	4,126,832			4,046,753	4,126,832
Capital Grants	7,085,608	10,768,111	37,437	63,724	7,123,045	11,405,835
General Revenues:						
Property Taxes	1,253,445	1,182,230			1,253,445	1,182,230
Income Taxes	15,201,098	15,003,484			15,201,098	15,003,484
Other Local Taxes	179,510	151,253			179,510	151,253
Grants and Entitlements	2,803,517	4,103,727			2,803,517	4,103,727
Transfers	31,691	(1,088,635)	(31,691)	1,088,635		
Rebate on RZ and BAB Bonds	25,726	8,590	214,327	107,164	240,053	115,754
Gain (Loss) on Sale of Capital Assets	52,288	47,078	17,912	9,992	70,200	57,070
Investments	556,065	(116,390)	51,838	56,654	607,903	(59,736)
Contributed Capital	(527,031)		527,031			
Miscellaneous	158,562	124,343			158,562	124,343
Total Revenues	40,181,327	43,093,749	26,894,769	26,347,215	67,076,096	69,440,964
Program Expenses:						
General Government	8,220,143	8,555,199			8,220,143	8,555,199
Security of Persons and Property	16,553,253	15,742,649			16,553,253	15,742,649
Transportation	4,314,809	6,015,443			4,314,809	6,015,443
Community Environment	3,888,424	4,529,530			3,888,424	4,529,530
Leisure Time Activities	1,110,824	1,061,948			1,110,824	1,061,948
Interest and Fiscal Charges	148,448	97,438			148,448	97,438
Enterprise Operations:						
Water			8,939,535	9,595,208	8,939,535	9,595,208
Sewer			7,787,811	9,356,479	7,787,811	9,356,479
Refuse			2,747,615	2,597,847	2,747,615	2,597,847
Storm water			1,007,402	627,021	1,007,402	627,021
Total Program Expenses	34,235,901	36,002,207	20,482,363	22,176,555	54,718,264	58,178,762
Increase (Decrease) in Net Assets	\$5,945,426	\$7,091,542	\$ 6,412,406	\$4,170,660	\$12,357,832	\$11,262,202

**CITY OF LIMA
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)
(Continued)**

Governmental Activities

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

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

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

Police and fire represent the largest expense of the Governmental Activities. This expense of \$16,553,253 represents 48.4 percent of the total governmental services expenses. These two departments operate out of the General fund.

General government expenses equaled \$8,220,143 or 24 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 \$4,314,809 or 12.6 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 \$3,888,424 in 2011. This is 11.4 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 \$1,110,824 in 2011 equaling 3.2 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 2011, charges for services of \$26,077,915 accounted for 96.9 percent of the revenues. The total expenses for the utilities were \$20,482,363, leaving an increase in net assets of \$6,412,406 for the business-type activities.

**CITY OF LIMA
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)
(Continued)**

The City's Funds

Information about the City's governmental funds begins on page 16. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues, net of other financing sources, of \$41,990,524, a decrease of \$1,575,153 or 3.6 percent over 2010. All governmental funds had expenditures, net of other financing uses, of \$43,132,168, a decrease of \$2,692,172 or 5.9 percent over 2010. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

Information about the proprietary funds starts on page 19. These funds are accounted for on an accrual basis. All enterprise funds had operating revenues of \$26,077,915, an increase of \$1,630,869 or 6.7 percent from 2010. Enterprise funds operating expenses totaled \$18,734,834, a decrease of \$1,551,541 or 7.6 percent over 2010. The City is consistent with reviews of these funds, and the necessary adjustments are made to ensure strength in our enterprise funds.

General Fund Budgeting Highlights

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

During the course of 2011, 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 \$27.7 million, \$1.1 million over the final budget estimates of \$26.6 million. Property tax exceeded projections by \$35,398. Municipal income tax revenues were under the projected amount by \$122,331. Intergovernmental revenues and charges for services revenues were over projections by \$644,697 and \$239,881 respectively. Also coming in over projections were fees, licenses and permits revenue by \$180,766 and fines and forfeitures revenues by \$55,023. Investment income was lower than estimated by \$2,736.

Actual expenditures of \$27.2 million were \$1.7 million lower than the final appropriations of \$28.9 million. All of the City's departments came in under budget in 2011 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 \$1,079,104.

Capital Assets and Debt Administration

Capital Assets

At the end of year 2011, the City had \$178.6 million invested in land, buildings, equipment, infrastructure and vehicles. A total of \$59.6 million of this was for governmental activities with the remainder of \$119 million attributable to business-type activities. Table 3 shows fiscal year 2011 balances compared with 2010.

**CITY OF LIMA
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)
(Continued)**

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 7,191,912	\$ 7,167,423	\$ 5,115,926	\$ 5,115,926	\$ 12,307,838	\$12,283,349
Construction in Progress	15,039,052	9,546,662	61,746,947	41,527,191	76,785,999	51,073,853
Buildings and Improvements	8,617,725	8,851,541	23,691,477	24,703,146	32,309,202	33,554,687
Furniture and Equipment	1,408,947	1,400,267	4,939,756	5,670,731	6,348,703	7,070,998
Vehicles	1,439,123	1,337,755	1,690,329	633,848	3,129,452	1,971,603
Capitalized Interest			665,350	868,374	665,350	868,374
Infrastructure	25,950,440	24,046,457	21,185,536	21,001,298	47,135,976	45,047,755
Totals	\$59,647,199	\$52,350,105	\$119,035,321	\$99,520,514	\$178,682,520	\$151,870,619

Total capital assets increased by \$26.8 million in 2011. Governmental activities capital assets increased \$7.3 million. Construction in progress in the governmental activities increased by \$5.5 million, largely due to the South Side Rail Grade Separation project. Business-type activities saw an increase in capital assets of \$19.5 million. Construction in progress increased by \$20.2 million due to construction on 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 2011 year.

Debt Administration

The outstanding debt for the City as of December 31, 2011 was \$86,147,230. This balance reflects an increase of \$13,124,975 from the previous year's balance of \$70,022,255, an increase of 18.7 percent. Table 4 summarizes outstanding debt.

**(Table 4)
Outstanding Debt, at December 31**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	\$2,632,126	\$1,805,701	\$ 4,512,209	\$ 5,791,612	\$ 7,144,335	\$ 7,597,313
Revenue Bonds			27,707,482	28,964,554	27,707,482	28,964,554
Capital Leases	193,873	262,528	109,315	158,119	303,188	420,647
OWDA Loans			46,429,317	30,729,741	46,429,317	30,729,741
Bresler Termination Agreement			1,562,908	1,704,990	1,562,908	1,704,990
Notes Payable		605,010				605,010
Total	\$2,825,999	\$2,673,239	\$80,321,231	\$67,349,016	\$83,147,230	\$70,022,255

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) 1999 Parking Facility un-voted issue for the construction of downtown parking garage repaid from general governmental activities revenue; (4) 2004 un-voted debt issue for improvements to a City owned parking lot; (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; (6) 2004 Water and Sewer Bond Refunding un-voted issue for the purpose of refinancing the remaining portion of the water and sewer revenue bonds to be repaid from business-type activities charges for services revenue; (7) 2004 Sewer system screen project un-voted issue to be repaid from business-type activities charges for services revenue; (8) 2004 Wastewater Treatment Laboratory construction and renovation un-voted issue to be repaid from business-type activities charges for services revenue.

**CITY OF LIMA
ALLEN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)
(Continued)**

The Enterprise fund revenue bonds are for sewer and water treatment system improvements.

The City has seven 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 are scheduled to begin 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.

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 ASSETS
DECEMBER 31,2011**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$12,841,329	\$11,233,859	\$24,075,188
Taxes Receivable	4,282,833		4,282,833
Accounts Receivable	590,626	4,141,457	4,732,083
Intergovernmental Receivable	2,179,500		2,179,500
Special Assessments Receivable	6,045,580	2,558,625	8,604,205
Accrued Interest Receivable	56,688		56,688
Materials and Supplies Inventory	80,404	66,733	147,137
Notes Receivable	760,538		760,538
Prepaid Items	61,103	77,825	138,928
Un-amortized Bond Issuance Costs	53,267	617,416	670,683
Internal Balances	(147,229)	147,229	
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents		497,216	497,216
Cash and Cash Equivalents with Fiscal and Escrow Agents	33,888	2,902,482	2,936,370
Non-depreciable Capital Assets	22,230,964	66,862,873	89,093,837
Depreciable Capital Assets, Net	37,416,235	52,172,448	89,588,683
Total Assets	86,485,726	141,278,163	227,763,889
Liabilities:			
Accounts Payable	368,048	616,460	984,508
Contracts Payable	629,915	2,032,721	2,662,636
Accrued Wages	421,090	109,132	530,222
Retainage Payable		647,468	647,468
Intergovernmental Payable	849,832	276,584	1,126,416
Deferred Revenue	7,068,046		7,068,046
Accrued Interest Payable	10,225	329,304	339,529
Claims Payable	442,951		442,951
Payable from Restricted Assets:			
Refundable Deposits		497,216	497,216
Long-Term Liabilities:			
Due Within One Year	488,431	3,725,159	4,213,590
Due In More Than One Year	4,805,887	77,490,506	82,296,393
Total Liabilities	15,084,425	85,724,550	100,808,975
Net Assets:			
Invested in Capital Assets, Net of Related Debt	56,821,196	38,714,090	95,535,286
Restricted for:			
Capital Projects	194,001		194,001
Debt Service	593,543		593,543
Other Purposes	5,023,634		5,023,634
Unrestricted	8,768,927	16,839,523	25,608,450
Total Net Assets	\$71,401,301	\$55,553,613	\$126,954,914

See accompanying notes to the basic financial statements.

**CITY OF LIMA
ALLEN COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants, Contributions and Interest</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
Security of Persons and Property	\$16,553,253	\$462,502	\$568,165	\$75,000
Leisure Time Activities	1,110,824	50,973	50,000	
Community Environment	3,888,424	416,275	2,122,137	798
Transportation	4,314,809	535,746	1,297,524	7,009,810
General Government	8,220,143	7,848,599	8,927	
Interest and Fiscal Charges	148,448			
Total Governmental Activities	<u>34,235,901</u>	<u>9,314,095</u>	<u>4,046,753</u>	<u>7,085,608</u>
Business-Type Activities:				
Water	8,939,535	11,093,380		37,437
Sewer	7,787,811	9,882,568		
Refuse	2,747,615	2,757,241		
Storm Water	1,007,402	2,344,726		
Total Business-Type Activities	<u>20,482,363</u>	<u>26,077,915</u>		<u>37,437</u>
Totals	<u>\$54,718,264</u>	<u>\$35,392,010</u>	<u>\$4,046,753</u>	<u>\$7,123,045</u>

General Revenues:

Property Taxes Levied for:

General Purposes

Income Tax Levied for:

General Purposes

Other Local Taxes

Intergovernmental Revenue

Transfers

Contributed Capital

Rebate on RZ and BAB Bonds

Gain on Sale of Capital Asset

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
(\$15,447,586)		(\$15,447,586)
(1,009,851)		(1,009,851)
(1,349,214)		(1,349,214)
4,528,271		4,528,271
(362,617)		(362,617)
(148,448)		(148,448)
<u>(13,789,445)</u>		<u>(13,789,445)</u>
	\$2,191,282	2,191,282
	2,094,757	2,094,757
	9,626	9,626
	1,337,324	1,337,324
	<u>5,632,989</u>	<u>5,632,989</u>
<u>(13,789,445)</u>	<u>5,632,989</u>	<u>(8,156,456)</u>
1,253,445		1,253,445
15,201,098		15,201,098
179,510		179,510
2,803,517		2,803,517
31,691	(31,691)	
(527,031)	527,031	
25,726	214,327	240,053
52,288	17,912	70,200
556,065	51,838	607,903
158,562		158,562
<u>19,734,871</u>	<u>779,417</u>	<u>20,514,288</u>
5,945,426	6,412,406	12,357,832
<u>65,455,875</u>	<u>49,141,207</u>	<u>114,597,082</u>
<u>\$71,401,301</u>	<u>\$55,553,613</u>	<u>\$126,954,914</u>

**CITY OF LIMA
ALLEN COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	<u>General</u>	<u>Vine St RRGs Capital</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in Pooled Cash and Cash Equivalents With Fiscal and Escrow Agents	\$5,152,839	\$72,152	\$5,895,283	\$11,120,274
Receivables:				
Taxes	4,244,332		38,501	4,282,833
Accounts	590,626			590,626
Intergovernmental	773,984	332,291	1,073,225	2,179,500
Special Assessments			6,045,580	6,045,580
Accrued Interest	55,846		842	56,688
Interfund Receivable			42,270	42,270
Materials and Supplies Inventory			4,431	4,431
Due From Other Funds			141,990	141,990
Notes Receivable			760,538	760,538
Prepaid Items	55,757		5,346	61,103
Restricted Assets:				
Cash and Cash Equivalents with Fiscal and Escrow Agents			33,888	33,888
Advances to Other Funds	351,529			351,529
Total Assets	<u>11,224,913</u>	<u>404,443</u>	<u>14,041,894</u>	<u>25,671,250</u>
Liabilities:				
Accounts Payable	144,888		142,074	286,962
Contracts Payable		577,247	52,668	629,915
Interfund Payable			42,270	42,270
Accrued Wages	384,770		36,320	421,090
Compensated Absences Payable	63,413			63,413
Intergovernmental Payable	797,063		52,769	849,832
Deferred Revenue	3,581,672		6,725,781	10,307,453
Due To Other Funds			141,990	141,990
Advances from Other Funds			351,529	351,529
Total Liabilities	<u>4,971,806</u>	<u>577,247</u>	<u>7,545,401</u>	<u>13,094,454</u>
Fund Balances:				
Non-spendable	300,747		9,777	310,524
Restricted			5,226,640	5,226,640
Committed			893,710	893,710
Assigned	409,547		651,067	1,060,614
Unassigned	5,542,813	(172,804)	(284,701)	5,085,308
Total Fund Balances	<u>6,253,107</u>	<u>(172,804)</u>	<u>6,496,493</u>	<u>12,576,796</u>
Total Liabilities and Fund Balances	<u>\$11,224,913</u>	<u>\$404,443</u>	<u>\$14,041,894</u>	<u>\$25,671,250</u>

See accompanying notes to the basic financial statements.

**CITY OF LIMA
ALLEN COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011**

Total Governmental Funds Balances	\$12,576,796
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Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	59,647,199
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Property Taxes	209,645
Income Tax	1,853,639
Intergovernmental	1,176,123
Unamortized Bond Issuance Costs	<u>53,267</u>

Total	3,292,674
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An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Net Assets	1,272,991
Internal Balances	<u>(147,229)</u>

Total	1,125,762
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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	(2,632,126)
Compensated Absences	(2,294,906)
Capital Leases Payable	(193,873)
Judgments Payable	(110,000)
Accrued Interest Payable	<u>(10,225)</u>

Total	<u>(5,241,130)</u>
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Net Assets of Governmental Activities	<u><u>\$71,401,301</u></u>
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See accompanying notes to the basic financial statements.

**CITY OF LIMA
ALLEN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>General</u>	<u>Vine St RRGs Capital</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property Taxes	\$1,237,398			\$1,237,398
Municipal Income Taxes	15,129,368			15,129,368
Other Local Taxes			\$179,510	179,510
Intergovernmental	2,825,524	\$4,515,246	8,408,451	15,749,221
Charges for Services	5,741,954		594,316	6,336,270
Fees, Licenses and Permits	975,678			975,678
Fines and Forfeitures	1,012,717		505,216	1,517,933
Special Assessments			77,910	77,910
Investment Income	527,939		53,912	581,851
Miscellaneous	181,596		23,789	205,385
Total Revenues	<u>27,632,174</u>	<u>4,515,246</u>	<u>9,843,104</u>	<u>41,990,524</u>
Expenditures:				
Current:				
Security of Persons and Property	15,752,908		683,760	16,436,668
Leisure Time Activities	927,972		94,007	1,021,979
Community Development	895,811		2,899,258	3,795,069
Transportation	1,061,710		2,269,824	3,331,534
General Government	7,606,379		355,523	7,961,902
Capital Outlay	154,206	5,676,811	3,684,980	9,515,997
Debt Service:				
Principal Retirement	73,505		833,500	907,005
Interest and Fiscal Charges	14,958		147,056	162,014
Total Expenditures	<u>26,487,449</u>	<u>5,676,811</u>	<u>10,967,908</u>	<u>43,132,168</u>
Excess of Revenues Under Expenditures	<u>1,144,725</u>	<u>(1,161,565)</u>	<u>(1,124,804)</u>	<u>(1,141,644)</u>
Other Financing Sources (Uses):				
Premium on General Obligation Bonds				
Proceeds of Bonds			1,060,000	1,060,000
Rebates on RZ and BAB Bonds			25,726	25,726
Proceeds from Sale of Capital Assets	54,043			54,043
Inception of Capital Lease	4,850			4,850
Operating Transfers - In			247,173	247,173
Operating Transfers - Out	(25,261)		(221,912)	(247,173)
Total Other Financing Sources	<u>33,632</u>		<u>1,110,987</u>	<u>1,144,619</u>
Net Change in Fund Balances	1,178,357	(1,161,565)	(13,817)	2,975
Fund Balances Beginning of Year - Restated Note 20	<u>5,074,750</u>	<u>988,761</u>	<u>6,510,310</u>	<u>12,573,821</u>
Fund Balances End of Year	<u>\$6,253,107</u>	<u>(\$172,804)</u>	<u>\$6,496,493</u>	<u>\$12,576,796</u>

See accompanying notes to the basic financial statements.

**CITY OF LIMA
ALLEN COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Net Change in Fund Balances - Total Governmental Funds		\$2,975
<p>Amounts reported for governmental activities in the statement of activities are different because</p> <p>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.</p>		
Capital Outlay		\$10,553,813
Depreciation		<u>(3,256,719)</u>
Total		7,297,094
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Property Taxes		16,047
Income Tax		71,730
Intergovernmental		<u>(1,479,648)</u>
Total		(1,391,871)
<p>Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets.</p>		
Recovery Zone Bonds		(1,060,000)
Inception of Capital Lease		(4,850)
<p>Premiums on bond or note issuances are realized when received in the governmental funds, but reduce interest expense on the statement of activities.</p>		
		5,085
<p>Repayment of bond principal is an expenditure in the governmental funds, funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		833,500
<p>Payment on a capital lease is an expenditure in the governmental but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		73,505
<p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.</p>		
		7,160
<p>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.</p>		
		1,465
<p>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.</p>		
Compensated Absences		231,194
<p>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.</p>		
Change in Net Assets		(31,341)
Internal Balances		<u>(18,490)</u>
Total		<u>(49,831)</u>
Change in Net Assets of Governmental Activities		<u><u>\$5,945,426</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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property Taxes	\$1,202,000	\$1,202,000	\$1,237,398	\$35,398
Municipal Income Taxes	15,500,000	15,500,000	15,377,669	(122,331)
Intergovernmental	2,188,000	2,188,000	2,832,697	644,697
Charges for Services	5,655,100	5,655,100	5,894,981	239,881
Fees, Licenses and Permits	730,200	730,200	910,966	180,766
Fines and Forfeitures	985,000	985,000	1,040,023	55,023
Investment Income	250,000	250,000	247,264	(2,736)
Miscellaneous	145,000	145,000	181,347	36,347
Total Revenues	<u>26,655,300</u>	<u>26,655,300</u>	<u>27,722,345</u>	<u>1,067,045</u>
Expenditures:				
Current:				
Security of Persons and Property	15,801,596	16,741,828	16,037,359	704,469
Leisure Time Activities	958,736	979,435	935,289	44,146
Community Development	872,730	940,280	893,069	47,211
Transportation	1,231,994	1,277,610	1,161,017	116,593
General Government	8,442,918	8,499,292	7,961,863	537,429
Capital Outlay	200,000	430,562	135,393	295,169
Debt Service:				
Principal Retirement	249,000		73,505	(73,505)
Interest and Fiscal Charges	1,000	1,000	14,958	(13,958)
Total Expenditures	<u>27,757,974</u>	<u>28,870,007</u>	<u>27,212,453</u>	<u>1,657,554</u>
Excess of Revenues Under Expenditures	<u>(1,102,674)</u>	<u>(2,214,707)</u>	<u>509,892</u>	<u>2,724,599</u>
Other Financing Sources (Uses):				
Proceeds of Bonds	545,000	545,000		(545,000)
Proceeds from Disposition of Fixed Assets	10,000	10,000	54,043	44,043
Operating Transfers - Out		(25,260)	(25,261)	(1)
Advances - In		(598,480)	540,430	1,138,910
Total Other Financing Sources	<u>555,000</u>	<u>(68,740)</u>	<u>569,212</u>	<u>637,952</u>
Net Change in Fund Balance	(547,674)	(2,283,447)	1,079,104	3,362,551
Fund Balance Beginning of Year	2,880,084	2,880,084	2,880,084	
Prior Year Encumbrances Appropriated	512,892	512,892	512,892	
Fund Balance End of Year	<u>\$2,845,302</u>	<u>\$1,109,529</u>	<u>\$4,472,080</u>	<u>\$3,362,551</u>

See accompanying notes to the basic financial statements.

CITY OF LIMA
ALLEN COUNTY

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Enterprise Funds					Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Storm Water	Total	
Assets:						
Current Assets:						
Equity in Pooled Cash and Cash Equivalents	\$3,893,884	\$5,708,136	\$786,147	\$845,692	\$11,233,859	\$1,721,055
Receivables:						
Accounts	1,440,591	2,088,539	612,327		4,141,457	
Special Assessments				2,558,625	2,558,625	
Materials and Supplies Inventory	54,420	12,313			66,733	75,973
Due From Other Funds		448,000			448,000	
Prepaid Items	40,096	36,725	227	777	77,825	
Unamortized Bond Issuance Costs	152,522	464,894			617,416	
Total Current Assets	<u>5,581,513</u>	<u>8,758,607</u>	<u>1,398,701</u>	<u>3,405,094</u>	<u>19,143,915</u>	<u>1,797,028</u>
Non-current Assets:						
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	497,216				497,216	
Cash and Cash Equivalents with Fiscal and Escrow Agents	638,893	2,263,589			2,902,482	
Capital Assets:						
Nondepreciable Capital Assets	50,470,241	16,392,632			66,862,873	
Depreciable Capital Assets, Net	22,119,799	27,421,497		2,631,152	52,172,448	
Total Non-current Assets	<u>73,726,149</u>	<u>46,077,718</u>		<u>2,631,152</u>	<u>122,435,019</u>	
Total Assets	<u>79,307,662</u>	<u>54,836,325</u>	<u>1,398,701</u>	<u>6,036,246</u>	<u>141,578,934</u>	<u>1,797,028</u>
Liabilities:						
Current Liabilities:						
Accounts Payable	255,555	171,019	182,336	7,550	616,460	81,086
Contracts Payable	1,610,338	71,508		350,875	2,032,721	
Accrued Wages	58,793	43,251	1,802	5,286	109,132	
Compensated Absences Payable	20,213				20,213	
Retainage Payable	647,468				647,468	
Intergovernmental Payable	210,189	54,328	2,404	9,663	276,584	
Accrued Interest Payable	2,375	34,222			36,597	
Claims Payable						442,951
Due To Other Funds				448,000	448,000	
Advances From Other Funds						
Bond Anticipation Notes						
Capital Leases Payable	25,571	25,571			51,142	
OWDA Loans Payable	513,024	368,403		12,402	893,829	
Bresler Reservoir Termination Agreement	142,082				142,082	
General Obligation Bonds Payable (Net, where applicable, of unamortized discount and accounting loss)	521,118	814,738			1,335,856	
Revenue Bonds Payable						
Total Current Liabilities	<u>4,006,726</u>	<u>1,583,040</u>	<u>186,542</u>	<u>833,776</u>	<u>6,610,084</u>	<u>524,037</u>
Current Liabilities Payable from Restricted Assets:						
Revenue Bonds Payable	368,150	913,887			1,282,037	
Refundable Deposits	497,216				497,216	
Interest Payable	62,950	229,757			292,707	
Total Current Liabilities Payable from Restricted Assets	<u>928,316</u>	<u>1,143,644</u>			<u>2,071,960</u>	

CITY OF LIMA
ALLEN COUNTY

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Enterprise Funds					Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Storm Water	Total	
Current Liabilities Payable from Restricted Assets:						
Revenue Bonds Payable	368,150	913,887			1,282,037	
Refundable Deposits	497,216				497,216	
Interest Payable	62,950	229,757			292,707	
Total Current Liabilities Payable from Restricted Assets	928,316	1,143,644			2,071,960	
Long-Term Liabilities:						
Compensated Absences Payable (Net of Current Portion)	473,567	332,949	15,266	52,439	874,221	
Capital Leases Payable (Net of Current Portion)	29,086	29,087			58,173	
OWDA Loans Payable (Net of Current Portion)	41,491,388	3,751,140		292,960	45,535,488	
Bresler Reservoir Termination Agreement	1,420,826				1,420,826	
General Obligation Bonds Payable (Net of Current Portion, and where applicable, of unamortized discount and accounting loss)		3,176,353			3,176,353	
Revenue Bonds Payable (Net of Current Portion)	6,134,184	20,291,261			26,425,445	
Total Long-Term Liabilities	49,549,051	27,580,790	15,266	345,399	77,490,506	
Total Liabilities	54,484,093	30,307,474	201,808	1,179,175	86,172,550	524,037
Net Assets:						
Invested in Capital Assets, Net of Related Debt	21,944,611	14,443,689		2,325,790	38,714,090	
Unrestricted	2,878,958	10,085,162	1,196,893	2,531,281	16,692,294	1,272,991
Total Net Assets	\$24,823,569	\$24,528,851	\$1,196,893	\$4,857,071	55,406,384	\$1,272,991
Net assets reported for business-type activities in the statement of net assets are different because they include accumulated overpayments to the internal service funds:					147,229	
Net assets of Business-Type Activities					\$55,553,613	

See accompanying notes to the basic financial statements.

CITY OF LIMA
ALLEN COUNTY

**STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<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			\$2,757,241	\$2,341,819	\$5,099,060	\$6,068,809
Charges for Services Pledged as Security on Revenue Bonds	\$10,256,891	\$9,845,948			20,102,839	
Other Operating Revenues	836,489	36,620		2,907	876,016	296,041
Total Operating Revenues	<u>11,093,380</u>	<u>9,882,568</u>	<u>2,757,241</u>	<u>2,344,726</u>	<u>26,077,915</u>	<u>6,364,850</u>
Operating Expenses:						
Salaries	2,757,798	1,941,880	86,610	328,958	5,115,246	
Fringe Benefits	1,190,436	783,196	29,626	221,533	2,224,791	
Claims Expense						5,142,702
Other Services and Charges	3,523,621	1,934,288	2,631,352	395,889	8,485,150	1,282,460
Depreciation	1,158,943	1,690,753		59,951	2,909,647	
Total Operating Expenses	<u>8,630,798</u>	<u>6,350,117</u>	<u>2,747,588</u>	<u>1,006,331</u>	<u>18,734,834</u>	<u>6,425,162</u>
Operating Income	<u>2,462,582</u>	<u>3,532,451</u>	<u>9,653</u>	<u>1,338,395</u>	<u>7,343,081</u>	<u>(60,312)</u>
Non-Operating Revenues (Expenses):						
Gain (Loss) on Disposal of Fixed Assets	9,400	7,212		1,300	17,912	
Rebate on RZ and BAB Bonds		214,327			214,327	
Tap-in Fees	37,437				37,437	
Investment Income	30,003	21,835			51,838	
Interest and Fiscal Charges	(328,093)	(1,437,008)		(10,177)	(1,775,278)	
Contributed Capital				527,031	527,031	
Transfers	(14,485)	(17,206)			(31,691)	28,971
Total Non-Operating Revenues (Expenses)	<u>(265,738)</u>	<u>(1,210,840)</u>		<u>518,154</u>	<u>(958,424)</u>	<u>28,971</u>
Change in Net Assets	2,196,844	2,321,611	9,653	1,856,549	6,384,657	(31,341)
Net Assets Beginning of Year - Restated Note 20	<u>22,626,725</u>	<u>22,207,240</u>	<u>1,187,240</u>	<u>3,000,522</u>		<u>1,304,332</u>
Net Assets End 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>
Some amounts reported for business-type activities in the statement of activities are different because a portion of the net expense of the internal service funds is reported with business-type activities.					<u>27,749</u>	
Change in net assets of business-type Activities					<u>\$6,412,406</u>	

See accompanying notes to the basic financial statements.

CITY OF LIMA
ALLEN COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED

	Enterprise Funds					Internal Service Funds
	Water	Sewer	Refuse	Storm Water	Total	
Cash Flows from Operating Activities:						
Cash Received from Customers	\$10,744,874	\$9,585,284	\$2,800,292	\$2,020,281	\$25,150,731	
Cash Received from Interfund Services Provided						\$6,068,809
Other Cash Receipts	836,489	36,620		2,907	876,016	296,041
Cash Payments to Employees for Services	(2,760,471)	(1,939,318)	(86,478)	(323,672)	(5,109,939)	
Cash Payments for Employee Benefits	(1,209,212)	(821,288)	(32,901)	(159,270)	(2,222,671)	
Cash Payments for Other Services and Charges	(3,457,303)	(1,893,542)	(2,604,749)	(392,300)	(8,347,894)	(1,274,059)
Cash Payments for Claims						(5,121,979)
Net Cash Provided by (Used in) Operating Activities	<u>4,154,377</u>	<u>4,967,756</u>	<u>76,164</u>	<u>1,147,946</u>	<u>10,346,243</u>	<u>(31,188)</u>
Cash Flows from Noncapital Financing Activities:						
Due (To) From Other Funds		131,000		(131,000)		
Advances from Other Funds						(35,719)
Transfers In (Out)	(14,485)	(17,206)			(31,691)	28,971
Net Cash Provided by (Used in) Non-capital Financing Activities	<u>(14,485)</u>	<u>113,794</u>		<u>(131,000)</u>	<u>(31,691)</u>	<u>(6,748)</u>
Cash Flows from Capital and Related Financing Activities:						
Cash Received from Tap-in Fees	37,437				37,437	
Proceeds from Sale of Revenue Bonds						
Proceeds from Sale of Bond Anticipation Notes						
Proceeds from OWDA Loan	1,331,665				1,331,665	
Proceeds of Capital Grant						
Rebate on Build America Bonds		214,327			214,327	
Principal Paid on OWDA Debt		(354,967)		(13,033)	(368,000)	
Principal Paid on General Obligation Bonds	(530,000)	(815,000)			(1,345,000)	
Principal Paid on Revenue Bonds	(365,000)	(890,000)			(1,255,000)	
Principal Paid on Bresler Reservoir Termination Agreement	(142,082)				(142,082)	
Principal Paid on Bond Anticipation Notes						
Principal Paid on Capital Lease	(24,402)	(24,402)			(48,804)	
Interest Paid on Debt Obligation	(284,793)	(1,388,928)		(10,177)	(1,683,898)	
Advances from Other Funds				(9,259)	(9,259)	
Payments for Capital Acquisitions	(3,547,572)	(3,479,032)		(138,785)	(7,165,389)	
Net Cash (Used in) Provided by Capital and Related Financing Activities	<u>(3,524,747)</u>	<u>(6,738,002)</u>		<u>(171,254)</u>	<u>(10,434,003)</u>	
Cash Flows from Investing Activities:						
Interest from Investments	30,003	21,835			51,838	
Gain (Loss) on Sale of Assets		5,742			5,742	
Net Cash Provided by Investing Activities	<u>30,003</u>	<u>27,577</u>			<u>57,580</u>	
Net (Decrease) Increase in Cash and Cash Equivalents	645,148	(1,628,875)	76,164	845,692	(61,871)	(37,936)
Cash and Cash Equivalents Beginning of Year	<u>4,384,845</u>	<u>9,600,600</u>	<u>709,983</u>		<u>14,695,428</u>	<u>1,758,991</u>
Cash and Cash Equivalents End of Year	<u>5,029,993</u>	<u>7,971,725</u>	<u>786,147</u>	<u>845,692</u>	<u>14,633,557</u>	<u>1,721,055</u>

CITY OF LIMA
ALLEN COUNTY

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED

	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)	2,462,582	3,532,451	9,653	1,338,395	7,343,081	(60,312)
Adjustments:						
Depreciation	1,158,943	1,690,753		59,951	2,909,647	
(Increase) Decrease in Assets:						
Accounts Receivable	223,737	(260,664)	43,051		6,124	
Special Assessments Receivable				(321,538)	(321,538)	
Materials and Supplies Inventory	28,134	8,860			36,994	(5,951)
Prepaid Items	(5,706)	(3,939)	575	(777)	(9,847)	
Increase (Decrease) in Liabilities:						
Accounts Payable	55,740	(3,945)	26,028	4,527	82,350	(34,721)
Contracts Payable	187,619	36,031			223,650	
Accrued Wages	(2,673)	2,562	132	5,286	5,307	
Compensated Absences Payable	(17,133)	(33,441)	(3,374)	52,439	(1,509)	
Intergovernmental Payable	62,150	(912)	99	9,663	71,000	
Increase in Claims Payable						69,796
Increase in Refundable Deposits	984				984	
Net Cash Provided by (Used In) Operating Activities	<u>\$4,154,377</u>	<u>\$4,967,756</u>	<u>\$76,164</u>	<u>\$1,147,946</u>	<u>\$10,346,243</u>	<u>-\$31,188</u>

See accompanying notes to the basic financial statements.

CITY OF LIMA
ALLEN COUNTY

COMBINED STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2011

Assets:

Equity Pooled in Cash and Cash Equivalents	\$253,346
Cash and Cash Equivalents in Segregated Accounts	594,740
Accounts Receivable	3,594,813
Total Assets	<u>4,442,899</u>

Liabilities:

Accounts Payable	
Intergovernmental Payable	16,843
Undistributed Monies	4,189,553
Deposits Held and Due to Others	236,503
Total Liabilities	<u>\$4,442,899</u>

See accompanying notes to the basic financial statements.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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, 22, 23 to the basic financial statements. These organizations are Ohio Government Risk Management Plan, 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 City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. The most significant of the City's accounting policies are described below.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

1. Government-wide Financial Statements

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

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

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.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 following are the City's major governmental funds:

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

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

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

2. Proprietary Fund Type

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

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

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

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

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.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Fiduciary Funds

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

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

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

D. Basis of Accounting

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

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 non-exchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Changes in Accounting Principles

For the year ended December 31, 2011, the City has implemented GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions.*"

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types. Note 20 shows the impact on previously reported fund balances as the result of implementing GASB 54.

F. Pooled Cash and Cash Equivalents

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

The City utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented on the governmental combined balance sheet as "Cash and Cash Equivalents with Fiscal and Escrow Agents" and represents deposits. Cash and cash equivalents that are held separately by the City's Municipal Courts funds are recorded on the balance sheet as "Cash and Cash Equivalents in Segregated Accounts." Cash and cash equivalents held separately by fiscal agents which are limited in use due to applicable bond covenants are recorded on the governmental and proprietary balance sheets as "Cash and Cash Equivalents with Fiscal and Escrow Agents – Restricted." Investments, except for repurchase agreements and non-negotiable certificates of deposit, are reported at fair value, which is based on quoted market prices. Repurchase agreements and non-negotiable certificates of deposit are reported at cost. 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, 2011.

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 2011 amounted to \$527,939 which includes \$423,570 assigned from other City funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2011, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Materials and Supplies Inventory

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

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

I. Notes Receivable

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

J. Unamortized Bond Issuance Costs

Bond issuance costs for the 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.

K. Restricted Assets/Liabilities

Certain resources set aside for debt repayment, are classified as restricted assets on the statement of net assets 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 the balance sheet 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.

L. Capital Assets

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

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

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Capitalization of Interest

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The City's policy is to capitalize net interest on construction projects until substantial completion of the project.

The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from temporary investment of the debt proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. The City capitalized interest in the amount of \$1,344,890. This interest is associated with the Ohio Water Development Authority loan used to construct a new reservoir, \$1,136,118 an Ohio Water Development Authority loan used to make improvements at the City's Water Treatment Plant, \$198,720, an Ohio Water Development Authority loan used to make improvements to the Bresler Pump Station, \$43 and an Ohio Water Development Authority loan used to construct a new elevated water supply tank, \$10,009.

M. Interfund Balances

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

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.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Compensated Absences

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

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

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

O. Accrued Liabilities and Long-term Obligations

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

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

P. Net Assets

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

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

Q. Fund Balance

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.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 classifications. 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.

R. Operating Revenues and Expenses

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

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Contributions of Capital

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

T. Interfund Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after 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.

U. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2011.

V. Estimates

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

W. Budgetary Data

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

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 Change in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance	
	General
GAAP Basis	\$1,178,357
Revenue accruals	625,751
Expenditure accruals	(379,034)
Encumbrances	(345,970)
Budget Basis	\$1,079,104

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

Interim monies may be invested in the following:

1. United States Treasury Notes, Bills, Bonds, Notes, or any other obligation or security issued by the United States or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
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) and

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

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.

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, 2011, 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>
Repurchase Agreements	\$ 1,440,495	\$1,440,495	
FFCB Securities	4,019,720		\$ 4,019,720
FHLMC Securities	3,011,010		3,011,010
FNMA Securities	8,004,260		8,004,260
STAR Ohio Account	72,024	72,024	
	<u>\$16,547,509</u>	<u>\$1,512,519</u>	<u>\$15,034,990</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.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Credit Risk - The security underlying the repurchase agreement is a Federal Home Loan Mortgage Corporation note and carries a rating of Aaa by Moodys. As of December 31, 2011, the City's investment in STAR Ohio was rated AAAM by Standard & Poor's. As of December 31, 2011, Moody's rated the City's investments in Federal Farm Credit Bank bonds AAA. Moody's also rated the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association bonds AAA. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the 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, 2011.

<u>Investment</u>	<u>Fair Value</u>	<u>Percentage of Total</u>
Federal Agency Securities	\$15,034,990	90.86%
Repurchase Agreements	1,440,495	8.71%
STAR Ohio Account	72,024	0.44%
	<u>\$16,547,509</u>	<u>100.00%</u>

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 2011 represent the collection of 2010 taxes. For 2011, real property taxes were levied after October 1, 2010, on the assessed value as of January 1, 2010, the lien date. These taxes will be collected in and are intended to finance 2011 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, 2010, 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.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

6. PROPERTY TAXES (Continued)

Tangible personal property tax revenues received in 2011 (other than public utility property) represent the collection of 2011 taxes. For 2011, tangible personal property taxes were levied after April 1, 2010, on the value as of December 31, 2010, the lien date. For 2011, tangible personal property is assessed at zero for property including inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. The first payment is due April 30, with the remainder payable by September 20.

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

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

Accrued property taxes receivable represents delinquent taxes outstanding and real, public utility, and tangible personal property taxes which are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2011 operations.

The full tax rate for all City operations for the year ended December 31, 2011 was 3.90 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate:	
Residential/Agricultural	\$239,555,470
Commercial/Industrial	138,308,340
Public Utilities	162,520
Public Utility	17,610,480
Total	<u><u>\$395,636,810</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, 2011
(Continued)**

7. FUND BALANCES (Continued)

<u>Fund Balances</u>	<u>General</u>	<u>Vine St RRGS</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
Non-spendable:				
Pre-paids	\$ 55,757		\$ 5,346	\$ 61,103
Unclaimed Monies	244,990			244,990
Inventory			4,431	4,431
Total Non-spendable	<u>300,747</u>		<u>9,777</u>	<u>310,524</u>
Restricted for:				
Road Improvements			1,527,952	1,527,952
Law Enforcement Activities			810,056	810,056
Law Enforcement Equipment			2,745	2,745
Community Development			135,374	135,374
DARE Program			24,113	24,113
Federal HOME Program Activities			888,261	888,261
Various Lighting Improvements			157,301	157,301
Various Land Improvements			5,489	5,489
Municipal Court Projects			904,089	904,089
Fire and EMS Projects			78,595	78,595
Transportation Capital Projects			97,908	97,908
Alcohol /Drug Treatment & Education			543,757	543,757
Other Capital Projects			51,000	51,000
Total Restricted			<u>5,226,640</u>	<u>5,226,640</u>
Committed to:				
Traffic and Parking Services			307,362	307,362
Property Maintenance Services			70,713	70,713
Sidewalk Projects			90,107	90,107
Recreation Activities			62,042	62,042
Travel and Tourism Support			363,486	363,486
Total Committed			<u>893,710</u>	<u>893,710</u>
Assigned to:				
Debt Services			593,543	593,543
G-TV 2 Operations			3,435	3,435
Vehicle and Asset Repair	19,856			19,856
Park Improvements	44,746			44,746
Other Purposes	344,945		54,089	399,034
Total Assigned	<u>409,547</u>		<u>651,067</u>	<u>1,060,614</u>
Unassigned	5,542,813	(\$172,804)	(284,701)	5,085,308
Total Fund Balances	<u>\$6,253,107</u>	<u>(\$172,804)</u>	<u>\$6,496,493</u>	<u>\$12,576,796</u>

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

8. RECEIVABLES

Receivables at December 31, 2011 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	\$1,440,591
Sewer	2,088,539
Refuse	<u>612,327</u>
Total	<u><u>\$4,141,457</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 \$993,738 with uncollectible of \$233,200 at December 31, 2011. The notes are recorded net of an allowance for un-collectibles in the amount of \$760,538.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities:	
Intergovernmental Reimbursement	\$ 68,399
Homestead and Rollback	80,371
Local Government	625,214
2011 Ash Borer Grant	50,000
Motor Vehicle License Tax	144,100
Gasoline Excise Tax	524,500
Permissive Tax	138,000
CRP 2009RKW0659	40,681
Home Program Grant	73,603
Community Development	
Block Grant (CDBG)	93,141
BYRNE JAG 2011-DJ-BX-3248	282
ALL-Lima Grade Separation Grant	8,918
Vine St RRGs PID 86297	<u>332,291</u>
Total Intergovernmental Receivable	<u><u>\$2,179,500</u></u>

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

9. CAPITAL ASSETS

A summary of changes in capital assets during 2011 follows:

	<u>Balance 12/31/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance 12/31/2011</u>
Governmental Activities:					
Capital Assets Not Being Depreciated:					
Land	\$ 7,167,423	\$ 24,489			\$ 7,191,912
Construction in progress	9,546,662	7,449,354	(\$1,956,964)		15,039,052
Total Capital Assets Not Being Depreciated	<u>16,714,085</u>	<u>7,473,843</u>	<u>(1,956,964)</u>		<u>22,230,964</u>
Capital Assets, Being Depreciated:					
Buildings	13,448,433	158,270			13,606,703
Improvements	2,838,343	25,630			2,863,973
Machinery and equipment	4,634,434	309,287	(139,848)	\$ 17,536	4,821,409
Furniture and fixtures	74,500				74,500
Vehicles	5,703,877	514,096	(312,085)	27,411	5,933,299
Infrastructure:					
Roads	32,000,138	1,562,748			33,562,886
Sidewalks	1,534,154	1,853,076			3,387,230
Bridges	5,575,466	173,839			5,749,305
Signals and traffic lights	4,939,965	846,974			5,786,939
Curbs	5,840,477	527,031		(527,031)	5,840,477
Rail sidings	1,443,375				1,443,375
Total Capital Assets, Being Depreciated	<u>78,033,162</u>	<u>5,970,951</u>	<u>(451,933)</u>	<u>(482,084)</u>	<u>83,070,096</u>
Less Accumulated Depreciation:					
Buildings	6,115,757	295,000			6,410,757
Improvements	1,319,478	122,716			1,442,194
Machinery and equipment	3,271,858	286,517	(130,546)	17,536	3,445,365
Furniture and fixtures	36,809	4,788			41,597
Vehicles	4,366,122	412,948	(309,585)	24,691	4,494,176
Infrastructure:					
Roads	19,863,139	1,914,231			21,777,370
Sidewalks	332,694	58,128			390,822
Bridges	1,006,438	84,921			1,091,359
Signals and traffic lights	3,043,236	257,193			3,300,429
Curbs	2,819,090	146,012			2,965,102
Rail sidings	222,521	72,169			294,690
Total Accumulated Depreciation	<u>42,397,142</u>	<u>3,654,623</u>	<u>(440,131)</u>	<u>42,227</u>	<u>45,653,861</u>
Total capital assets being depreciated, net	<u>35,636,020</u>	<u>2,316,328</u>	<u>(11,802)</u>	<u>(524,311)</u>	<u>37,416,235</u>
Total Governmental Activities Capital Assets, Net	<u>\$52,350,105</u>	<u>\$9,790,171</u>	<u>(\$1,968,766)</u>	<u>(\$524,311)</u>	<u>\$59,647,199</u>

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

9. CAPITAL ASSETS (Continued)

	<u>Balance 12/31/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance 12/31/2011</u>
Business-Type Activities:					
Capital Assets Not Being Depreciated:					
Land	\$5,115,926				\$ 5,115,926
Construction in progress	41,527,191	\$20,414,717	(\$194,961)		61,746,947
Total Capital Assets Not Being Depreciated	<u>46,643,117</u>	<u>20,414,717</u>	<u>(194,961)</u>		<u>66,862,873</u>
Capital Assets, Being Depreciated:					
Improvements	2,390,697				2,390,697
Buildings	45,823,984	2,840			45,826,824
Machinery and equipment	20,912,561	104,534	(9,554)	(\$ 17,536)	20,990,005
Furniture and fixtures	46,597				46,597
Vehicles	3,970,228	1,335,389	(282,447)	(27,411)	4,995,759
Capitalized interest	3,805,098				3,805,098
Intangible assets	317,988				317,988
Storm Water Infrastructure	1,779,068	41,800		527,031	2,347,899
Sewer lines	21,315,081	19,250			21,334,331
Water lines	22,926,812	176,874			23,103,686
Total Capital Assets, Being Depreciated	<u>123,288,114</u>	<u>1,680,687</u>	<u>(292,001)</u>	<u>482,084</u>	<u>125,158,884</u>
Less Accumulated Depreciation:					
Improvements	1,150,777	99,894			1,250,671
Buildings	22,360,758	914,615			23,275,373
Machinery and equipment	15,264,052	833,841	(9,554)	(17,536)	16,070,803
Furniture and fixtures	24,375	1,668			26,043
Vehicles	3,336,380	275,888	(282,147)	(24,691)	3,305,430
Capitalized interest	2,936,724	203,024			3,139,748
Intangible assets	317,989				317,989
Storm Water Infrastructure	106,162	50,264			156,426
Sewer lines	14,108,789	201,986			14,310,775
Water lines	10,804,711	328,467			11,133,178
Total Accumulated Depreciation	<u>70,410,717</u>	<u>2,909,647</u>	<u>(291,701)</u>	<u>(42,227)</u>	<u>72,986,436</u>
Total capital assets being depreciated, Net	<u>52,877,397</u>	<u>(1,228,960)</u>	<u>(300)</u>	<u>524,311</u>	<u>52,172,448</u>
Total Business-Type Capital Assets, Net	<u>\$99,520,514</u>	<u>\$19,185,757</u>	<u>(\$195,261)</u>	<u>\$524,311</u>	<u>\$119,035,321</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 157,513
Security of Persons and Property	339,318
Leisure Time Activities	111,372
Community Development	61,329
Transportation	2,985,091
Total	<u>\$3,654,623</u>

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(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, 2011, are estimated based on past experience in payment of claims at \$442,951

	<u>Beginning of Year Liability</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>End of Year Liability</u>
2010	\$ 234,934	\$5,043,501	\$4,905,280	\$373,155
2011	373,155	5,142,702	5,072,906	442,951

B. Other Insurance Coverage

Prior to 2009, the City belonged to 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 was legally separate from its member governments.

On January 1, 2009, through an internal reorganization, the Plan created three separate non-profit corporations including:

- Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan;
- Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium; and,
- Ohio Plan, Inc. - mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven members that include appointed and elected officials from member organizations.

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.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

10. RISK MANAGEMENT (Continued)

These coverage programs, referred to as Ohio Plan Risk management (“OPRM”), 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 41.50% (40.00% through October 31, 2011 and 17.50% through October 31, 2010) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 782 and 761 members as of December 31, 2011 and 2010, respectively. The City participates in this coverage.

The Plan formed the Ohio Plan Healthcare Consortium (“OPHC”), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member’s healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of-pocket maximums. OPHC had 74 and 65 members as of December 31, 2011 and 2010, respectively. The City does not participate in this coverage.

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 years.

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 and OPHC:

	2011		2010	
	OPRM	OPHC	OPRM	OPHC
Assets	\$12,501,280	\$1,459,791	\$12,036,541	\$1,355,131
Liabilities	(5,328,761)	(1,283,527)	(4,845,056)	(1,055,096)
Members’ Equity	<u>\$ 7,172,519</u>	<u>\$ 176,264</u>	<u>\$ 7,191,485</u>	<u>\$ 300,035</u>

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

Property and Liability

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. The City has entered into contracts for the following coverage and deductibles:

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

10. RISK MANAGEMENT (Continued)

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
General Liability	\$8,000,000	None
Law Enforcement Liability	8,000,000	\$25,000
Public Officials Liability	8,000,000	Various
Employers Liability	8,000,000	None
Employee Benefits Liability	8,000,000	None
Buildings and Contents	109,016,224	Various
Boiler and Machinery	30,000,000	Various
Inland Marine and Equipment	3,810,881	25,000

There were no significant reductions in insurance coverage from 2010 and no insurance settlement has exceeded insurance coverage during the last three years.

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

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 his accrued but unused sick leave, up to a maximum of fifty accrued sick days.

Unpaid compensated absences at year end are reported on the statement of net assets, Governmental Activities in the amount of \$2,294,906 due within more than one year and \$63,413 due within one year. Unpaid compensated absences for Business-Type Activities as of year-end are reported on the statement of net assets as \$874,221 due within more than one year and \$20,213 due within one year.

12. DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

Plan Description - The City contributes to the Ohio Public Employees Retirement System of Ohio (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, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the traditional plan benefit. Member contributions, the investment of which is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

12. DEFINED BENEFIT PENSION PLANS (Continued)

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional 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/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 10% for employees other than law enforcement and public safety. In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consists of sheriffs, deputy sheriffs and township police with an employee contribution rate of 11.6%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continue to contribute at 11%.

For local government employer units the rate was 14% of covered payroll. The 2011 employer contribution rate for both the law enforcement and public safety division was 18.10% of covered payroll. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to PERS for the years ended December 31, 2011, 2010 and 2009 were \$1,203,860, \$1,642,089 and \$1,756,679, respectively, 98% has been contributed for 2011 and 100% for years 2010 and 2009. The remaining balance is being reflected as an intergovernmental payable.

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 defined benefit pension plan public employee retirement system administered by the OP&F's Board of Trustees. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215.

Plan members are required to contribute 10% of their annual covered salary, while employers are required to contribute 19.5% for police and 24.0% for firefighters. Contributions are authorized by state statute. The City's contributions to the OP&F for the years ending December 31, 2011, 2010 and 2009 were \$1,356,884, \$1,865,989 and \$1,920,088 respectively, 83% has been contributed for 2011 and 100% for years 2010 and 2009. The remaining balance due is being reflected as an intergovernmental payable.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

13. POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available.

The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, or by writing OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. 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 2011, state and local employers contributed at a rate 14.00% of covered payroll and public safety and law enforcement employers contributed at 18.10%. 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 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% for calendar year 2011. 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 2011 that were used to fund postemployment benefits were \$481,510, 98% has been contributed for 2011.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

13. POSTEMPLOYMENT BENEFITS (Continued)

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.

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, 2011, 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 2011 that were used to fund postemployment benefits were \$607,858. 83% has been contributed for 2011. The OP&F's total health care expenses for the year ended December 31, 2010 (the latest information available) were \$159,913,915, which was net of member contributions of \$58,923,329. The number of OP&F participants eligible to receive health care benefits as of December 31, 2010 was 15,013 for police and 11,061 for firefighters.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

14. LONG-TERM OBLIGATIONS

The changes in the City's long-term obligations during 2011 were as follows:

	Interest Rate %	Outstanding 1/1/2011	Additions	(Reductions)	Outstanding 12/31/2011	Amounts Due Within One Year
Governmental Activities:						
Un-voted General Obligation Bonds:						
1999 Various Purpose Refunding Bonds						
Parking Facility	4.00-5.80	\$ 570,000		(\$ 30,000)	\$ 540,000	\$ 40,000
2004 - YMCA Parking Lot Project	2.00-4.50	140,000		(15,000)	125,000	15,000
Un-amortized Premium		701		(75)	626	75
2010 Lighting Improvement GO RZ Bonds	5.22	1,095,000		(85,000)	1,010,000	90,000
2011 Various Purpose Bond	3.50		\$1,060,000	(103,500)	956,500	92,500
Total Un-voted General Obligation Bonds		<u>1,805,701</u>	<u>1,060,000</u>	<u>(233,575)</u>	<u>2,632,126</u>	<u>237,575</u>
Bond Anticipation Notes:						
Metcalf St Reconstruction	2.350	350,000		(350,000)		
Purchase Fire Truck	2.350	250,000		(250,000)		
Unamortized Premium		5,010		(5,010)		
Total Bond Anticipation Notes		<u>605,010</u>		<u>(605,010)</u>		
Other Long-Term Obligations:						
Compensated Absences		2,528,686	2,358,319	(2,528,686)	2,358,319	63,413
Capital Lease-Cisco Phone System	4.69	158,119		(48,803)	109,316	51,142
Capital Lease-Ambulance	4.75	104,409		(24,316)	80,093	25,470
Capital Lease-Copier	9.70		4,850	(386)	4,464	831
Judgement Payable		110,000			110,000	110,000
Total Other Long-Term Obligations		<u>2,901,214</u>	<u>2,363,169</u>	<u>(2,602,191)</u>	<u>2,662,192</u>	<u>250,856</u>
Total Governmental Activities		<u>5,311,925</u>	<u>3,423,169</u>	<u>(3,440,776)</u>	<u>5,294,318</u>	<u>488,431</u>
Business-Type Activities:						
General Obligation Bonds:						
Water Refunding - 1999 Issue	4.00-5.30	945,000		(460,000)	485,000	485,000
Un-amortized Accounting Loss		(53,359)	25,974		(27,385)	(27,385)
Un-amortized Discount		(13,364)	6,506		(6,858)	(6,858)
Total Water Refunding - 1999 Issue		<u>878,277</u>	<u>32,480</u>	<u>(460,000)</u>	<u>450,757</u>	<u>450,757</u>
Water Refunding - 2004 Issue	2.00-4.50	140,000		(70,000)	70,000	70,000
Un-amortized Premium		723		(362)	361	361
Total Water Refunding - 2004 Issue		<u>140,723</u>		<u>(70,362)</u>	<u>70,361</u>	<u>70,361</u>
Total Water General Obligation Bonds		<u>1,019,000</u>	<u>32,480</u>	<u>(530,362)</u>	<u>521,118</u>	<u>521,118</u>
Sewer Refunding - 1999 Issue	4.00-5.30	985,000		(480,000)	505,000	505,000
Un-amortized Accounting Loss		(57,817)	28,176		(29,641)	(29,644)
Un-amortized Discount		(14,442)	7,037		(7,405)	(7,404)
Total Sewer Refunding - 1999 Issue		<u>912,741</u>	<u>35,213</u>	<u>(480,000)</u>	<u>467,954</u>	<u>467,952</u>
Sewer - 2004 Issue	2.00-4.50	3,840,000		(335,000)	3,505,000	345,000
Unamortized Premium		19,871		(1,734)	18,137	1,786
Total Sewer Refunding - 2004 Issue		<u>3,859,871</u>		<u>(336,734)</u>	<u>3,523,137</u>	<u>346,786</u>
Total Sewer General Obligation Bonds		<u>4,772,612</u>	<u>35,213</u>	<u>(816,734)</u>	<u>3,991,091</u>	<u>814,738</u>
Total Un-voted General Obligation Bonds		<u>5,791,612</u>	<u>67,693</u>	<u>(1,347,096)</u>	<u>4,512,209</u>	<u>1,335,856</u>

(Continued)

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

14. LONG-TERM OBLIGATIONS (Continued)

	Interest Rate %	Outstanding 1/1/2011	Additions	(Reductions)	Outstanding 12/31/2011	Amounts Due Within One Year
Revenue Bonds:						
Sewer Improvement TE Issue - 2009	2.00-2.50	1,760,000		(430,000)	1,330,000	435,000
Un-amortized Premium	3.89-	26,672		(6,516)	20,156	6,592
Sewer Improvement BAB Issue - 2009	6.675	10,250,000			10,250,000	
Sewer Improvement - 2010	2.00-4.30	10,120,000		(460,000)	9,660,000	475,000
Un-amortized Discount		(57,627)	2,619		(55,008)	(2,705)
Total Sewer Revenue Bonds		22,099,045	2,619	(896,516)	21,205,148	913,887
Water Improvement - 2010	2.00-4.25	6,900,000		(365,000)	6,535,000	370,000
Un-amortized Discount		(34,491)	1,825		(32,666)	(1,850)
Total Water Revenue Bonds		6,865,509	1,825	(365,000)	6,502,334	368,150
Total Revenue Bonds		28,964,554	4,444	(1,261,516)	27,707,482	1,282,037
Other Long-Term Obligations:						
Bresler Termination Agreement	0.0	1,704,990		(142,082)	1,562,908	142,082
OWDA Loan	3.75	4,474,510		(354,967)	4,119,543	368,403
OWDA Loan-Reservoir	4.32	24,816,185	5,396,471		30,212,656	513,024
OWDA Loan-Carbon Filter Project	3.83	1,120,651	9,795,624		10,916,275	
OWDA Loan-Bresler Pump Station	3.49		8,881		8,881	
OWDA Loan-Elevated Storage Tank	4.64		866,600		866,600	
OWDA Loan-Storm Water Project	3.25	265,914		(9,956)	255,958	10,282
OWDA Loan-Storm Water Project II	2.66	52,481		(3,077)	49,404	2,120
Capital Lease-Cisco Phone System						
Water Fund Portion	4.69	79,059		(24,402)	54,657	25,571
Sewer Fund Portion	4.69	79,060		(24,402)	54,658	25,571
Compensated Absences		895,943	894,434	(895,943)	894,434	20,213
Total Other Long-Term Obligations		33,488,793	16,962,010	(1,454,829)	48,995,974	1,107,266
Total Business-Type Activities		68,244,959	17,034,147	(4,063,441)	81,215,665	3,725,159
Totals		\$73,556,884	\$20,457,315	(\$7,504,217)	\$86,509,982	\$4,213,590

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

Special Assessment Bonds – Special assessment bonds are payable from the proceeds of assessments levied against the specific property owners who primarily benefited from the project. Special assessment monies will be received and the debt will be retired through the Special Assessment Bond Retirement Debt Service Fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments. The City also issues special assessments between funds. These assessments due in one year are included in Interfund Receivables/Payables, and the amounts due in excess of one year are included in Due to/from Other Funds. The Debt Service Fund made principal payments in the amount of \$125,080 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, 2011
(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.

In 1999, the City's sewer utility entered into a loan agreement with OWDA to fund the improvements to the waste water treatment plant. The amount financed under this agreement was \$7,033,015. The City began repayment on this loan in 2003.

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, 2011 the City had requested total draws of \$30,212,656. 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 \$16,400,646. As of December 31, 2011 the City had requested total draws of \$10,916,275. Payments on this loan are anticipated to begin in 2013. A payment schedule had not been determined as of December 31, 2011.

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, 2011 the City had requested total draws of \$866,600. Payments on this loan are anticipated to begin in 2013. A payment schedule had not been determined as of December 31, 2011.

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, 2011 the City had requested total draws of \$8,881. Payments on this loan are anticipated to begin in 2014. A payment schedule had not been determined as of December 31, 2011.

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.

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

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

14. LONG-TERM OBLIGATIONS (Continued)

	General Obligation (Gross)	
	Principal	Interest
2012	\$ 237,500	\$122,699
2013	250,500	112,043
2014	259,000	100,465
2015	272,500	88,501
2016	290,500	75,877
2017-2021	1,321,500	164,630
Total	\$2,631,500	\$664,215

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
2012	\$ 142,082		\$1,405,000	\$ 212,430	\$ 887,333	\$ 1,460,372
2013	142,082		205,000	143,360	923,789	1,423,915
2014	142,082		215,000	134,647	961,752	1,385,951
2015	142,082		225,000	125,510	1,001,284	1,346,420
2016	142,082		235,000	115,947	1,042,449	1,305,254
2017-2021	710,410		1,330,000	416,490	5,632,372	5,846,677
2022-2026	142,087		950,000	92,743	4,327,812	4,813,361
2027-2031					5,319,256	3,789,009
2032-2036					6,497,172	2,534,336
2037-2041					8,044,342	986,375
Total	\$1,562,907	\$0	\$4,565,000	\$1,241,127	\$34,637,561	\$24,891,670

	Revenue Bonds (Gross)		Total	
	Principal	Interest	Principal	Interest
2012	\$ 1,280,000	\$ 1,187,089	\$ 3,714,415	\$ 2,876,578
2013	1,300,000	1,161,489	2,570,871	2,745,167
2014	1,330,000	1,134,376	2,648,834	2,671,082
2015	1,360,000	1,103,326	2,728,366	2,591,055
2016	1,410,000	1,062,849	2,829,531	2,499,527
2017-2021	7,230,000	4,504,050	14,902,782	10,839,251
2022-2026	7,980,000	2,860,619	13,399,899	7,828,315
2027-2031	5,885,000	649,114	11,204,256	4,486,744
2032-2036			6,497,172	2,566,845
2037-2041			8,044,342	999,028
Total	\$27,775,000	\$13,662,912	\$68,540,468	\$40,103,592

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(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 2011 totaled \$48,803 in governmental-type activities and \$48,804 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 2011 totaled \$24,316.

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 2011 totaled \$386.

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
2012	\$ 85,678	\$ 55,179
2013	85,678	55,179
2014	35,097	4,598
2015	1,228	
2016	615	
Total Minimum Lease Payments	208,296	114,956
Less: Amount Representing Interest	(14,423)	(5,641)
Present Value of Minimum Lease Payments	<u>\$193,873</u>	<u>\$109,315</u>

16. INTERFUND TRANSACTIONS

A. Interfund Transactions

Interfund transactions are used by the City to fund small special assessment projects. As of December 31, 2011, balance sheet receivable and payables that resulted from interfund transactions were as follows:

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(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	\$42,270			\$141,990
Capital Projects		\$42,270	\$141,990	
Total Governmental Funds	<u>42,270</u>	<u>42,270</u>	<u>141,990</u>	<u>141,990</u>
Enterprise Funds:				
Sanitary Sewer Fund				448,000
Storm Water Fund			448,000	
Total Enterprise Funds			<u>448,000</u>	<u>448,000</u>
Total All Funds	<u>\$42,270</u>	<u>\$42,270</u>	<u>\$589,990</u>	<u>\$589,990</u>

B. Reconciliation of Interfund Transfers

	<u>Transfers In</u>	<u>Tranfers Out</u>
General Fund		\$ 25,261
Debt Service	\$154,333	83,221
Capital Projects	92,840	138,691
Totals	<u>\$247,173</u>	<u>\$247,173</u>

Transfers Out from General fund were to Capital funds to cover negative cash balances. Transfers In to Debt Service funds in amount from Capital funds were to transfer bond proceeds for ambulance purchase and to move cash from Special Assessment debt service fund to general debt service fund due to closing of bank account. The remaining transfer of was to balance the interfund activity for manuscript bonds.

C. Advances To/From Other Funds Transactions

As of December 31, 2011, advances to and from other fund transactions were as follows:

	<u>Advances To Other Funds</u>	<u>Advances From Other Funds</u>
General Fund	\$351,529	
Other Governmental Funds:		
JAG 2010-JG-E01-6837		\$ 14,270
2011 Ash Borer Grant		47,880
BYRNE JAG 2011-DJ-BX-3248		282
CHRP 2009RKWX0659		130,881
Land Utilization Fund		6,334
NS Program Grant		103,097
HPRP/S-09-MY-39-0014		3,455
Special Assessment Debt		45,330
Totals	<u>\$351,529</u>	<u>\$351,529</u>

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

17. DEFERRED REVENUE

Deferred revenue at December 31, 2011 consisted of the following:

	Statement of Net Assets	Balance Sheet
Property Taxes Receivable	\$1,022,466	\$ 1,232,111
Income Taxes Receivable		1,853,639
Grants Receivable		1,176,123
Special Assessments Receivable	6,045,580	6,045,580
Deferred Revenue	<u>\$7,068,046</u>	<u>\$10,307,453</u>

18. CONTRACTUAL COMMITMENTS

As of December 31, 2011, the City had contractual commitments for the following projects:

	Contractual Commitment	Expended	Balance 12/31/2010
Best Equipment - Camera Trucks	\$ 208,070		\$ 208,070
Barr & Prevost - Market Street Corridor	254,300		254,300
Caldwell Tank - Water Tank	2,326,600	\$ 846,584	1,480,016
Arcadis G&M - Pumping stations	747,000	435,169	311,831
Jones and Henry - WWTP/Sludge lagoon	1,347,620	662,106	685,514
Peterson Construction - Filter Project	13,957,000	9,596,903	4,360,097
URS Consultants - Water tank project	115,100	86,325	28,775
BHP Energy Solutions - WWTP	194,383	58,315	136,068
Jack Doheny Suppliers - Sewer Cleaner	383,125		383,125
Miami Valley Trucks - Trucks	178,431		178,431
Kohli & Kaliher - Southside Grade Separation	850,970	821,073	29,897
Ben's Construction - Neighborhood Stabilization Grant - Demolition	785,631	492,700	292,931
MWH Americas - Granular Activated Carbon Filtration Project	1,195,000	839,500	355,500
American Structurepoint - Eastside Grade Separation	265,587	216,867	48,720
Peterson Construction - Pumping Station - New Reservoir	5,278,305	5,258,005	20,300
Atlas Excavation - Transmission Mains - New Reservoir	3,434,975	3,292,785	142,190
E. S. Wagner Company - New Upground Reservoir	14,410,497	14,358,263	52,234
RD Jones/Tuttle - Southside Grade Separation	7,084,508	6,279,602	804,906
American Structurepoint - Southside Grade Separation	708,450	620,852	87,598
Peterson Construction - Bresler Reservoir Pump Station Upgrade	2,028,000		2,028,000
Totals	<u>\$69,710,552</u>	<u>\$57,454,089</u>	<u>\$12,256,463</u>

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, 2011.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

19. CONTINGENT LIABILITIES (Continued)

B. Litigation

As of December 31, 2011, the City was a party to various legal proceedings seeking damages or injunctive relief, arising in the course of ordinary business. The ultimate disposition of these proceedings is not presently determinable, but will not, in the opinion of the City Attorney, have a material adverse effect on the overall financial condition of the City.

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

20. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Change in Accounting Principles

For 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 provides fund balance classifications that can be more consistently applied and clarifies the existing governmental fund type definitions. The requirements of this statement classify fund balance as non-spendable, restricted, committed, assigned, and or unassigned.

The restatement due to the implementation of GASB Statement No. 54 had the following effect on the previously reported governmental fund balances:

	General	Vine Street RRGS Capital	Other Governmental Activities	Total Governmental Funds
Fund Balance at December 31, 2010	\$4,830,009	\$988,761	\$6,755,051	\$12,573,821
Change in Fund Structure	244,741		(244,741)	
Adjusted Fund Balance (Deficit) At December 31, 2010	<u>\$5,074,750</u>	<u>\$988,761</u>	<u>\$6,510,310</u>	<u>\$12,573,821</u>

B. Restatement of Net Assets

At December 31, 2011, the City recorded an inter-fund receivable in the Sewer Fund and an inter-fund payable in the Storm Water Fund for expenses that had actually occurred and been paid in 2010 but were not reflected on the 2010 financial statements. This correction had the following impact on the previously reported proprietary net assets:

	Water	Sewer	Refuse	Storm Water	Total Business-Type Activities
Net Assets December 31, 2010	\$22,626,725	\$21,628,240	\$1,187,240	\$3,579,522	\$49,021,727
Expenses		579,000		(579,000)	
Adjusted Net Assets December 31, 2010	<u>\$22,626,725</u>	<u>\$22,207,240</u>	<u>\$1,187,240</u>	<u>\$3,000,522</u>	<u>49,021,727</u>
Internal Service Fund					1,304,332
Adjusted Net Assets December 31, 2010					<u>\$50,326,059</u>

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

21. ACCOUNTABILITY

At December 31, 2011, the JAG 2007 Grant, the CHRP 2009 Grant, the Land Utilization fund, the Neighborhood Stabilization Program Grant, the Homelessness Prevention and Rapid Re-Housing Program (HPRP) Grant, the Special Assessment Debt Service fund had deficit fund balances, in the amount of \$17,465, \$110,081, \$6,587, \$109,427, \$3,455, and \$37,686, respectively, resulting from adjustments for accrued liabilities. The Vine Street Railroad Grade Station capital projects fund had a deficit fund balance in the amount of \$172,804 resulting from adjustments for accrued revenues and liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

22. 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 23) . As of December 31, 2011 this lease has not been entered into.

23. 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.

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

23. JOINTLY GOVERNED ORGANIZATIONS (Continued)

The Commission has the authority to employ an Executive Director, engineers, accountants, attorneys, planners and others as may be necessary and set their compensation.

In 2011, the County did not pay membership fees. 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.

24. SUBSEQUENT EVENT

\$6,810,000 general obligation bonds were approved for issuance by City Council on August 6, 2012 and issued in September 2012 for the purpose of refunding the City's outstanding Various Purpose Refunding and Improvement Bonds, Series 1999 and Various Purpose Bonds, Series 2004. These will also be used to finance the costs of various construction projects and purchases of equipment including the resurfacing of municipal court parking lot and making improvements to the municipal building, installation of 1,200 linear feet of sewer pipe, purchasing mowers for the parks department, making improvements to the fire stations and, purchasing a fire truck and staff vehicle for the fire department, acquiring four police cruisers and terminals for the police department, and installing computer aided dispatch and records management system software for both the fire and police departments, and installation of a roof for the central services building.

**CITY OF LIMA
ALLEN COUNTY**

**SCHEDULE OF FEDERAL AWARD EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2011**

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	MC-39-0014	\$1,312,209
ARRA - Homelessness Prevention and Rapid Re-Housing Program (HPRP)	14.257	S-09-MY-39-0014	213,329
Home Investment Partnerships Program	14.239	MC-39-0219	573,281
			<u>2,098,819</u>
<i>Passed through the Ohio Department of Development</i>			
ARRA - Neighborhood Stabilization Program	14.228	A-Z-08-2H0-1	449,783
			<u>449,783</u>
Total U.S. Department of Housing and Urban Development			<u>2,548,602</u>
U.S. Department of Justice			
<i>Passed through Ohio Department of Public Safety - Office of Criminal Justice</i>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2008-DJ-BS-0308	16,397
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009-DJ-BX-0344	3,572
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-0187	28,095
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2007-JG-LSS-9276	25,000
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-JG-E01-6837	48,554
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-3248	282
ARRA - Edward Byrne Memorial Justice Assistance Grant(JAG) Program/ Grants to Units of Local Government	16.804	2009-SB-B9-0323	8,959
Total Edward Byrne Memorial Justice Assistance Grant Cluster			<u>130,859</u>
ARRA Public Safety Partnership and Community Policing Grants	16.710	2009 RKWX0659	162,906
Total U.S. Department of Justice			<u>293,765</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	42,815
Highway Planning and Construction - Lima Traffic Study	20.205	PID-82576	211,317
Highway Planning and Construction - Lima Streetscape	20.205	PID-85907	483,584
Highway Planning and Construction - Cable Road Sidewalks	20.205	PID-84144	132,800
Highway Planning and Construction - Cole Street Sidewalks	20.205	PID-84139	186,151
Highway Planning and Construction - Vine Street Railroad Grade Separation	20.205	PID-86297	1,061,702
ARRA - Highway Planning and Construction Vine Street Railroad Grade Separation	20.205	PID-86297	4,217,304
Total U.S. Department of Transportation			<u>6,335,673</u>
U.S. Department of Commerce - Economic Development Administration			
Direct Programs:			
Economic Development Technical Assistance	11.303	06-78-05329	58,117
Total U.S. Department of Commerce			<u>58,117</u>
U.S. Department of Homeland Security			
Direct Programs:			
Assistance to Firefighters Grant	97.044	EMW-2009-FV-03334	247,500
Assistance to Firefighters Grant	97.044	EMW-2010-FP-00569	2,647
Assistance to Firefighters Grant	97.044	EMW-2009-F0-08958	93,525
Total U.S. Department of Homeland Security			<u>343,672</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	47,880
Total U.S. Department of Agriculture			<u>47,880</u>
Total Federal Financial Assistance			<u>\$9,627,709</u>

**CITY OF LIMA
ALLEN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) reports the City of Lima's (the City's) 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 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 ACCOUNTANTS' 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 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, (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 27, 2012, wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting, and Governmental Fund Type Definitions*, and restated the Proprietary Net Assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-01 described in the accompanying schedule of findings to be a material weakness.

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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, providing an opinion 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*.

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated November 27, 2012.

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

We intend this report solely for the information and use of management, City Council, and federal awarding agencies and pass-through entities and others within the City. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

November 27, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' 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 County
50 Town Square
Lima, Ohio 45801

To the Members of Council:

Compliance

We have audited the compliance of the City of Lima, Allen County, (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the City of Lima's major federal programs for the year ended December 31, 2011. The *summary of auditor's results* section of the accompanying schedule of findings identifies the City's major federal programs. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the City's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to 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 that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with these requirements.

As described in findings 2011-03 and 2011-04 in the accompanying schedule of findings, the City did not comply with requirements regarding reporting applicable to its Homelessness Prevention and Rapid Re-Housing Program (HPRP) and with requirements regarding Special Tests and Provisions to its Highway Planning and Construction major federal programs. Compliance with these requirements is necessary, in our opinion, for the City to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Lima complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2011.

The results of our auditing procedures also disclosed another instance of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists this instance as Finding 2011-02.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2011-02 through 2011-04 to be material weaknesses.

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the City's management in a separate letter dated November 27, 2012.

The City's responses to the findings we identified are described in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the management, City Council, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

November 27, 2012

**CITY OF LIMA
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	ARRA Homelessness Prevention and Rapid Re-Housing Program (HPRP) CFDA #14.257 ARRA Public Safety Partnership and Community Policing Grants CFDA #16.710 Highway Planning & Construction CFDA #20.205 Assistance to Firefighters Grant CFDA #97.044
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2011-01

Material Weakness

Accuracy of Financial Reporting

The City should have procedures in place to help assure that the annual financial statements and notes to the financial statements are complete and accurate. The following classification errors were identified in the financial statements:

- The Unclaimed Moneys fund balance and activity was incorrectly reported as a special revenue fund instead of being properly rolled into the General fund for reporting purposes per GASB 54 requirements. The fund had a fund balance of \$244,990.
- Intergovernmental Receivables and Deferred revenue for the Vine Street Railroad Grade Separation capital project fund was overstated by \$1,804,276
- Contracts payable for the Vine Street Railroad Grade Separation capital project fund was understated by \$577,247. Investment in capital assets net of related debt on the entity wide statements was also understated by \$577,247 due to being reclassified as a restricted fund balance.
- By removing the intergovernmental receivable amount and increasing contracts payable liability in the Vine Street Railroad Grade Separation capital project fund, this created a negative fund balance of \$172,804 which had to be reclassified from restricted fund balance to unrestricted.
- Intergovernmental receivables for several special revenue funds related to grants were overstated by \$6,063,197 in total. An entry to reclassify deferred revenue of \$394,802 to revenue on the statement of activities made by the client was then overstated.
- The statement of activities - program revenues were understated by \$1,666,850 due to being misclassified to general revenues – intergovernmental.
- Fund balances for the Traffic/Parking Control and the Weed/Property Clean Up special revenue funds (\$303,362 and \$70,713 respectively) were incorrectly classified as assigned and should have been classified as committed fund balances for proper GASB 54 presentation
- Construction in Progress for the water fund was understated by \$1,399,024 due to misclassification of capital expenditures left in expense line items.
- Contracts payable was understated for the water fund for \$406,672, causing Construction in Progress and Other expenditures to be understated also.
- Construction in Progress was understated in the water fund by \$1,344,890 due to the misclassification of capitalized interest for projects not completed being reported under depreciable assets verses non depreciable assets.
- Investment in Capital Assets Net of Related Debt was understated for the water fund by \$912,150 due to a calculation error by the client.
- The Storm Water fund included \$579,000 of interfund activity between the Sewer fund that was recorded in the current year but should have been recorded in the prior year. Beginning fund balance for the Storm Water fund was overstated along with current year expenditures.
- The Sewer fund beginning balance was understated along with current year expenditures by \$579,000 for interfund activity with the Storm Water fund.
- The Charges for Services revenue for the Water and Sewer funds were not properly reported as pledged revenue for the repayment of revenue bond debt. Reclassifications of \$10,256,891 and \$9,849,948 respectively were made to reclassify charges for services revenue as pledged revenue to repay debt.

**FINDING NUMBER 2011-01
 (Continued)**

The Cash Flow statements as presented by the City were not able to be verified to the accounting records. Also, note disclosure was not complete in that no disclosure was presented for joint ventures or jointly governed organizations, disclosure for pension and postemployment systems did not contain the most current information, cash note originally included saving accounts as investments, and the risk management note did not properly present the fact that the City was involved in a risk pool.

Errors in the financial statements and omissions from the note disclosures inhibit the users understanding of the results of operations and may result in the material misstatement of the financial statements and related notes. The accompanying financial statements and notes have been adjusted for the errors and omissions identified above.

The City should perform a review of the accounting records, annual financial statements, and notes to the financial statements to help assure accuracy and completeness. Resources such as those found on the Auditor of State web site should be utilized when recording transactions and preparing the annual financial statements and notes.

OFFICIALS' RESPONSE:

The City will make a better attempt to review the financial statements before presenting them for audit.

3. FINDINGS FOR FEDERAL AWARDS

Noncompliance Citation – Material Weakness

Finding Number	2011-02
CFDA Title and Number	ARRA - Homelessness Prevention and Rapid Re-Housing Program (HPRP) - CFDA #14.257 ARRA Public Safety Partnership and Community Policing Grant –CFDA #16.710 Highway Planning and Construction – (ARRA and non-ARRA) CFDA #20.205
Federal Award Number / Year	2011
Federal Agency	U.S. Department of Housing and Urban Development U.S. Department of Justice U.S. Department of Transportation
Pass-Through Agency	Ohio Department of Public Safety – Office of Criminal Justice Ohio Department of Transportation

**FINDING NUMBER 2011-02
 (Continued)**

OMB Circular A-133, Subpart C, Section 300(d), requires the City to prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with section .310. **OMB Circular A-133, Subpart C, Section 310(b)(3)** states at a minimum the schedule shall provide total Federal awards expended for each individual Federal program. The City prepared a schedule of federal awards expenditures (the Schedule) which included the following errors:

- Expenditures for the ARRA Homelessness Prevention and Rapid Re-Housing Program (HPRP), in the amount of \$213,329 were not presented as separate grants under the appropriate CFDA title and number.
- The Public Safety Partnership and Community Policing Grant expenditures were overstated by \$108,551 and the Highway Planning and Construction grant in total was initially overstated by \$523,945 as the result of not verifying on behalf payments with the grantor agency.
- The Highway Planning and Construction Grant also had non-ARRA funding, in the amount of \$1,061,703, that was not separately identified on the Schedule.
- We also noted similar errors in certain non-major programs.

The accompanying Schedule of Federal Expenditures has been adjusted to properly present the grant activity.

The failure to correctly report grant activity on the Schedule resulted in a material misstatement of the Schedule. A materially misstated Schedule may result in follow-up action being taken by the grantor agency.

Procedures should be implemented to help assure that the Schedule properly reports the activity of all federal grants that benefited the City. Such procedures could include reconciling the City's accounting records, and grant documents and subsidiary records maintained by each department to the Schedule. In addition, grantor agencies may need to be contacted to identify on-behalf payments. In addition, resources such as OMB Circular A-133 should be utilized to further understand the requirements of reporting federal grants.

OFFICIALS' RESPONSE:

Procedures will be implemented to reconcile various subsidiary records maintained by individual departments to the official records maintained by the City Auditor's Office.

Noncompliance Citation – Material Weakness / Reporting

Finding Number	2011-03
CFDA Title and Number	Homelessness Prevention and Rapid Re-Housing Program (HPRP) – ARRA - CFDA #14.257
Federal Award Number / Year	2011
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	None

**FINDING NUMBER 2011-03
 (Continued)**

24 CFR 85.20 (b)(1) states that financial reporting must be accurate, current, and complete disclosure of the financial results of financially assisted activities and must be made in accordance with the financial reporting requirements of the grant or sub-grant. The **HOMELESSNESS PREVENTION AND RAPID RE-HOUSING PROGRAM (HPRP) GRANT AGREEMENT** requires the grantees to submit quarterly performance reports and an annual performance report.

For the two reports tested, not all of the amounts reported on the performance reports were supported by the City's accounting records.

For the City's HPRP Annual Performance Report (current period of 10/01/2010 - 09/30/2011), the City reported \$247,239 as the current period expenditures on the HPRP Annual Performance Report. On the City's accounting records, for this time period, \$259,729 was reported in expenditures. The amount reported to the Federal Government in the HPRP Annual Performance Report is \$12,490 less than the amount supported by the City's accounting records. For the grant to date expenditures, the City reported \$453,006 on the HPRP Annual Performance Report, but the City's accounting records report \$461,073 in expenditures. The City reported \$8,067 more on its accounting records than the amount reported to the Federal Government in the HPRP Annual Performance Report.

For the City's HPRP Quarterly Performance Report Q10 (current period of 10/01/2011 - 12/31/2011), the City reported \$292,002 as the grant to date expenditures. On the City's accounting records for this time period, \$514,623 was reported as being expended. The amount reported to the Federal Government in the HPRP Quarterly Performance Report Q10 is \$222,621 less than the amount supported by the City's accounting records.

Also, the grant was not listed separately on the Schedule of Federal Awards Expenditures from the other Community Development Block Grant funds received and expended. The City reported the entire amount of the Homelessness Prevention and Rapid Re-housing Program Grant of \$213,329 as CFDA #14.228 instead of #14.257 on the Schedule of Federal Award Expenditures.

Failure to ensure the agreement between the amounts reported on the performance reports and the amounts recorded in the City's accounting records, could result in non-compliance by the City for the grant and could result in loss of funding.

The City should implement procedures to ensure that all amounts reported on the performance reports submitted agree to the City's accounting records.

OFFICIALS' RESPONSE:

The City Auditor will require all departments submit a reconciliation page with their Federal reports indicating the report matches the information contained in the official financial records of the City.

Noncompliance Citation / Material Weakness / Special Tests and Provisions

Finding Number	2011-04
CFDA Title and Number	ARRA Highway Planning and Construction – Vine Street Railroad Grade Separation - CFDA #20.205
Federal Award Number / Year	2011
Federal Agency	U.S. Department of Transportation
Pass-Through Agency	Ohio Department of Transportation

**FINDING NUMBER 2011-04
(Continued)**

2 CFR Section 176.210(a) requires recipients to maintain records that identify adequately the source and application of Recovery Act funds. **2 CFR Section 176.210(b)** requires recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards.

The City received \$4,217,304 in ARRA money and \$1,061,702 in non-ARRA money for the Vine Street Railroad Grade Separation project. The City did not maintain records that identified the source and application of Recovery Act Funds.

The ARRA and non-ARRA money was recorded in the same fund and account. In addition the City recorded the entire amount of the Vine Street Railroad Grade Separation Project of \$5,279,006 as ARRA on the Schedule of Expenditures of Federal Awards.

The failure to account for restricted receipts in a separate fund may result in the illegal expenditure of the money and possible loss of funding

The City should review grant agreements and other resources such as the Code of Federal Regulations and OMB Circular A-133 to help further understand the reporting requirements of federal grants.

OFFICIALS' RESPONSE:

The Auditor's office will review additional information and communicate with the necessary City Officials to ensure all funding sources are identified and properly segregated.

**CITY OF LIMA
ALLEN COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
DECEMBER 31, 2011**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2011-02	OMB Circular A-133, Subpart C, Section 300(d) and OMB Circular A-133, Subpart C, Section 310(b)(3) –there were reporting errors on schedule of federal awards expenditures.	Completed by 12/31/2012	Director of Audit Services
2011-03	The Homelessness Prevention and Rapid Re-Housing Program (HPRP) Grant – there were incorrect amounts on the performance reports and the grant was not separately listed on the schedule of federal awards expenditures.	Completed by 12-31-2012	Director of Audit Services
2011-04	2 CFR 176.210(a)(b) – accounting records did not separately account for ARRA and non-ARRA funding for the ARRA Highway Planning and Construction – Vine Street Railroad Grade Separation grant. Also the schedule of federal expenditures did not separately identify ARRA and non-ARRA expenditures.	Completed by 12-31-2012	Director of Audit Services

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Dave Yost • Auditor of State

CITY OF LIMA

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 20, 2012