



Dave Yost • Auditor of State

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**CITY OF LONDON, OHIO  
MADISON COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Jim Slagle, Auditor  
City of London  
102 South Main Street  
London, Ohio 43140

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 London, Madison County, Ohio, as of December 31, 2010, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2011, 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.



**Dave Yost**  
Auditor of State

July 8, 2011

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)**

This discussion and analysis of the City of London's (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2010. The intent of this discussion and analysis is to look at the City's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for 2010 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by approximately \$28.4 million (net assets). Of this amount, approximately \$6.3 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net assets decreased by approximately \$301,138. This decrease is primarily the result of a \$268,376 decrease in net assets in the sewer fund.
- General revenues accounted for approximately \$5.0 million, or 74 percent of total governmental activities revenue. Program specific revenues accounted for the remaining 26 percent, or approximately \$1.7 million.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$3.9 million, a \$844,557 increase in comparison with the prior year. Of this amount, approximately \$3.3 million is available for spending at the City's discretion (unreserved, undesignated fund balance).
- At the close of the current fiscal year, unreserved, undesignated fund balance for the General Fund was approximately \$1.4 million, or 39 percent of general fund expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)**

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned by unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, public health services, leisure time activities, community and economic development, and transportation. The business-type activities of the City include water treatment and distribution, sewage collection, and sanitation.

The government-wide financial statements can be found on pages 11-13 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 32 individual governmental funds. 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 Keny Boulevard Extension Fund, each of which are considered to be major funds. Data from the other 30 governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 14-18 of this report.



**CITY OF LONDON, OHIO  
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)**

**Proprietary Funds.** The City utilizes only one type of proprietary fund: enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water treatment and distribution, sewage collection, and sanitation.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each enterprise fund, each of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 19-22 of this report.

**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 fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 23 of this report.

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-51 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The table below provides a summary of the City's net assets for 2010 compared to 2009:

	Governmental Activities		Business-Type Activities		Total	
	Restated		Restated		Restated	
	2009	2010	2009	2010	2009	2010
Current and Other Assets	\$ 6,228,870	\$ 6,930,315	\$ 6,388,922	\$ 5,905,259	\$ 12,617,792	\$ 12,835,574
Capital Assets, Net	15,616,496	17,416,633	39,521,262	37,779,801	55,137,758	55,196,434
Total Assets	21,845,366	24,346,948	45,910,184	43,685,060	67,755,550	68,032,008
Current and Other Liabilities	1,964,301	2,112,256	353,879	267,726	2,318,180	2,379,982
Long-Term Liabilities	2,938,688	5,446,975	33,805,952	31,813,459	36,744,640	37,260,434
Total Liabilities	4,902,989	7,559,231	34,159,831	32,081,185	39,062,820	39,640,416
Net Assets:						
Invested in capital assets, net of related debt	14,425,971	13,865,141	5,857,718	6,110,837	20,283,689	19,975,978
Restricted	1,393,997	2,122,225	-	-	1,393,997	2,122,225
Unrestricted	1,122,409	800,351	5,892,635	5,493,038	7,015,044	6,293,389
Total Net Assets	\$ 16,942,377	\$ 16,787,717	\$ 11,750,353	\$ 11,603,875	\$ 28,692,730	\$ 28,391,592

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)**

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by approximately \$28.4 million at the close of the most recent fiscal year.

*Governmental Activities* - The significant increase in Capital Assets, Net, is the result of a \$2.7 million increase in construction in progress related to the Keny Blvd. Extension Project, offset by current year depreciation of \$887,442. The significant increase in long-term liabilities is the result of a \$2.8 million bond anticipation note issued to finance the Keny Blvd. Extension Project, offset by current year principal payments of \$247,629.

*Business-Type Activities* - The significant decrease in Capital Assets, Net, is the result of current year depreciation of approximately \$1.8 million. The significant decrease in Long-Term Liabilities is the result of principal payments made during the year totaling approximately \$2.1 million.

By far the largest portion of the City's net assets (70 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (approximately \$6.3 million) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)**

The table below shows the changes in net assets for fiscal years 2010 and 2009.

	Governmental Activities		Business-type Activities		Total	
	Restated		Restated		Restated	
	2009	2010	2009	2010	2009	2010
<b>Program Revenues:</b>						
Charges for Service	\$ 393,769	\$ 539,948	\$ 4,556,952	\$ 4,748,604	\$ 4,950,721	\$ 5,288,552
Operating Grants	664,934	999,428	-	-	664,934	999,428
Capital Grants	5,000	200,103	426,630	31,371	431,630	231,474
<b>General Revenues:</b>						
Property Taxes	735,803	828,291	-	-	735,803	828,291
Payment in Lieu of Taxes	221,832	459,661	-	-	221,832	459,661
Income Taxes	2,891,613	3,085,013	-	-	2,891,613	3,085,013
Unrestricted Grants	388,476	543,273	-	-	388,476	543,273
Investment Income	38,906	29,457	50,273	-	89,179	29,457
Other Revenue	90,475	51,560	123,520	-	213,995	51,560
<b>Total Revenues</b>	<b>5,430,808</b>	<b>6,736,734</b>	<b>5,157,375</b>	<b>4,779,975</b>	<b>10,588,183</b>	<b>11,516,709</b>
<b>Expenses:</b>						
General Government	1,340,244	1,321,576	-	-	1,340,244	1,321,576
Security of Persons and Property	3,152,085	3,004,870	-	-	3,152,085	3,004,870
Public Health Services	750	300	-	-	750	300
Transportation	1,178,089	1,152,863	-	-	1,178,089	1,152,863
Economic Development	315,456	1,181,013	-	-	315,456	1,181,013
Leisure Time Activities	192,893	170,126	-	-	192,893	170,126
Interest on Long-Term Debt	39,424	60,646	-	-	39,424	60,646
Water	-	-	1,294,205	1,270,300	1,294,205	1,270,300
Sewer	-	-	2,962,150	2,776,659	2,962,150	2,776,659
Sanitation	-	-	871,276	879,494	871,276	879,494
<b>Total Expenses</b>	<b>6,218,941</b>	<b>6,891,394</b>	<b>5,127,631</b>	<b>4,926,453</b>	<b>11,346,572</b>	<b>11,817,847</b>
<b>Change in Net Assets</b>						
before Transfers	(788,133)	(154,660)	29,744	(146,478)	(758,389)	(301,138)
Transfers	(48,298)	-	48,298	-	-	-
Special Item	1,637,127	-	-	-	1,637,127	-
<b>Change in Net Assets</b>	<b>800,696</b>	<b>(154,660)</b>	<b>78,042</b>	<b>(146,478)</b>	<b>878,738</b>	<b>(301,138)</b>
Net assets, Beginning	16,141,681	16,942,377	11,672,311	11,750,353	27,813,992	28,692,730
<b>Net assets, Ending</b>	<b>\$ 16,942,377</b>	<b>\$ 16,787,717</b>	<b>\$ 11,750,353</b>	<b>\$ 11,603,875</b>	<b>\$ 28,692,730</b>	<b>\$ 28,391,592</b>

*Governmental Activities* – The significant increase in operating grants and contributions is primarily the result of a \$278,000 increase in Community Development Block Grant funding and the significant increase in capital grants and contributions is primarily the result of a \$101,100 local contribution for new traffic signals. The significant increase in community and economic development expense is primarily the result of the \$760,482 write-off of the uncollectible London Apartments note receivable.

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)**

*Business-Type Activities* – The significant decrease in capital grants and contributions is the result of capital contributions in 2009 from developers in the form of building additions totaling \$474,928. No such capital contributions were received in 2010.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The table below shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

Functions/Programs	Total Cost of Services		Net Cost of Services	
	Restated 2009	2010	Restated 2009	2010
<b>Governmental Activities:</b>				
General Government	\$ (1,340,244)	\$ (1,321,576)	\$ (1,272,870)	\$ (1,116,675)
Security of Persons and Property	(3,152,085)	(3,004,870)	(2,861,211)	(2,707,116)
Public Health Services	(750)	(300)	8,897	(300)
Transportation	(1,178,089)	(1,152,863)	(141,727)	(579,477)
Economic Development	(315,456)	(1,181,013)	(264,131)	(575,538)
Leisure Time Activities	(192,893)	(170,126)	(678,366)	(112,163)
Interest Expense	(39,424)	(60,646)	(25,419)	(60,646)
<b>Total Governmental Activities</b>	<b>(6,218,941)</b>	<b>(6,891,394)</b>	<b>(5,234,827)</b>	<b>(5,151,915)</b>
<b>Business-Type Activities:</b>				
Water	(1,294,205)	(1,270,300)	295,109	86,216
Sewer	(2,962,150)	(2,776,659)	(471,033)	(268,376)
Sanitation	(871,276)	(879,494)	78,132	35,682
<b>Total Business-Type Activities</b>	<b>(5,127,631)</b>	<b>(4,926,453)</b>	<b>(97,792)</b>	<b>(146,478)</b>
<b>Grand Total</b>	<b>\$ (11,346,572)</b>	<b>\$ (11,817,847)</b>	<b>\$ (5,332,619)</b>	<b>\$ (5,298,393)</b>

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$3.9 million, an increase of \$844,557 from the previous year.

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)**

The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2010 and 2009.

	<u>Fund Balance</u> <u>12/31/2009</u>	<u>Fund Balance</u> <u>12/31/2010</u>	<u>Increase</u> <u>(Decrease)</u>
General Fund	\$ 1,188,951	\$ 1,406,980	\$ 218,029
Keny Boulevard Extension Fund	-	212,314	212,314
Other Governmental	1,853,890	2,268,104	414,214
Total	<u>\$ 3,042,841</u>	<u>\$ 3,887,398</u>	<u>\$ 844,557</u>

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was approximately \$1.4 million, 97% of the total fund balance. The fund balance of the City's General Fund increased \$218,029 during the current fiscal year, or 18%, from the previous year. General Fund expenditures increased \$96,459, or less than 3% in comparison with the prior year, primarily as a result of inflationary increases.

The Keny Boulevard Extension Fund accounts for the Keny Boulevard Extension Project. For the most part, ending fund balance in this fund represents unspent bond anticipation note proceeds. The project will be completed in 2011.

**Proprietary Funds** - The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail. Unrestricted net assets at the end of the year amounted to \$1.4 million, \$3.0 million, and \$1.0 million for the Water, Sewer and Sanitation funds, respectively. The change in net assets was an increase of \$86,216 in the Water Fund, a decrease of \$268,376 in the Sewer Fund, and an increase of \$35,682 in the Sanitation Fund. Total operating expenses for all proprietary funds were \$4.5 million which was slightly less than operating revenues of \$4.7 million.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

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

During the course of 2010, the City amended its General Fund budget on various occasions. All recommendations for appropriation changes come to Council from the City Auditor. The Finance Committee of Council reviews them, and they make their recommendation to the Council as a whole. For the General Fund, budget basis revenue was \$211,504, over the final budget estimates of \$3.9 million. Of this excess, most was attributable to increased property tax receipts.

Final budgetary expenditures were \$360,701 less than final appropriations of \$4.4 million.

The revenue and expenditure variances between original and final budgets were insignificant.

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2010, amounts to approximately \$55.2 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings, equipment, furniture, vehicles, and infrastructure. The City's net capital asset balance increased \$58,676 during the year. This increase represents the amount by which current year acquisitions, totaling approximately \$2.7 million, exceeded current year depreciation of approximately \$2.7 million.

Detailed information regarding capital asset activity is included in the Note 10 to the basic financial statements.

**Debt**

At the end of the current fiscal year, the City had total debt outstanding of approximately \$36.7 million, an increase of \$580,694 in comparison with the prior year. This increase represents the amount by which current year additions, totaling approximately \$2.9 million, exceeded current year principal payments of approximately \$2.3 million.

Detailed information regarding long-term debt is included in Note 16 to the basic financial statements.

**CONTACTING THE CITY'S FINANCE 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 Jim Slagle, Auditor of City of London, Ohio, 102 South Main Street, London, OH 43140.

**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF NET ASSETS  
AS OF DECEMBER 31, 2010

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 3,775,653	\$ 5,251,835	\$ 9,027,488
Cash and Cash Equivalents in Segregated Accounts	52,263	-	52,263
Receivables:			
Taxes	2,435,705	-	2,435,705
Accounts	25,469	473,582	499,051
Intergovernmental	424,420	-	424,420
Interest	4,114	-	4,114
Special Assessments	95,230	32,889	128,119
Notes	12,327	-	12,327
Internal Balances	40,000	(40,000)	-
Prepaid Items	27,569	21,241	48,810
Materials and Supplies Inventory	37,565	31,960	69,525
Restricted Cash and Cash Equivalents	-	133,752	133,752
Capital Assets:			
Non-Depreciable	3,691,853	398,360	4,090,213
Depreciable, net	13,724,780	37,381,441	51,106,221
<b>Total Assets</b>	<b>24,346,948</b>	<b>43,685,060</b>	<b>68,032,008</b>
<b>Liabilities</b>			
Accounts Payable	103,058	53,181	156,239
Retainage Payable	84,961	-	84,961
Accrued Wages	105,347	36,572	141,919
Contracts Payable	208,534	-	208,534
Intergovernmental Payable	252,101	44,221	296,322
Customer Deposits Payable	-	133,752	133,752
Accrued Interest Payable	18,377	-	18,377
Unearned Revenue	1,339,878	-	1,339,878
Long-Term Liabilities:			
Due Within One Year	385,744	2,191,359	2,577,103
Due in More Than One Year	5,061,231	29,622,100	34,683,331
<b>Total Liabilities</b>	<b>7,559,231</b>	<b>32,081,185</b>	<b>39,640,416</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	13,865,141	6,110,837	19,975,978
Restricted for:			
Debt Service	170,337	-	170,337
Capital Projects	773,133	-	773,133
Security of Persons and Property	66,672	-	66,672
Transportation	755,504	-	755,504
Community Development	266,620	-	266,620
Leisure Time Activities	75,928	-	75,928
Other Purposes	14,031	-	14,031
Unrestricted	800,351	5,493,038	6,293,389
<b>Total Net Assets</b>	<b>\$ 16,787,717</b>	<b>\$ 11,603,875</b>	<b>\$ 28,391,592</b>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental Activities:</b>				
General Government	\$ 1,321,576	\$ 204,678	\$ 223	\$ -
Security of Persons and Property	3,004,870	198,870	98,884	-
Public Health Services	300	-	-	-
Leisure Time Activities	170,126	53,284	4,679	-
Community and Economic Development	1,181,013	83,116	322,256	200,103
Transportation	1,152,863	-	573,386	-
Interest and Fiscal Charges	60,646	-	-	-
Total Governmental Activities	<u>6,891,394</u>	<u>539,948</u>	<u>999,428</u>	<u>200,103</u>
<b>Business-type Activities:</b>				
Water	1,270,300	1,356,516	-	-
Sewer	2,776,659	2,476,912	-	31,371
Sanitation	879,494	915,176	-	-
Total Business-type Activities	<u>4,926,453</u>	<u>4,748,604</u>	<u>-</u>	<u>31,371</u>
<b>Total Government</b>	<b>\$ 11,817,847</b>	<b>\$ 5,288,552</b>	<b>\$ 999,428</b>	<b>\$ 231,474</b>

General Revenues:

Property Taxes Levied for:

General Purposes

Other Purposes

Payments in Lieu of Taxes

Income Taxes Levied for:

General Purposes

Other Purposes

Unrestricted Grants and Entitlements

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets at Beginning of Year, Restated

Net Assets at End of Year

See accompanying notes to the basic financial statements



Net (Expense) Revenue and  
Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (1,116,675)	\$ -	\$ (1,116,675)
(2,707,116)	-	(2,707,116)
(300)	-	(300)
(112,163)	-	(112,163)
(575,538)	-	(575,538)
(579,477)	-	(579,477)
(60,646)	-	(60,646)
<u>(5,151,915)</u>	<u>-</u>	<u>(5,151,915)</u>
-	86,216	86,216
-	(268,376)	(268,376)
-	35,682	35,682
<u>-</u>	<u>(146,478)</u>	<u>(146,478)</u>
<u>\$ (5,151,915)</u>	<u>\$ (146,478)</u>	<u>\$ (5,298,393)</u>
523,412	-	523,412
304,879	-	304,879
459,661	-	459,661
2,794,813	-	2,794,813
290,200	-	290,200
543,273	-	543,273
29,457	-	29,457
51,560	-	51,560
<u>4,997,255</u>	<u>-</u>	<u>4,997,255</u>
(154,660)	(146,478)	(301,138)
16,942,377	11,750,353	28,692,730
<u>\$ 16,787,717</u>	<u>\$ 11,603,875</u>	<u>\$ 28,391,592</u>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF DECEMBER 31, 2010**

	General Fund	Keny Blvd. Extension Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 1,331,605	\$ 547,780	\$ 1,896,268	\$ 3,775,653
Cash and Cash Equivalents in Segregated Accounts	-	-	52,263	52,263
Receivables:				
Taxes	1,416,707	-	1,018,998	2,435,705
Accounts	24,943	-	526	25,469
Intergovernmental	126,218	-	298,202	424,420
Interest	4,114	-	-	4,114
Special Assessments	38,989	-	56,241	95,230
Notes	-	-	12,327	12,327
Due from Other Funds	-	-	55,000	55,000
Prepaid Items	17,391	-	10,178	27,569
Materials and Supplies Inventory	1,197	-	36,368	37,565
Advance to Other Funds	-	-	40,000	40,000
<b>Total Assets</b>	<b>\$ 2,961,164</b>	<b>\$ 547,780</b>	<b>\$ 3,476,371</b>	<b>\$ 6,985,315</b>
<b>Liabilities:</b>				
Accounts Payable	\$ 27,364	\$ 61,971	\$ 13,723	\$ 103,058
Retainage Payable	-	84,961	-	84,961
Accrued Wages	89,416	-	15,931	105,347
Contracts Payable	-	188,534	20,000	208,534
Intergovernmental Payable	154,305	-	97,796	252,101
Due to Other Funds	-	-	55,000	55,000
Deferred Revenue	1,283,099	-	1,005,817	2,288,916
<b>Total Liabilities</b>	<b>1,554,184</b>	<b>335,466</b>	<b>1,208,267</b>	<b>3,097,917</b>
<b>Fund Balances:</b>				
Reserved for:				
Encumbrances	29,566	314,124	139,315	483,005
Materials and Supplies Inventory	1,197	-	36,368	37,565
Prepaid Items	17,391	-	10,178	27,569
Notes Receivable	-	-	12,327	12,327
Advances	-	-	40,000	40,000
Unreserved, reported in:				
General Fund	1,358,826	-	-	1,358,826
Special Revenue Funds	-	-	1,223,682	1,223,682
Debt Service Fund	-	-	155,756	155,756
Capital Project Fund	-	(101,810)	650,478	548,668
<b>Total Fund Balances</b>	<b>1,406,980</b>	<b>212,314</b>	<b>2,268,104</b>	<b>3,887,398</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,961,164</b>	<b>\$ 547,780</b>	<b>\$ 3,476,371</b>	<b>\$ 6,985,315</b>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2010

<b>Total Governmental Fund Balances</b>	<b>\$ 3,887,398</b>
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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.	17,416,633
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Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

Income Taxes Receivable	537,940
Property Taxes Receivable	24,181
Special Assessment Receivable	53,715
Intergovernmental Receivable	329,088
Interest Receivable	4,114

Long-Term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:

Compensated absences payable	(303,500)
General Obligation Bonds Payable	(3,081,500)
Special Assessment Bonds Payable	(21,000)
Loans Payable	(1,981,145)
Police and Fire Pension Payable	(59,830)
Accrued Interest Payable	(18,377)
	(6,465,352)

<b>Net Assets of Governmental Activities</b>	<b><u><u>\$ 16,787,717</u></u></b>
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See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	General Fund	Keny Blvd. Extension Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 3,442,731	\$ -	\$ 1,036,152	\$ 4,478,883
Special Assessments	9,816	-	76,496	86,312
Charges for Services	233,284	-	108,333	341,617
Fines, Licenses, and Permits	112,590	-	85,741	198,331
Intergovernmental	345,851	-	1,214,194	1,560,045
Interest	23,402	1,771	170	25,343
Other	40,107	-	8,522	48,629
Total Revenues	<u>4,207,781</u>	<u>1,771</u>	<u>2,529,608</u>	<u>6,739,160</u>
<b>Expenditures:</b>				
Current:				
General Government	931,156	-	307,149	1,238,305
Security of Persons and Property	2,329,328	-	598,385	2,927,713
Public Health Services	300	-	-	300
Leisure Time Activities	125,704	-	-	125,704
Community and Economic Development	64,719	61,971	838,864	965,554
Transportation	-	-	515,101	515,101
Capital Outlay	-	2,528,209	113,575	2,641,784
Debt service:				
Principal Retirement	-	-	247,629	247,629
Interest and Fiscal Charges	-	10,729	33,236	43,965
Total Expenditures	<u>3,451,207</u>	<u>2,600,909</u>	<u>2,653,939</u>	<u>8,706,055</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	756,574	(2,599,138)	(124,331)	(1,966,895)
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Notes	-	2,800,000	-	2,800,000
Premium on Issuance of Note	-	11,452	-	11,452
Transfers In	-	-	538,545	538,545
Transfers Out	(538,545)	-	-	(538,545)
Total Other Financing Sources (Uses)	<u>(538,545)</u>	<u>2,811,452</u>	<u>538,545</u>	<u>2,811,452</u>
Net Change in Fund Balances	218,029	212,314	414,214	844,557
Fund Balance at Beginning of Year	<u>1,188,951</u>	<u>-</u>	<u>1,853,890</u>	<u>3,042,841</u>
Fund Balance at End of Year	<u>\$ 1,406,980</u>	<u>\$ 212,314</u>	<u>\$ 2,268,104</u>	<u>\$ 3,887,398</u>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON 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, 2010

<b>Net Change in Fund Balances - Total Governmental Funds</b>		\$ 844,557
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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.		
	Capital Outlays	2,690,386
	Depreciation Expense	(887,442)
The effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and disposals) is to decrease net assets.		
		(2,807)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		(274,360)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and does not result in an expense in the statement of activities.		
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neith transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt items.		
	Principal Payments on Debt	249,351
	Issuance of Debt	(2,800,000)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
	Compensated Absences	42,362
	Accrued Interest	(16,707)
<b>Change in Net Assets of Governmental Activities</b>		<u>\$ (154,660)</u>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2010

	Original Budget	Final Budget	Actual	Variance (Over)/Under
<b>Revenues</b>				
Taxes	\$ 3,200,000	\$ 3,200,000	\$ 3,366,853	\$ 166,853
Special Assessments	-	-	9,816	9,816
Charges for Services	231,500	231,500	233,284	1,784
Fines, Licenses, and Permits	107,900	107,900	112,883	4,983
Intergovernmental	300,300	342,300	341,686	(614)
Interest	10,000	10,000	23,402	13,402
Other	27,000	27,000	42,280	15,280
Total Revenues	<u>3,876,700</u>	<u>3,918,700</u>	<u>4,130,204</u>	<u>211,504</u>
<b>Expenditures</b>				
Current:				
General Government	1,025,272	1,022,939	942,310	80,629
Security of Persons and Property	2,647,730	2,650,206	2,435,709	214,497
Public Health Services	-	4,000	300	3,700
Leisure Time Activities	134,300	190,529	128,654	61,875
Total Expenditures	<u>3,807,302</u>	<u>3,867,674</u>	<u>3,506,973</u>	<u>360,701</u>
Excess of Revenues Over Expenditures	69,398	51,026	623,231	572,205
<b>Other Financing Uses</b>				
Transfers Out	(516,546)	(539,174)	(538,545)	629
Total Other Financing Uses	<u>(516,546)</u>	<u>(539,174)</u>	<u>(538,545)</u>	<u>629</u>
Net Change in Fund Balance	(447,148)	(488,148)	84,686	572,834
Fund Balances at Beginning of Year, Restated**	1,192,112	1,192,112	1,192,112	-
Prior Year Encumbrances Appropriated	25,241	25,241	25,241	-
Fund Balances at End of Year	<u>\$ 770,205</u>	<u>\$ 729,205</u>	<u>\$ 1,302,039</u>	<u>\$ 572,834</u>

\*\* Beginning Budgetary Fund Balance was restated in 2010 to agree to General Fund Balance minus prior year encumbrances

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF FUND NET ASSETS  
PROPRIETARY FUNDS  
AS OF DECEMBER 31, 2010

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Sanitation	Total
<b>Assets</b>				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 1,385,134	\$ 2,802,813	\$ 1,063,888	\$ 5,251,835
Receivables:				
Accounts	163,284	298,809	11,489	473,582
Special Assessments	-	32,889	-	32,889
Prepaid Items	5,624	13,330	2,287	21,241
Materials and Supplies Inventory	13,669	6,358	11,933	31,960
Total Current Assets	<u>1,567,711</u>	<u>3,154,199</u>	<u>1,089,597</u>	<u>5,811,507</u>
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	133,752	-	-	133,752
Non-Depreciable Capital Assets	231,632	66,768	99,960	398,360
Depreciable Capital Assets , Net	3,335,501	33,513,962	531,978	37,381,441
Total Noncurrent Assets	<u>3,700,885</u>	<u>33,580,730</u>	<u>631,938</u>	<u>37,913,553</u>
Total Assets	<u>5,268,596</u>	<u>36,734,929</u>	<u>1,721,535</u>	<u>43,725,060</u>
<b>Liabilities</b>				
Current Liabilities:				
Accounts Payable	7,247	18,912	27,022	53,181
Accrued Wages	19,781	9,043	7,748	36,572
Intergovernmental Payable	23,409	10,936	9,876	44,221
Customer Deposits Payable	133,752	-	-	133,752
Compensated Absences Payable	29,996	13,198	6,636	49,830
Capital Lease Payable	-	-	24,006	24,006
OWDA Loans Payable	102,428	2,015,095	-	2,117,523
Total Current Liabilities	<u>316,613</u>	<u>2,067,184</u>	<u>75,288</u>	<u>2,459,085</u>
Noncurrent Liabilities:				
Advance from Other Funds	-	40,000	-	40,000
Compensated Absences Payable	61,560	25,883	7,222	94,665
Capital Lease Payable	-	-	20,863	20,863
OWDA Loans Payable	990,839	28,515,733	-	29,506,572
Total Noncurrent Liabilities	<u>1,052,399</u>	<u>28,581,616</u>	<u>28,085</u>	<u>29,662,100</u>
Total Liabilities	<u>1,369,012</u>	<u>30,648,800</u>	<u>103,373</u>	<u>32,121,185</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	2,473,866	3,049,902	587,069	6,110,837
Unrestricted	1,425,718	3,036,227	1,031,093	5,493,038
Total Net Assets	<u>\$ 3,899,584</u>	<u>\$ 6,086,129</u>	<u>\$ 1,618,162</u>	<u>\$ 11,603,875</u>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Sanitation	Total
<b>Operating Revenues</b>				
Charges for Services	\$ 1,356,516	\$ 2,476,912	\$ 915,176	\$ 4,748,604
Total Operating Revenues	<u>1,356,516</u>	<u>2,476,912</u>	<u>915,176</u>	<u>4,748,604</u>
<b>Operating Expenses</b>				
Personal Services	624,318	436,553	410,954	1,471,825
Contractual Services	344,383	396,678	352,592	1,093,653
Materials and Supplies	79,043	21,219	67,418	167,680
Depreciation	176,502	1,577,448	45,891	1,799,841
Total Operating Expenses	<u>1,224,246</u>	<u>2,431,898</u>	<u>876,855</u>	<u>4,532,999</u>
Operating Income	<u>132,270</u>	<u>45,014</u>	<u>38,321</u>	<u>215,605</u>
<b>Nonoperating Revenues (Expenses)</b>				
Other Non-Operating Revenue	-	31,371	-	31,371
Interest Expense	(46,054)	(344,761)	(2,639)	(393,454)
Total Non-Operating Revenues (Expenses)	<u>(46,054)</u>	<u>(313,390)</u>	<u>(2,639)</u>	<u>(362,083)</u>
Change in Net Assets	<u>86,216</u>	<u>(268,376)</u>	<u>35,682</u>	<u>(146,478)</u>
Net Assets at Beginning of Year, Restated	3,813,368	6,354,505	1,582,480	11,750,353
Net Assets at End of Year	<u>\$ 3,899,584</u>	<u>\$ 6,086,129</u>	<u>\$ 1,618,162</u>	<u>\$ 11,603,875</u>

See accompanying notes to the basic financial statements



**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Sanitation	Total
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$ 1,408,447	\$ 2,450,673	\$ 913,671	\$ 4,772,791
Cash Payments to Suppliers for Goods and Services	(510,062)	(423,000)	(410,218)	(1,343,280)
Cash Payments for Salaries and Benefits	(645,028)	(447,932)	(420,201)	(1,513,161)
Net Cash Flows from Operating Activities	<u>253,357</u>	<u>1,579,741</u>	<u>83,252</u>	<u>1,916,350</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Cash Received from Other Non-operating Receipts	-	903	-	903
Net cash flows from noncapital financing activities	<u>-</u>	<u>903</u>	<u>-</u>	<u>903</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from Loans	73,500	24,909	-	98,409
Acquisition of Capital Assets	(27,000)	(31,380)	-	(58,380)
Principal Payments of Debt	(98,809)	(1,970,434)	(22,929)	(2,092,172)
Payment of Interest	(46,109)	(345,522)	(2,639)	(394,270)
Net Cash Flows from Capital and Related Financing Activities	<u>(98,418)</u>	<u>(2,322,427)</u>	<u>(25,568)</u>	<u>(2,446,413)</u>
Net Change in Cash	154,939	(741,783)	57,684	(529,160)
Cash and Cash Equivalents at Beginning of Year	1,363,947	3,544,596	1,006,204	5,914,747
Cash and Cash Equivalents at End of Year	<u>\$ 1,518,886</u>	<u>\$ 2,802,813</u>	<u>\$ 1,063,888</u>	<u>\$ 5,385,587</u>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Sanitation	Total
<b>Cash Flows from Operating Activities</b>				
<b>Reconciliation of Operating Income to Net</b>				
<b>Cash Flows from Operating Activities:</b>				
Operating Income	\$ 132,270	\$ 45,014	\$ 38,321	\$ 215,605
Add Depreciation Expense	176,502	1,577,448	45,891	1,799,841
(Increase)/Decrease in Current Assets				
Accounts Receivable	20,231	(26,239)	(1,505)	(7,513)
Material and Supply Inventory	(8,009)	(2,971)	9,937	(1,043)
Prepaid Items	1,136	(7,756)	146	(6,474)
Increase/(Decrease) in Current Liabilities				
Accounts Payable	(51,356)	5,624	1,295	(44,437)
Accrued Wages	(19,008)	(7,866)	(11,684)	(38,558)
Compensated Absences	1,131	(2,323)	3,279	2,087
Intergovernmental Payable	(3,733)	(1,190)	(2,428)	(7,351)
Customers Deposits	4,193	-	-	4,193
Net Cash Flows from Operating Activities	<u>\$ 253,357</u>	<u>\$ 1,579,741</u>	<u>\$ 83,252</u>	<u>\$ 1,916,350</u>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
AS OF DECEMBER 31, 2010

	<u>Agency Funds</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 149,892
Total Assets	<u>149,892</u>
<b>Liabilities</b>	
Undistributed Monies	149,892
Total Liabilities	<u>\$ 149,892</u>

See accompanying notes to the basic financial statements

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**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 1 – REPORTING ENTITY**

The City of London (the “City”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution and laws of the State of Ohio. The City operates under a Council-Mayor form of government.

In evaluating how to define the City for financial reporting purposes, management has considered all agencies, departments, and organizations making up the City (the primary government) and its potential component units consistent with Government Accounting Standards Board Statements No. 14, “The Financial Reporting Entity” and No. 39, “Determining Whether Certain Organizations are Component Units – An Amendment of GASB Statement No. 14”.

The City provides various services including police and fire protection, building inspections, public improvements, water and sewer services, parks and recreation, planning, zoning, street maintenance and repair, refuse collection and general administrative services. The operation of each of these activities is directly controlled by the Council through the budgetary process. None of these services are provided by a legally separate organization; therefore, these operations are included in the primary government.

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 for which the City approves the budget, the levying of taxes or the issuance of debt. The City has no component units.

The City participates with Somerford Township, Deer Creek Township and London City School District in the Central Madison Joint Recreation District (CMJRD), a jointly-governed organization. CMJRD maintains and supervises all public recreation programs and facilities placed at their disposal. The Board consists of nine members, eight of which are appointed by the members (2 per member) and one appointed by Union Township. All members must reside in the CMJRD jurisdiction during their term.

The City participates with Madison County, Deer Creek Township, Jefferson Township, Village of Mount Sterling, Pike Township, and the Village of West Jefferson in the Madison County Future Community Improvement Corporation (MCFCIC), a jointly governed organization. The Board consists of seven members which are appointed by each participating government. The MCFCIC serves as the principal regional economic development agency for the county and its communities.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local government 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 entity has elected not to apply FASB pronouncements and Interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The most significant of the City’s accounting policies are described below.

**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Presentation**

The City's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

**Government-wide Financial Statements** The Statement of Net Assets and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The 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 condition of the governmental and business-type activities of the City at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limitations. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

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

**Governmental Funds** - Governmental funds are those through which most governmental functions of the City 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 fund types:

**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**Keny Blvd. Extension Fund** – The Keny Blvd. Extension fund accounts for revenues and expenditures relating to the Keny Blvd. Extension Project.

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

**Proprietary Fund Type** - Proprietary fund reporting focuses on the determination of operating income, changes in net assets, 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 Water, Sewer, and Sanitation Funds are the City's major enterprise funds

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

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

**Sanitation Fund** – The Sanitation Fund accounts for the provision of sanitation services to the residents and commercial users located within the City.

**Fiduciary Funds** - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for money received and held until the distribution requirement to others is met upon final plan approval.

**(c) Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and liabilities 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.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***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 are generally 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 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 government-wide financial statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and 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 basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

***Revenues – Exchange and Non-Exchange Transactions*** Revenue resulting from exchange transactions in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the 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 sixty days of the fiscal year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, payments in lieu of 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 and payments in lieu of taxes is recognized in the fiscal year for which the taxes or payments are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.



**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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, motor vehicle license tax, government state tax, and homestead and rollback), fines and forfeitures, interest, grants and rentals.

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

Property taxes and payments in lieu of taxes for which there is an enforceable claim as of as of December 31, 2010, but which were levied to finance fiscal year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statement, 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 the governmental funds.

**(e) Pooled Cash and Cash Equivalents**

To improve cash management, all cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. 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."

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating negotiable certificates of deposit and repurchase agreements, which are reported at cost.

During 2010, investments were limited to negotiable certificates of deposit and STAROhio.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2010.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund amounted to \$23,402 which includes \$21,271 assigned from other City funds.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The City has segregated bank accounts for monies held separate from the City’s central bank account. These interest bearing depository accounts are presented as “cash and cash equivalents in segregated accounts” since they are not required to be deposited into the City treasury.

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. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

**(f)     *Prepaid Items***

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

**(g)     *Materials and Supplies Inventory***

Inventory consists of expendable supplies. On government-wide financial statement, 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. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed. Inventories of the proprietary funds are expensed when used.

**(h)     *Restricted Assets***

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Customer deposits have been restricted in the enterprise funds because the deposit remains the property of the customer. The restricted asset account is balanced by a customer deposit payable liability account.

**(i)     *Capital Assets***

General capital assets are capital assets which are associated 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 proprietary funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

All capital assets are capitalized at cost (or estimated historical cost) and are updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The City maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Land Improvements	5-30 Years	15-20 Years
Buildings	20-40 Years	20-40 Years
Equipment and Machinery	5-20 Years	5-20 Years
Furniture and Fixtures	5-15 Years	N/A
Vehicles	5-8 Years	8 Years
Infrastructure	15-50 Years	N/A
Water and Sewer Lines	N/A	40-50 Years

The City's infrastructure consists of roads, bridges, curbs, gutters, sidewalks, drainage systems and lighting systems and includes infrastructure acquired prior to December 31, 1980.

**(j) Capitalization of Interest**

Interest costs incurred that relate to the acquisition or construction of property and equipment acquired with debt proceeds of the business type activities is capitalized. The amount of interest to be capitalized is the amount of interest incurred from the date of the borrowing until completion of the project. The City had no capitalized interest during 2010.

**(k) Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due to/from Other Funds." Those amounts not expected to be repaid within one year are classified as "Advances to/from Other Funds". 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.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(l)      *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 employer 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 vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future (employees with ten or more years of service). The amount is based on accumulated sick leave and employee wage rates at year-end taking into consideration any limits specified in the City's termination policy.

**(m)      *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 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 and special termination benefits, 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.

**(n)      *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 constitutional provisions, enabling legislation 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.

**(o)      *Fund Balance Reserves***

The City reserves those portions of fund balance which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances, prepaid items, material and supplies inventory, advances, and notes receivable.

**(p)     *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 sanitation services.

Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

**(q)     *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.

**(r)     *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. The City had no extraordinary or special items during the year.

**(s)     *Estimates***

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

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*(t) 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 activity by department level within the General Fund and at the activity level for all other funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. 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 passed by Council.

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

**NOTE 3 – BUDGETARY BASIS OF ACCOUNTING**

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

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditure/expenses (budget) rather than as a reservation of fund balance (GAAP).

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 3 – BUDGETARY BASIS OF ACCOUNTING (Continued)**

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	
GAAP Basis	\$ 218,029
Revenue Accruals	(77,577)
Expenditure Accruals	(26,200)
Encumbrances	(29,566)
Budget Basis	\$ 84,686

**NOTE 4 – ACCOUNTABILITY AND COMPLIANCE**

Fund balances at December 31, 2010 included the following individual fund deficits:

	<u>Deficit</u>
Police Pension	\$ (9,628)
Debt Service- Kenny Blvd.	(30,193)

The deficits in those funds resulted from adjustments for accrued liabilities. The General Fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

**NOTE 5 – DEPOSITS AND INVESTMENTS**

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

Active monies are public deposits necessary to meet the demands on the treasury. Such monies must be maintained either as cash by the City, 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 five 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 which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)**

Interim monies may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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 percent and be marked to market daily, and that the term of the agreement must not exceed thirty 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) 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 Treasurer's investment pool (STAR Ohio).
7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in any amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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.



**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)**

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the City’s name. During 2010, the City and public depositories complied with the provisions of these statutes.

Deposits - Custodial credit risk is the risk that, in the event of 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. According to the City’s investment policy all funds received by a depository in excess of FDIC coverage shall be collateralized subject to Ohio Revised Code 135.37.

At year-end, the carrying amount of the City’s deposits was \$8,473,395. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2010, \$2,992,050 of the City’s bank balance of \$8,662,148 was covered by Federal Deposit Insurance Corporation.

Investments - As of December 31, 2010, the City had the following investment and maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years) Less than 1</u>
Negotiable Certificates of Deposit	\$ 490,000	\$ 490,000
STAR Ohio	400,000	400,000
	<u>\$ 890,000</u>	<u>\$ 890,000</u>

*Interest Rate Risk*- Interest rate risk is the risk that an interest rate change could adversely affect an investment’s fair value. According to the City’s investment policy, no unmatched investment will have a maturity date of more than five years from the settlement date.

*Credit Risk*- The City’s investment in STAROhio has a credit rating of AAAM. The City does not have a formal investment policy regarding exposure to credit risk for investments.

*Concentration of Credit Risk*- Concentration of credit risk is the risk of inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by lack of diversification. The City does not have a formal investment policy regarding concentration of credit risk.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)**

Five percent or more of the City’s investments are in the following:

Investment Type	Percent of Total
Negotiable Certificates of Deposit	55.06%
STAR Ohio	44.94%
	100.00%

**NOTE 6 – NOTES RECEIVABLE**

On August 2, 1994, the City received a \$500,000 promissory note from London Limited Partnership (the Partnership), an Ohio limited partnership formed to construct low income housing with Federal Financial Assistance granted to the City of London as well as funds, which the Partnership borrowed from a private lender. The note receivable began to accrue interest at a rate of 3 percent per annum on December 1, 1995 when the Partnership reached the permanent loan closing with the private lender who financed the remainder of the project. Interest has been deferred and was to be paid after payment of all the Partnership’s operating expenses and all sums due to the private lender.

In 2010, the entire principal and accrued interest balance of \$760,482 was written off by the City due to the inability to receive payment. The rights of the note have been assigned to the Ohio Housing Financing Authority (OHFA) alleviating the City of any exposure to the note and its responsibilities attached.

In January 2003, the City loaned \$15,000 to Old Londontown Ltd, an Ohio Limited Liability Company formed to purchase, rehabilitate, hold, rent, or lease historic real estate for historic preservation. Proceeds from the note will be used to revitalize buildings in the City of London downtown area. The note’s interest rate is 4.25 percent. The note is secured by a mortgage held by the City against the property at 105 South Main Street, London, Ohio. The balance on the note at December 31, 2010 is \$12,327. The Ohio Limited Liability Company has not paid on this note since 2007. The City is working with the company for repayment and has not written this loan off as bad debt.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 7 – PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2010 for real and public utility property taxes represents collections of the 2009 taxes. Property tax payments received during 2010 for tangible personal property (other than public utility property) are for 2009 taxes.

The 2010 real property taxes are levied after October 1, 2010, on the assessed value as of January 1, 2010, the lien date. Assessed values are established by the State law at 35 percent of appraised market value. 2010 real property taxes are collected in and intended to finance 2011.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2010 public utility property taxes which became a lien on December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes.

The 2010 tangible personal property taxes are levied after October 1, 2009, on the values as of December 31, 2009. Collections are made in 2010. In prior years, tangible personal property assessments were 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax has been phased out – the assessed percentage for all property, including inventory for 2010 was zero percent.

The full tax rate for all City operations for the year ended December 31, 2010, was \$5.80 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:

	Assesed Valuation
Real Property	\$ 168,458,560
Tangible Personal Property	268,150
Public Utility Property	4,992,260
Total	\$ 173,718,970

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits earlier or later payment dates to be established.

The County Treasurer collects property tax on behalf of all taxing districts in the County, including the City of London. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2010 and for which there is an enforceable legal claim. In the General Fund, and the Fire Levy, Police Pension, and Fire Pension special revenue funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2010 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 8 – INCOME TAXES**

The City levies a municipal income tax of 1.0 percent on gross salaries, wages and other personal service compensation earned by residents of the City and on the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. In addition, residents of the City are required to pay income tax on income earned outside the City.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

Additional increases in the income tax rate require voter approval. The City has established its own income tax division to administer and collect taxes for the City.

**NOTE 9 – RECEIVABLES**

Receivables at December 31, 2010 consisted of taxes, accounts (billed and unbilled user charged services), special assessments, notes, and intergovernmental receivables arising from grants, entitlements and shared revenues. Taxes, accounts, special assessments, notes and intergovernmental receivables are deemed collectible in full. A summary of the principal items of taxes receivables reported on the statement of net assets follows:

<u>Receivable</u>	<u>Amount</u>
Property taxes	\$ 975,111
Income taxes	1,085,478
Payment in Lieu of Taxes	<u>375,116</u>
Total	<u>\$ 2,435,705</u>

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 10 – CAPITAL ASSETS**

A summary of changes in governmental capital assets during 2010 follows:

***Governmental Activities***

	Beginning Balance	Additions	Deductions	Ending Balance
<b>Nondepreciable Capital Assets</b>				
Land	\$ 808,996	\$ -	\$ -	\$ 808,996
Construction in Progress	192,471	2,690,386		2,882,857
<b>Total Nondepreciable Assets</b>	<b>1,001,467</b>	<b>2,690,386</b>	<b>-</b>	<b>3,691,853</b>
<b>Depreciable Capital Assets</b>				
Land Improvements	640,432	-	-	640,432
Buildings	2,349,612	-	(3,500)	2,346,112
Machinery and Equipment	865,349	-	-	865,349
Vehicles	1,990,051	-	-	1,990,051
Infrastructure	17,283,602	-	-	17,283,602
<b>Total Depreciable Assets</b>	<b>23,129,046</b>	<b>-</b>	<b>(3,500)</b>	<b>23,125,546</b>
<b>Less accumulated depreciation</b>				
Land Improvements	(324,748)	(24,656)	-	(349,404)
Buildings	(459,061)	(72,392)	-	(531,453)
Machinery and Equipment	(606,185)	(78,908)	-	(685,093)
Vehicles	(1,549,953)	(102,989)	-	(1,652,942)
Infrastructure	(5,574,070)	(608,497)	693	(6,181,874)
<b>Total accumulated depreciation</b>	<b>(8,514,017)</b>	<b>(887,442)</b>	<b>693</b>	<b>(9,400,766)</b>
<b>Depreciable Capital Assets, Net of accumulated depreciation</b>	<b>14,615,029</b>	<b>(887,442)</b>	<b>(2,807)</b>	<b>13,724,780</b>
<b>Total Capital Assets, Net</b>	<b>\$ 15,616,496</b>	<b>\$ 1,802,944</b>	<b>\$ (2,807)</b>	<b>\$ 17,416,633</b>

Depreciation expense was charged to the governmental functions as follows:

General Government	\$ 84,248
Security of Persons and Property	87,891
Community and Economic Development	-
Transportation	670,881
Leisure Activities	44,422
<b>Total depreciation expense</b>	<b>\$ 887,442</b>

**CITY OF LONDON, OHIO**  
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**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 10 – CAPITAL ASSETS (Continued)**

<b>Business-type Activities</b>	Beginning Balance	Additions	Deductions	Ending Balance
Land	\$ 275,926	-	-	\$ 275,926
Construction in Progress	95,434	27,000	-	122,434
Total Nondepreciable Assets	<u>371,360</u>	<u>27,000</u>	<u>-</u>	<u>398,360</u>
Depreciable Capital Assets				
Land Improvements	17,639	-	-	17,639
Buildings	4,916,178	-	-	4,916,178
Improvements Other Than Buildings	20,038,405	-	-	20,038,405
Equipment and Machinery	4,287,489	-	-	4,287,489
Vehicles	885,477	-	-	885,477
Water and Sewer Lines	18,271,140	31,380	-	18,302,520
Total Depreciable Assets	<u>48,416,328</u>	<u>31,380</u>	<u>-</u>	<u>48,447,708</u>
Less accumulated depreciation				
Land Improvements	(11,571)	(1,762)	-	(13,333)
Buildings	(608,837)	(153,278)	-	(762,115)
Improvements Other Than Buildings	(2,687,801)	(766,038)	-	(3,453,839)
Equipment and Machinery	(1,262,856)	(442,961)	-	(1,705,817)
Vehicles	(623,620)	(71,723)	-	(695,343)
Water and Sewer Lines	(4,071,741)	(364,079)	-	(4,435,820)
Total accumulated depreciation	<u>(9,266,426)</u>	<u>(1,799,841)</u>	<u>-</u>	<u>(11,066,267)</u>
Depreciable Capital Assets, Net of accumulated depreciation	<u>39,149,902</u>	<u>(1,768,461)</u>	<u>-</u>	<u>37,381,441</u>
Total Business-Type Capital Assets, Net	<u>\$ 39,521,262</u>	<u>\$ (1,741,461)</u>	<u>\$ -</u>	<u>\$ 37,779,801</u>

**CITY OF LONDON, OHIO**  
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**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 11 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2010, the City was insured through Wichert Insurance. During 2010 the City had the following types of insurance:

Coverage	Limit
Real Property Leagal Liability	\$ 1,000,000
Bolier and Machinery	10,000,000
Automobile Liability	1,000,000
Building and Property	46,169,244

There has been no reduction in coverage from the prior year. Settled claims did not exceed coverage in any of the last three years.

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 to provide coverage to employees for job related injuries.

**NOTE 12 – PENSION BENEFITS**

**A. Ohio Public Employees Retirement System**

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

1. The Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
3. The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-PERS (7377).

**CITY OF LONDON, OHIO**  
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**NOTE 12 – PENSION BENEFITS (Continued)**

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2010, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Separate divisions for law enforcement and public safety exist only within the Traditional Plan. The 2010 member contribution rate for City employees was 10.00 percent of covered payroll. The 2010 employer contribution rate for the City was 14.00 percent of covered payroll. The City's required contributions to OPERS for the years ended December 31, 2010, 2009, and 2008 were \$310,742, \$306,594, and \$318,788 respectively. The full amount has been contributed for 2009 and 2008; 92.3 percent has been contributed for 2010 with the remainder being reported as a fund liability.

**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. 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 by 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 the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.00 percent of their annual covered salary, while employers are required to contribute 19.50 percent and 24 percent respectively for police officers and firefighters. The City's contributions to OP&F for the years ending December 31, 2010, 2009, and 2008 were \$324,742, \$320,262, and \$347,800, respectively. The full amount has been contributed for 2009 and 2008; 76.2 percent has been contributed for 2010 with the remainder being reported as a fund liability.

**NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS**

**A. Public Employees Retirement System**

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – 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-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.



**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (Continued)**

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Funding Policy - The Ohio Revised Code provides 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.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). Each year, the OPERS Retirement Board 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 was 5.5 percent from January 1 through February 28, 2010 and 5.0 percent from March 1 through December 31, 2010. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OPERS for post-employment benefits for the years ending December 31, 2010, 2009, and 2008 were \$113,204, \$128,276, and \$157,577, respectively. The full amount has been contributed for 2009 and 2008. 92.3 percent has been contributed for 2010 with the remainder being reported as a fund liability.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for employers increased on January 1 of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

**B. Ohio Police and Fire Pension Fund**

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multi-employer defined postemployment health care plan administered by OP&F. OP&F provide healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long 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 the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 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.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (Continued)**

Funding Policy - 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 percent and 24.00 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50 percent of covered payroll for police employer units and 24.00 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, the employer contribution allocated to the health care plan was 6.75 percent 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 contributions to OP&F for the years ending December 31, 2010, 2009, and 2008 were \$324,742, \$320,262, and \$347,800, respectively, of which \$102,108, \$100,402 and \$109,035, respectively, was allocated to the healthcare plan. The full amount has been contributed for 2009 and 2008. 76.2 percent has been contributed for police and firefighters for 2010.

**NOTE 14 – COMPENSATED ABSENCES**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Employees earn vacation time based on length of service. Employees earning two weeks or more of vacation annually must take vacation in a forty hour increment at least once per calendar year. Employees who earn four weeks or more of vacation annually must take vacation leave in forty hour increments at least twice in each calendar year. No more than the amount of vacation accrued in the previous thirty-six month period can be carried forward into the next calendar year without written consent of the Mayor. Without this approval, any excess is eliminated from the employee's leave balance. In the case of death, termination, or retirement, an employee (or his estate) is paid for the unused vacation up to a maximum of the three year accrual.

All employees earn sick leave at the rate of 4.6 hours for each eighty hours in active pay status.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 14 – COMPENSATED ABSENCES (Continued)**

It is the policy of the City that an employee with at least ten years of service who retires from the City is entitled to receive payment on the basis of one day’s pay for each four days of accrued sick leave not to exceed 120 days. The policy varies for employees covered by collective bargaining agreements. Sick leave is recorded as a long-term obligation, unless there is an indication that the obligation will be liquidated with expendable available financial resources within one year (e.g. announced retirement date).

As of December 31, 2010, the accrued liability for unpaid compensated absences was \$447,995.

**NOTE 15 – CAPITALIZED LEASES – LESSEE DISCLOSURE**

In 2007, the City entered into a capitalized lease for the acquisition of a packer truck. The lease met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “Accounting for Leases,” which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The asset acquired by the lease has been capitalized in the business-type activities in the amount of \$112,708, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability is recorded and is reduced for each required principal payment.

The asset has a present value of \$63,398 with accumulated depreciation of \$49,310 as of December 31, 2010.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2010:

Year	Business-Type Activities
2011	\$ 25,568
2012	21,307
Total Minimum Lease Payments	46,875
Less Amount Representing Interest	(2,006)
Present Value of Minimum Lease Payments	\$ 44,869

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 16 – LONG TERM LIABILITIES**

	Interest Rate	Original Issue Amount	Date of Maturity
<b>Governmental Activities:</b>			
N. End Sewer Project Special Assessment Bonds- 1993	5.25%	\$ 127,000	December 1, 2013
East High Street OPWC Loan- 1993	0.00%	267,660	July 1, 2014
Variour Purpose Bonds- 2006	4.95%	303,800	December 1, 2016
Fire Truck Acquisition Bonds- 2006	4.57%	375,000	December 1, 2011
Garfield Ave. Rehab Phase I- OPWC 2006	0.00%	273,756	January 1, 2026
Garfield Ave. Rehab Phase II- OPWC 2006	0.00%	543,430	January 2, 2027
Sewer Improvements OWDA Loan- 2005	1.00%	1,692,756	January 1, 2025
Keny Blvd Extension Bond Anticipation Notes	1.40%	2,800,000	March 1, 2011
<b>Business-Type Activities:</b>			
Sewer Improvements OWDA Loan- 1988	7.65%	5,157,855	January 1, 2013
Sewer Improvements OWDA Loan- 1988	7.86%	600,831	January 1, 2013
Water Improvements OWDA Loan- 2001	4.14%	1,610,687	July 1, 2021
Sewer Improvements OWDA Loan- 2006	0.80%	33,218,664	January 1, 2029
Water Planning OWDA Loans- 2009	2.00%	121,749	July 1, 2014

The following is a summary of changes in long-term liabilities of the governmental activities for the year ended December 31, 2010:

<b>Governmental Activities</b>	Beginning			Ending	Due Within
	Balance	Additions	Reductions	Balance	One Year
Special Assessment Bonds	\$ 28,000	-	(7,000)	21,000	7,000
OPWC Loan- 1993	66,915	-	(13,383)	53,532	13,383
OPWC Loan- 2006 Phase I	219,004	-	(13,687)	205,317	13,688
OPWC Loan- 2006 Phase II	489,106	-	(27,172)	461,934	27,172
OWDA Sewer Improvements 2005 ^^	1,340,775	-	(80,413)	1,260,362	81,193
General Obligation Bonds:					
Various Purpose	227,500	-	(28,000)	199,500	29,300
Fire Truck Acquisition	160,000	-	(78,000)	82,000	82,000
Bond Anticipation Notes:					
Keny Blvd Extension BAN	-	2,800,000	-	2,800,000	20,000
Total Governmental Debt	2,531,300	2,800,000	(247,655)	5,083,645	273,736
Compensated Absences	345,862	126,316	(168,678)	303,500	110,637
Police & Fire Pension Payable	61,526	-	(1,696)	59,830	1,371
Total Governmental Activities ^^	\$ 2,938,688	\$ 2,926,316	\$ (418,029)	\$ 5,446,975	\$ 385,744

The Ohio Public Works Commission (OPWC) loans and the Pool Improvement Bonds will be paid from the Capital Improvement Fund. The special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 16 – LONG TERM LIABILITIES (Continued)**

The following is a summary of changes in long-term liabilities of the business-type activities for the year ended December 31, 2010:

<i>Business-Type Activities</i>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
OWDA Loans:					
Sewer Improvements 1988	\$ 1,215,894	-	(376,056)	839,838	404,552
Sewer Improvements 1988	143,687	-	(44,350)	99,337	47,804
Water Improvements 2001	1,082,023	-	(75,241)	1,006,782	78,329
Sewer Improvements 2006	31,117,533	24,909	(1,550,789)	29,591,653	1,562,739
Water Planning 2009	36,609	73,500	(23,624)	86,485	24,099
Total OWDA Loans	<u>33,595,746</u>	<u>98,409</u>	<u>(2,070,060)</u>	<u>31,624,095</u>	<u>2,117,523</u>
Capital Lease	67,798	-	(22,929)	44,869	24,006
Compensated Absences	142,408	67,527	(65,440)	144,495	49,830
Total Business-Type Activities ^^	<u>\$ 33,805,952</u>	<u>\$ 165,936</u>	<u>\$ (2,158,429)</u>	<u>\$ 31,813,459</u>	<u>\$ 2,191,359</u>

^^ As of January 1 2010, the 2005 OWDA Loan for Sewer Improvements was restated to be included in the governmental activities instead of the business-type activities. This restatement is necessary since the payments for the 2005 OWDA Loan are pledged revenues supported by the TIF Fund.

The Ohio Water Development Authority (OWDA) loans will be paid from charges for services revenue in the Water and Sewer funds and payments in lieu of taxes in TIF fund. Compensated absences reported in the “compensated absences payable” account and pension contribution reported in the “intergovernmental payable” account will both be paid from general operating revenues of the fund from which the employees’ salaries are paid. Capital leases are paid from operating revenue of the Sanitation fund. The police and fire pension liability will be paid from taxes revenue of the Police and Fire Pension fund. North End Sewer Project Special Assessment bonds will be paid from special assessments from the North End Sewer Debt Service Fund. The City’s remaining government debt will be paid from general obligation resources from the City’s debt service funds.

In 2004 the City was awarded a loan from the OWDA in the amount of \$253,118. The proceeds of this loan were used for upgrade planning for the waste water treatment plant. During 2005 this loan was rolled into a new loan from the OWDA with a new loan total of \$1,553,591. In 2006 this design loan was rolled into a loan for the waste water treatment plant expansion and Oak Run Interceptor Project in the amount of \$33,218,664. As of December 31, 2010, the City had drawn down \$32,680,424.

In 2009 the City was awarded a loan from the OWDA in the amount of \$121,749 for the purpose of upgrading the City’s drinking water system. As of December 31, 2010 the City had drawn down the entire amount.

On May 21, 2010, the City issued a Bond Anticipation Note for \$2,800,000 with an interest rate of 1.08 percent. Then on February 24, 2011, the City issued Series 2011 general obligation bonds totaling \$2,890,000 to pay off the Bond Anticipation Notes. The general obligation term bonds have fixed interest rates ranging from 1.2% to 4.75% and have a final maturity of December 1, 2030.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 16 – LONG TERM LIABILITIES (Continued)**

The North End Sewer Project Special Assessment Bonds are payable from derived special assessments from the North End Sewer Debt Service Fund. These bonds additionally have City commitment to the extent sufficient resources are not payable from special assessments.

Pledged Revenues

In connection with the OWDA loans previously discussed, the City has pledged future customer revenues, net of specified operating expenses, to repay this debt, with the exception of the 2005 OWDA Sewer Improvements loan which has pledged payments in lieu of taxes. Pledged revenues of a given year may also include specified portions of cash balances carried over from the prior year. The OWDA loans are payable, through their final maturities, from net revenues applicable to the respective Water, Sewer, and TIF (Tax Incremental Financing) funds. The OWDA loans include provisions giving the City the option of making payments from the City's general revenue, but are not general obligation liabilities of the City. The interest and principal remaining to be paid on these OWDA loans is \$35,620,500. Total customer revenues were \$1,356,516 and \$2,476,912 for the Water and Sewer funds with payments in lieu of tax revenue for the TIF fund of \$230,176.

Ohio Police and Fire Pension Liability

The City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police personnel in 1967. The outstanding liability at December 31, 2010, is \$59,830 with the principal payable semi-annually from the Police Pension and Fire Pension Special Revenue Funds. The liability will be fully retired in May 2035.

The annual requirements to retire the governmental activities long-term obligations outstanding at December 31, 2010 are as follows:

	<b>Business Type-Activities</b>					
	<b>Governmental Activities</b>		<b>Water</b>		<b>Sewer</b>	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	273,736	114,091	102,428	42,491	2,015,095	310,000
2012	274,150	133,526	106,189	38,729	2,062,085	262,727
2013	276,372	129,609	110,096	34,822	1,587,893	212,769
2014	271,902	124,761	101,302	30,762	1,600,621	200,041
2015	265,958	120,190	92,281	26,930	1,613,452	187,210
2016-2020	1,267,067	521,863	522,634	73,416	8,263,347	739,964
2021-2025	1,345,106	376,449	58,337	1,209	8,599,894	403,418
2026-2027	1,109,354	162,214	-	-	4,788,441	74,829
<b>Total</b>	<b>5,083,645</b>	<b>1,682,703</b>	<b>1,093,267</b>	<b>248,359</b>	<b>30,530,828</b>	<b>2,390,958</b>

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 17 – INTERFUND TRANSFERS AND BALANCES**

Interfund transfers during the fiscal year were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ (538,545)
Other Governmental	538,545	-
	<u>\$ 538,545</u>	<u>\$ (538,545)</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. Transfers from the general fund are to finance various programs accounted for in other funds in accordance with budgetary authorization; to segregate money for anticipated capital projects and provide additional resources for current operations or debt service.

Interfund balances at December 31, 2010 consisted of the following:

<u>Fund</u>	<u>Beginning Balance</u>	<u>New Advances</u>	<u>Advance Repayments</u>	<u>Ending Balance</u>
Capital Improvement	40,000	-	-	40,000
Municipal Permissive	210,000	-	(155,000)	55,000
TIF Settlement	27,000	-	(27,000)	-
Kenny Blvd Extensions	(237,000)	-	182,000	(55,000)
Sewer	(40,000)	-	-	(40,000)

The advance from the capital improvements fund to the sewer fund was made to begin funding a storm water assessment project. When the City begins charging for storm water these monies will be repaid. The advances to the Kenny Boulevard Extension were made to provide funding for the road project until other financing could be secured by the City. Advances not expected to be repaid within one year will be recorded as Advances to/from Other Funds. Those expected to be repaid within one year will be recorded as Due to/from Other Funds.

**NOTE 18 – CONTINGENCIES**

**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 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, 2010.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 18 – CONTINGENCIES (Continued)**

***B. Litigation***

City management is of the opinion that ultimate disposition of claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

**NOTE 19 – CONTRACTUAL COMMITMENTS**

As of December 31, 2010, the City had the following contractual commitments due to the construction and extension of the City’s Keny Blvd.

<u>Contractor</u>	<u>Purchase Order Amount</u>	<u>Amount Spent To Date</u>	<u>Remaining Balance</u>
DLZ Ohio Inc	\$ 116,206	\$ (47,718)	\$ 68,488
Nicklolas Savko	296,073	-	296,073
	<u>\$ 412,279</u>	<u>\$ (47,718)</u>	<u>\$ 364,561</u>

**NOTE 20 – PRIOR PERIOD ADJUSTMENTS**

The beginning net asset balances of the Governmental Activities, Sewer Fund, Sanitation Fund and the Business-Type Activities were restated due to correction of an error. The beginning net asset balances were restated to what they would have been had the error not occurred. The restatement is due to the following errors:

1. The inventory balance recorded in the Sanitation Fund was overstated due to error in calculation.
2. The 2005 OWDA loan was incorrectly classified as debt in the Sewer Fund. The Debt has been reclassified as Governmental Activities debt since the debt agreement calls for payments from pledged revenues of payments in lieu of taxes supported by the TIF fund.

The effects of these adjustments are presented below:

	<u>Governmental Activities</u>	<u>Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Business-Type Activities</u>
Net Assets, December 31, 2009	\$ 18,283,152	\$ 5,013,731	\$ 1,628,737	\$ 10,455,835
Inventory Overstatement	-	-	(46,257)	(46,257)
Debt Classification	(1,340,775)	1,340,775	-	1,340,775
Net Assets, January 1, 2010	<u>\$ 16,942,377</u>	<u>\$ 6,354,506</u>	<u>\$ 1,582,480</u>	<u>\$ 11,750,353</u>



**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 21 – SUBSEQUENT EVENT**

On February 24, 2011, the City issued Series 2011 General Obligation Bonds totaling \$2,890,000 to pay off Bond Anticipation Notes totaling \$2.8 million. The General Obligation Bonds have fixed interest rates ranging from 1.2% to 4.75% and have a final maturity of December 1, 2030.

On June 3, 2011, the City issued an Acquisition Bond Series 2011, totaling \$139,000 to finance the purchase of a street sweeper. The Acquisition Bond has a fixed interest rate of 2.5 percent and has a final maturity of June 2014.

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# 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*

Jim Slagle, Auditor  
City of London  
102 South Main Street  
London, Ohio 43140

To the City 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 London, Madison County, Ohio (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 opinions 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

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

### **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 July 8, 2011.

We intend this report solely for the information and use of management, the finance committee, the City Council, and others within the City. We intend it for no one other than these specified parties.

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

**Dave Yost**  
Auditor of State

July 8, 2011

CITY OF LONDON  
MADISON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2009-001	Financial Reporting	No	Partially Corrected. Reissued as Management Letter comment.

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# Dave Yost • Auditor of State

CITY OF LONDON

MADISON COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
AUGUST 16, 2011