

# **City of London**

*Financial Statements*

*For the Fiscal Year Ended December 31, 2006*





Mary Taylor, CPA  
Auditor of State

Board of Trustees  
City of London  
102 South Main Street  
London, Ohio 43140

We have reviewed the *Independent Auditors' Report* of the City of London, Madison County, prepared by Kennedy Cottrell Richards LLC, for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

August 20, 2007

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**CITY OF LONDON**

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of London, Ohio

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, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the General and Capital Improvement Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2007 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Kennedy Cottrell Richards LLC  
June 22, 2007

**City of London**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*(Unaudited)*

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The discussion and analysis of the City of London's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2006. 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 2006 are as follows:

- General revenues accounted for \$4,664,783 in revenue or 43 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$6,147,104 or 57 percent of total revenues of \$10,811,887.
- Total program expenses were \$8,706,968; \$5,221,339 in governmental activities and \$3,485,629 in business-type activities.
- In total, net assets increased \$2,104,919. Net assets of governmental activities increased \$1,221,872, which represents an 7 percent increase from 2005. Net assets of business-type activities increased \$883,047 or 12 percent from 2005.
- Outstanding debt increased from \$7,407,994 to \$18,554,833 through the issuance of new debt.

***Using this Annual Financial Report***

This report is designed to allow the reader to look at the financial activities of the City of London as a whole and is intended to allow the reader to obtain a summary view or a more detailed view of the City operations, as they prefer.

The Statement of Net Assets and the Statement of Changes in Net Assets provide information from a summary perspective showing the effects of the operations for the year 2006 and how they affected the operations of the City as a whole.

***Reporting the City of London as a Whole***

*Statement of Net Assets and the Statement of Activities*

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column. In the case of London, the general, capital improvements and capital projects—Garfield Ave. funds are the most significant governmental funds. The water, sewer and sanitation funds are the significant enterprise funds.



**City of London**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*(Unaudited)*

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A question typically asked about the City's finances "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the City as a whole, the *financial position* of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two distinct kinds of activities:

- ✓ Governmental Activities - Most of the City's programs and services are reported here, including general government, security of persons and property, community environment, leisure time activities and transportation.
- ✓ Business-Type Activities - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's water, sewer and sanitation funds are reported as business-type activities.

***Reporting the City of London's Most Significant Funds***

*Fund Financial Statements*

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

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, capital improvements, and capital projects – Garfield Ave., all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

**City of London**  
*Management's Discussion and Analysis*  
For the Year Ended December 31, 2006  
(Unaudited)

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

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

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

**The City of London as a Whole**

Recall that the Statement of Net Assets provides the perspective of the City as a whole.

Table 1 provides a summary of the City's net assets for 2006 compared to 2005:

**(Table 1)**  
**Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2006	Restated 2005	2006	2005	2006	Restated 2005
<b>Assets</b>						
Current and Other Assets	\$ 6,931,951	\$ 6,301,286	\$ 4,880,538	\$ 3,712,064	\$ 11,812,489	\$ 10,013,350
Capital Assets	14,350,128	14,280,813	21,472,548	11,701,169	35,822,676	25,981,982
Total Assets	21,282,079	20,582,099	26,353,086	15,413,233	47,635,165	35,995,332
<b>Liabilities</b>						
Long-Term Liabilities	2,027,112	566,271	16,886,908	7,183,616	18,914,020	7,749,887
Other Liabilities	1,206,026	3,188,759	1,139,152	785,638	2,345,178	3,974,397
Total Liabilities	3,233,138	3,755,030	18,026,060	7,969,254	21,259,198	11,724,284
<b>Net Assets</b>						
Invested in Capital Assets Net of Debt	12,629,186	13,658,181	4,701,302	4,627,123	17,330,488	18,285,304
Restricted	3,806,157	2,562,460	0	0	3,806,157	2,562,460
Unrestricted	1,613,598	606,428	3,625,724	2,816,856	5,239,322	3,423,284
Total Net Assets	\$ 18,048,941	\$ 16,827,069	\$ 8,327,026	\$ 7,443,979	\$ 26,375,967	\$ 24,271,048

**City of London**  
*Management's Discussion and Analysis*  
For the Year Ended December 31, 2006  
(Unaudited)

Total assets increased by \$11,639,833 with governmental assets increasing \$699,980 and business-type assets increasing \$10,939,853. An increase of \$9,840,624 in total capital assets reflects new construction in progress and an increase due to sewer improvements. Total liabilities increased by \$9,534,914 with business-type activities increasing \$10,056,806. The majority of this increase was the result of loans proceeds from OWDA for the sewer improvements in business-type activities.

Total net assets increased by \$2,104,919. This number reflects an increase of \$1,221,872 in governmental activities and an increase of \$883,047 in the net assets of the business-type activities for 2006. Table 2 shows the changes in net assets for fiscal years 2006 and 2005.

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
<i>Program Revenues:</i>						
Charges for Services	\$ 354,276	\$ 382,141	\$ 4,181,551	\$ 4,037,892	\$ 4,535,827	\$ 4,420,033
Operating Grants	572,723	794,711	0	0	572,723	794,711
Capital Grants	1,038,554	1,185,319	0	0	1,038,554	1,185,319
<i>General Revenue:</i>						
Property Taxes	873,834	809,855	0	0	873,834	809,855
Income Taxes	3,089,965	2,970,107	0	0	3,089,965	2,970,107
Grants and Entitlements	410,628	509,803	0	0	410,628	509,803
Investment Earnings	229,237	132,870	26,222	14,682	255,459	147,552
Other	13,207	17,063	21,690	21,895	34,897	38,958
<b>Total Revenues</b>	<b>6,582,424</b>	<b>6,801,869</b>	<b>4,229,463</b>	<b>4,074,469</b>	<b>10,811,887</b>	<b>10,876,338</b>
<b>Program Expenses</b>						
General Government	1,226,897	1,056,127	0	0	1,226,897	1,056,127
Security of Persons and Property	2,373,857	2,317,546	0	0	2,373,857	2,317,546
Transportation	1,109,891	942,354	0	0	1,109,891	942,354
Public Health Services	125	3,985	0	0	125	3,985
Community and Economic Development	213,208	511,264	0	0	213,208	511,264
Leisure Time Activities	255,993	255,621	0	0	255,993	255,621
Interest and Fiscal Charges	41,368	24,028	0	0	41,368	24,028
<i>Enterprise Operations:</i>						
Water	0	0	1,134,387	1,238,779	1,134,387	1,238,779
Sewer	0	0	1,549,071	1,300,834	1,549,071	1,300,834
Sanitation	0	0	802,171	641,444	802,171	641,444
<b>Total Program Expenses</b>	<b>5,221,339</b>	<b>5,110,925</b>	<b>3,485,629</b>	<b>3,181,057</b>	<b>8,706,968</b>	<b>8,291,982</b>
Increase in Net Assets Before Transfers	1,361,085	1,690,944	743,834	893,412	2,104,919	2,584,356
Transfers and Contributions	(139,213)	0	139,213	0	0	0
<b>Increase in Net Assets</b>	<b>\$ 1,221,872</b>	<b>\$ 1,690,944</b>	<b>\$ 883,047</b>	<b>\$ 893,412</b>	<b>\$ 2,104,919</b>	<b>\$ 2,584,356</b>

**City of London**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*(Unaudited)*

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**Governmental Activities**

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

The City's income tax is at a rate of 1 percent. Both residents of the City and non-residents who work inside the City are subject to the income tax.

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

Police and fire represent the largest expense of the Governmental Activities. This expense of \$2,373,857 represents 45 percent of the total expenses. These two departments operate out of the general fund.

**Business-Type Activities**

Business-type activities include water, sewer and sanitation operations. The revenues are generated primarily from charges for services. In 2006, charges for services of \$4,181,551 accounted for 96 percent of the business-type revenues. The total expenses for business type activities were \$3,485,629. The City had an increase in net assets of \$883,047 for the business-type activities.

***The City's Funds***

Information about the City's governmental funds begins on page 11. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$6,150,000 and expenditures of \$5,304,126. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

Information about the proprietary funds starts on page 17. These funds are accounted for on an accrual basis. All business type funds had operating expenses of \$3,214,042 which were less than operating revenues of \$4,181,551, by \$967,509 or 23 percent of operating revenues.

**City of London**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
(Unaudited)

**General Fund Budgeting Highlights**

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

During the course of 2006, 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 \$3,669,680, over the original budget estimates of \$3,013,800. Of this \$655,880 increase, most was attributable to increased income tax, intergovernmental, and interest revenue.

Final appropriations of \$3,772,243 were \$379,022 higher than the \$3,393,221 in the original budget.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of year 2006, the City had \$35,822,676 invested in land, buildings, equipment, infrastructure and vehicles. A total of \$14,350,128 of this was for governmental activities with the remainder attributable to business-type activities. Table 3 shows fiscal year 2006 balances compared with 2005.

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

	Governmental Activities		Business-Type Activities		Total	
	2006	Restated 2005	2006	2005	2006	Restated 2005
Land	\$ 404,379	\$ 404,379	\$ 275,926	\$ 275,926	\$ 680,305	\$ 680,305
Land Improvements	344,548	360,238	8,716	0	353,264	360,238
Buildings	219,997	237,886	630,433	666,292	850,430	904,178
Improvements Other Than Buildings	0	0	2,241,549	2,436,951	2,241,549	2,436,951
Machinery and Equipment	371,215	320,887	390,283	623,871	761,498	944,758
Vehicles	586,207	152,004	376,140	236,896	962,347	388,900
Construction in Progress	2,279,236	2,121,328	12,113,939	3,552,683	14,393,175	5,674,011
Infrastructure	10,144,546	10,635,685	0	0	10,144,546	10,635,685
Water and Sewer Lines	0	0	5,435,562	3,908,550	5,435,562	3,908,550
<b>Totals</b>	<b>\$ 14,350,128</b>	<b>\$ 14,232,407</b>	<b>\$ 21,472,548</b>	<b>\$ 11,701,169</b>	<b>\$ 35,822,676</b>	<b>\$ 25,933,576</b>

The \$9,889,100 increase in capital assets was attributable to additional purchases exceeding depreciation expense. Note 11 provides capital asset activity during the 2006 year.

**City of London**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*(Unaudited)*

**Debt**

The outstanding debt for the City of London as of December 31, 2006 was \$18,554,833 with \$555,530 due within one year. Table 4 summarizes outstanding debt.

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds	\$ 763,800	\$ 110,000	\$ 0	\$ 0	\$ 763,800	\$ 110,000
Special Assessment Bonds	49,000	55,000	0	0	49,000	55,000
OPWC Loan	905,800	120,447	0	0	905,800	120,447
OWDA Loans	0	0	16,771,248	7,056,403	16,771,248	7,056,403
Police and Fire Pension	64,985	66,144	0	0	64,985	66,144
<i>Total</i>	<u>\$ 1,783,585</u>	<u>\$ 351,591</u>	<u>\$ 16,771,248</u>	<u>\$ 7,056,403</u>	<u>\$ 18,554,833</u>	<u>\$ 7,407,994</u>

The general obligation bonds are composed of city improvement bonds and pool improvement bonds.

The special assessment bonds consist of various construction projects and other improvements. The principal and interest for these bonds are paid from the collection of special assessments by the County Auditor from the specific property owners who primarily benefited from the projects.

Additional information concerning the City's debt can be found in Note 17 to the basic financial statements.

***Current Financial Issues***

The City of London's economic condition is stable. The City's income tax rate is the lowest, at 1 percent. It will be important to increase this tax percentage rate in the future. Growth and expansion which will result in an increase in funding by City Council. There are new businesses, mostly retail, looking at locating in London.

London is part of a regional economy, where residents are exported to jobs outside of the immediate local area. The City does not depend upon local businesses to provide jobs for its residents.

A \$23 million project to upgrade the City's wastewater treatment plan is in progress. This project will increase plant capacity by 100 percent and is expected to improve treatment efficiency.

***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**  
*Statement of Net Assets*  
*December 31, 2006*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,953,910	\$ 4,438,097	\$ 6,392,007
Cash and Cash Equivalents with Fiscal Agents	48,513	0	48,513
Investments	910,478	0	910,478
Taxes Receivable	1,624,454	0	1,624,454
Accounts Receivable	46,862	330,640	377,502
Intergovernmental Receivable	1,417,564	0	1,417,564
Special Assessments Receivable	99,684	3,759	103,443
Internal Balances	40,000	(40,000)	0
Prepaid Items	48,653	22,401	71,054
Materials and Supplies Inventory	33,562	8,447	42,009
Notes Receivable	708,271	0	708,271
Restricted Cash and Cash Equivalents	0	117,194	117,194
Non-Depreciable Capital Assets	2,683,615	12,389,865	15,073,480
Depreciable Capital Assets, net	11,666,513	9,082,683	20,749,196
<i>Total Assets</i>	<u>21,282,079</u>	<u>26,353,086</u>	<u>47,635,165</u>
<b>Liabilities</b>			
Accounts Payable	77,708	50,724	128,432
Accrued Wages	142,700	53,331	196,031
Contracts Payable	0	857,031	857,031
Intergovernmental Payable	222,964	60,872	283,836
Customer Deposits Payable	0	117,194	117,194
Accrued Interest Payable	2,754	0	2,754
Deferred Revenue	759,900	0	759,900
Long-Term Liabilities:			
Due Within One Year	198,582	430,564	629,146
Due in More Than One Year	1,828,530	16,456,344	18,284,874
<i>Total Liabilities</i>	<u>3,233,138</u>	<u>18,026,060</u>	<u>21,259,198</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	12,629,186	4,701,302	17,330,488
Restricted for Debt Service	78,243	0	78,243
Restricted for Capital Outlay	5,363	0	5,363
Restricted for Other Purposes			
Legislation	233,426	0	233,426
Highways and Streets	319,833	0	319,833
Capital Improvements	960,452	0	960,452
Community Development	1,772,723	0	1,772,723
Other	436,117	0	436,117
Unrestricted	1,613,598	3,625,724	5,239,322
<i>Total Net Assets</i>	<u>\$ 18,048,941</u>	<u>\$ 8,327,026</u>	<u>\$ 26,375,967</u>

See accompanying notes to the basic financial statements.

**City of London**  
*Statement of Activities*  
For the Year Ended December 31, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General Government	\$ 1,226,897	\$ 64,284	\$ 0	\$ 15,200	\$ (1,147,413)	\$ 0	\$ (1,147,413)
Security of Persons and Property	2,373,857	25,907	29,128	74,354	(2,244,468)	0	(2,244,468)
Public Health Services	125	0	0	0	(125)	0	(125)
Leisure Time Activities	255,993	54,305	8,026	0	(193,662)	0	(193,662)
Community and Economic Development	213,208	209,780	5,768	949,000	951,340	0	951,340
Transportation	1,109,891	0	529,801	0	(580,090)	0	(580,090)
Interest and Fiscal Charges	41,368	0	0	0	(41,368)	0	(41,368)
<i>Total Governmental Activities</i>	<u>5,221,339</u>	<u>354,276</u>	<u>572,723</u>	<u>1,038,554</u>	<u>(3,255,786)</u>	<u>0</u>	<u>(3,255,786)</u>
<b>Business-Type Activities:</b>							
Water	1,134,387	1,202,630	0	0	0	68,243	68,243
Sewer	1,549,071	2,046,063	0	0	0	496,992	496,992
Sanitation	802,171	932,858	0	0	0	130,687	130,687
<i>Total Business-Type Activities</i>	<u>3,485,629</u>	<u>4,181,551</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>695,922</u>	<u>695,922</u>
<i>Total - Primary Government</i>	<u>\$ 8,706,968</u>	<u>\$ 4,535,827</u>	<u>\$ 572,723</u>	<u>\$ 1,038,554</u>	<u>(3,255,786)</u>	<u>695,922</u>	<u>(2,559,864)</u>
<b>General Revenues:</b>							
Property Taxes Levied for:							
General Purposes					527,653	0	527,653
Other Purposes					346,181	0	346,181
Income Taxes Levied for:							
General Purposes					2,130,350	0	2,130,350
Other Purposes					959,615	0	959,615
Grants and Entitlements not Restricted to Specific Programs					410,628	0	410,628
Investment Earnings					229,237	26,222	255,459
Miscellaneous					13,207	21,690	34,897
<i>Total General Revenues</i>					<u>4,616,871</u>	<u>47,912</u>	<u>4,664,783</u>
Transfers					(139,213)	139,213	0
<i>Total General Revenues and Transfers</i>					<u>4,477,658</u>	<u>187,125</u>	<u>4,664,783</u>
<i>Change in Net Assets</i>					<u>1,221,872</u>	<u>883,047</u>	<u>2,104,919</u>
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>					<u>16,827,069</u>	<u>7,443,979</u>	<u>24,271,048</u>
<i>Net Assets End of Year</i>					<u>\$ 18,048,941</u>	<u>\$ 8,327,026</u>	<u>\$ 26,375,967</u>

See accompanying notes to the basic financial statements.



**City of London**  
*Balance Sheet*  
*Governmental Funds*  
*December 31, 2006*

	General	Capital Improvements	Capital Projects - Garfield Ave.	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 482,317	\$ 775,901	\$ 5,363	\$ 690,329	\$ 1,953,910
Cash and Cash Equivalents with Fiscal Agents	0	0	0	48,513	48,513
Investments	910,478	0	0	0	910,478
Taxes Receivable	1,077,319	186,464	0	360,670	1,624,453
Accounts Receivable	42,223	0	0	4,639	46,862
Intergovernmental Receivable	127,230	0	0	1,290,334	1,417,564
Special Assessments Receivable	0	0	0	99,684	99,684
Prepaid Items	34,792	0	0	13,861	48,653
Materials and Supplies Inventory	3,231	0	0	30,331	33,562
Advances to Other Funds	0	40,000	0	0	40,000
Notes Receivable	0	0	0	708,271	708,271
<i>Total Assets</i>	<u>\$ 2,677,590</u>	<u>\$ 1,002,365</u>	<u>\$ 5,363</u>	<u>\$ 3,246,632</u>	<u>\$ 6,931,950</u>
<b>Liabilities</b>					
Accounts Payable	31,925	23,005	0	22,778	77,708
Accrued Wages	115,179	0	0	27,521	142,700
Intergovernmental Payable	110,464	0	0	112,500	222,964
Deferred Revenue	829,984	68,873	0	1,491,016	2,389,873
<i>Total Liabilities</i>	<u>1,087,552</u>	<u>91,878</u>	<u>0</u>	<u>1,653,815</u>	<u>2,833,245</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	18,588	263,418	0	40,054	322,060
Reserved for Prepaid Items	34,792	0	0	13,861	48,653
Reserved for Notes Receivable	0	0	0	708,271	708,271
Unreserved, Undesignated, Reported in:					
General Fund	1,536,658	0	0	0	1,536,658
Special Revenue Funds	0	647,069	0	812,041	1,459,110
Debt Service Funds	0	0	0	18,549	18,549
Capital Projects Funds	0	0	5,363	41	5,404
<i>Total Fund Balances</i>	<u>1,590,038</u>	<u>910,487</u>	<u>5,363</u>	<u>1,592,817</u>	<u>4,098,705</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 2,677,590</u>	<u>\$ 1,002,365</u>	<u>\$ 5,363</u>	<u>\$ 3,246,632</u>	<u>\$ 6,931,950</u>

See accompanying notes to the basic financial statements.

**City of London**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2006*

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**Total Governmental Fund Balances** \$ 4,098,705

*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. 14,350,128

Other long-term assets are not available to pay for current-  
 period expenditures and therefore are deferred in the funds:

Special Assessments	\$ 99,684
Intergovernmental	1,107,297
Income Taxes	293,434
Interest	59,435
Property Taxes	<u>70,124</u>

Total 1,629,974

In the statement of activities, interest is accrued on outstanding bonds,  
 whereas in governmental funds, an interest expenditure is  
 reported when due. (2,754)

In the statement of activities, the issue of bonds debt is recorded a liability,  
 whereas in governmental funds it is not recorded. (538,668)

Long-term liabilities are not due and payable in the current  
 period and therefore are not reported in the funds:

General Obligation Bonds	(1,179,932)
Capital Leases	(2,341)
Compensated Absences	(241,186)
Police and Fire Pension Liability	<u>(64,985)</u>

Total (1,488,444)

*Net Assets of Governmental Activities* \$ 18,048,941

See accompanying notes to the basic financial statements.

**City of London**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2006*

	General	Capital Improvements	Capital Projects - Garfield Ave.	All Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$ 542,522	\$ 0	\$ 0	\$ 355,098	\$ 897,620
Income Taxes	2,280,987	794,410	0	199,209	3,274,606
Special Assessments	78,906	0	0	47,667	126,573
Charges for Services	54,305	0	0	0	54,305
Licenses and Permits	54,599	0	0	87,725	142,324
Fines and Forfeitures	22,782	0	0	3,125	25,907
Intergovernmental	427,925	59,554	0	887,735	1,375,214
Interest	205,942	0	0	2,891	208,833
Rent	9,685	0	0	0	9,685
Contributions and Donations	15,200	0	0	8,026	23,226
Other	760	0	0	10,947	11,707
<i>Total Revenues</i>	<u>3,693,613</u>	<u>853,964</u>	<u>0</u>	<u>1,602,423</u>	<u>6,150,000</u>
<b>Expenditures</b>					
Current:					
General Government	792,870	20,535	0	381,611	1,195,016
Security of Persons and Property	1,914,026	0	0	315,661	2,229,687
Public Health Services	125	0	0	0	125
Leisure Time Activities	209,047	0	0	5,191	214,238
Community and Economic Development	1,429	0	0	163,505	164,934
Transportation	12,995	29,711	0	566,843	609,549
Capital Outlay	0	654,137	84,698	52,211	791,046
Debt Service:					
Principal Retirement	522	43,450	0	16,302	60,274
Interest and Fiscal Charges	156	22,999	0	16,102	39,257
<i>Total Expenditures</i>	<u>2,931,170</u>	<u>770,832</u>	<u>84,698</u>	<u>1,517,426</u>	<u>5,304,126</u>
<i>Excess of Revenues Over Expenditures</i>	<u>762,443</u>	<u>83,132</u>	<u>(84,698)</u>	<u>84,997</u>	<u>845,874</u>
<b>Other Financing Sources (Uses)</b>					
Transfers In	3,693	0	0	386,741	390,434
Bonds Issued	0	375,000	0	303,800	678,800
Proceeds of Loans	0	0	812,424	0	812,424
Proceeds from Sale of Capital Assets	1,500	0	0	0	1,500
Transfers Out	(525,729)	0	0	(3,918)	(529,647)
<i>Total Other Financing Sources (Uses)</i>	<u>(520,536)</u>	<u>375,000</u>	<u>812,424</u>	<u>686,623</u>	<u>1,353,511</u>
<i>Net Change in Fund Balance</i>	241,907	458,132	727,726	771,620	2,199,385
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>1,348,131</u>	<u>452,355</u>	<u>(722,363)</u>	<u>821,197</u>	<u>1,899,320</u>
<i>Fund Balances End of Year</i>	<u>\$ 1,590,038</u>	<u>\$ 910,487</u>	<u>\$ 5,363</u>	<u>\$ 1,592,817</u>	<u>\$ 4,098,705</u>

See accompanying notes to the basic financial statements.

**City of London**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
December 31, 2006*

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**Net Change in Fund Balances - Total Governmental Funds** \$ 2,199,385

*Amounts reported for governmental activities in the  
statement of activities are different because*

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Asset Additions	\$ 830,687
Current Year Depreciation	<u>(692,827)</u>

Total	137,860
-------	---------

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

(68,545)

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

Special Assessments	1,250
Intergovernmental	602,897
Income Taxes	(14,220)
Interest	20,404
Delinquent Property Taxes	<u>(194,207)</u>

Total	416,124
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Repayment of bond principal, capital lease payments and loans are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

60,274

Loan proceeds in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities

(1,491,224)

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

(2,111)

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	<u>(29,891)</u>
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*Change in Net Assets of Governmental Activities*

\$ 1,221,872

See accompanying notes to the basic financial statements.

**City of London**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Year Ended December 31, 2006*

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues</b>				
Property Taxes	\$ 475,300	\$ 525,300	\$ 542,522	\$ 17,222
Income Taxes	1,968,750	2,118,750	2,330,407	211,657
Special Assessments	110,000	110,000	78,906	(31,094)
Charges for Services	49,500	49,500	54,305	4,805
Licenses and Permits	50,400	50,400	32,783	(17,617)
Fines and Forfeitures	24,200	22,200	22,246	46
Intergovernmental	268,750	280,750	418,967	138,217
Interest	60,000	60,000	163,899	103,899
Rent	6,000	6,000	9,685	3,685
Contributions and Donations	0	15,000	15,200	200
Other	900	900	760	(140)
<i>Total Revenues</i>	<u>3,013,800</u>	<u>3,238,800</u>	<u>3,669,680</u>	<u>430,880</u>
<b>Expenditures</b>				
Current:				
General Government	916,753	946,370	814,352	132,018
Security of Persons and Property	1,917,225	2,040,701	1,915,968	124,733
Public Health Services	2,000	2,000	125	1,875
Leisure Time Activities	220,560	228,755	211,397	17,358
Community and Economic Development	3,010	3,010	1,496	1,514
Transportation	89,000	25,000	12,995	12,005
Debt Service:				
Principal Retirements	522	522	522	0
Interest and Fiscal Charges	156	156	156	0
<i>Total Expenditures</i>	<u>3,149,226</u>	<u>3,246,514</u>	<u>2,957,011</u>	<u>289,503</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(135,426)</u>	<u>(7,714)</u>	<u>712,669</u>	<u>720,383</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	3,693	3,693	0
Proceeds from Sale of Capital Assets	1,500	0	1,500	1,500
Transfers Out	(243,995)	(525,729)	(525,729)	0
<i>Total Other Financing Uses</i>	<u>(242,495)</u>	<u>(522,036)</u>	<u>(520,536)</u>	<u>1,500</u>
<i>Net Change in Fund Balance</i>	<u>(377,921)</u>	<u>(529,750)</u>	<u>192,133</u>	<u>721,883</u>
<i>Fund Balance Beginning of Year - Restated</i>	1,119,569	1,119,569	1,119,569	0
Prior Year Encumbrances Appropriated	13,433	13,433	13,433	0
<i>Fund Balance End of Year</i>	<u>\$ 755,081</u>	<u>\$ 603,252</u>	<u>\$ 1,325,135</u>	<u>\$ 721,883</u>

See accompanying notes to the basic financial statements.

**City of London**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Capital Improvements Fund*  
*For the Year Ended December 31, 2006*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues</b>				
Income Taxes	\$ 656,250	\$ 656,250	\$ 777,310	\$ 121,060
Intergovernmental	59,554	59,554	59,554	0
<i>Total Revenues</i>	<u>715,804</u>	<u>715,804</u>	<u>836,864</u>	<u>121,060</u>
<b>Expenditures</b>				
Transportation	29,711	29,711	29,711	0
Capital Outlay	688,282	1,086,710	987,138	99,572
Debt Service:				
Principal Retirements	43,450	43,450	43,450	0
Interest and Fiscal Charges	22,999	22,999	22,999	0
<i>Total Expenditures</i>	<u>784,442</u>	<u>1,182,870</u>	<u>1,083,298</u>	<u>99,572</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(68,638)</u>	<u>(467,066)</u>	<u>(246,434)</u>	<u>220,632</u>
<b>Other Financing Sources (Uses)</b>				
Bonds Issued	375,000	375,000	375,000	0
Transfers Out	(164,816)	(164,816)	0	164,816
<i>Total Other Financing Sources</i>	<u>210,184</u>	<u>210,184</u>	<u>375,000</u>	<u>164,816</u>
<i>Net Change in Fund Balance</i>	141,546	(256,882)	128,566	385,448
<i>Fund Balance Beginning of Year</i>	262,881	262,881	262,881	0
Prior Year Encumbrances Appropriated	99,859	99,859	99,859	0
<i>Fund Balance End of Year</i>	<u>\$ 504,286</u>	<u>\$ 105,858</u>	<u>\$ 491,306</u>	<u>\$ 385,448</u>

See accompanying notes to the basic financial statements.

**City of London**  
*Statement of Fund Net Assets*  
*Proprietary Funds*  
*December 31, 2006*

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
<b>Assets</b>				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$ 927,531	\$ 2,820,115	\$ 690,451	\$ 4,438,097
Accounts Receivable	127,306	200,511	2,823	330,640
Prepaid Items	10,785	7,923	3,693	22,401
Special Assessments Receivable	0	3,759	0	3,759
Materials and Supplies Inventory	6,804	1,643	0	8,447
<i>Total Current Assets</i>	<u>1,072,426</u>	<u>3,033,951</u>	<u>696,967</u>	<u>4,803,344</u>
<i>Non-Current Assets:</i>				
Restricted Cash and Cash Equivalents	117,194	0	0	117,194
Non-Depreciable Capital Assets	109,198	12,180,707	99,960	12,389,865
Depreciable Capital Assets, Net	3,205,587	5,690,257	186,839	9,082,683
<i>Total Non-Current Assets</i>	<u>3,431,979</u>	<u>17,870,964</u>	<u>286,799</u>	<u>21,589,742</u>
<i>Total Assets</i>	<u>4,504,405</u>	<u>20,904,915</u>	<u>983,766</u>	<u>26,393,086</u>
<b>Liabilities</b>				
<i>Current Liabilities</i>				
Accounts Payable	10,865	21,018	18,841	50,724
Accrued Wages	27,259	10,409	15,663	53,331
Contracts Payable	0	857,031	0	857,031
Intergovernmental Payable	29,492	15,173	16,207	60,872
Customer Deposits Payable	117,194	0	0	117,194
Compensated Absences Payable	12,630	5,539	9,345	27,514
OWDA Loans Payable	66,487	336,563	0	403,050
<i>Total Current Liabilities</i>	<u>263,927</u>	<u>1,245,733</u>	<u>60,056</u>	<u>1,569,716</u>
<i>Long-Term Liabilities</i>				
Advances From Other Funds	0	40,000	0	40,000
Compensated Absences Payable - net of current portion	56,148	21,558	10,440	88,146
OWDA Loans Payable - net of current portion	1,223,457	15,144,741	0	16,368,198
<i>Total Long-Term Liabilities</i>	<u>1,279,605</u>	<u>15,206,299</u>	<u>10,440</u>	<u>16,496,344</u>
<i>Total Liabilities</i>	<u>1,543,532</u>	<u>16,452,032</u>	<u>70,496</u>	<u>18,066,060</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	2,024,843	2,389,660	286,799	4,701,302
Unrestricted	936,030	2,063,223	626,471	3,625,724
<i>Total Net Assets</i>	<u>\$ 2,960,873</u>	<u>\$ 4,452,883</u>	<u>\$ 913,270</u>	<u>\$ 8,327,026</u>

See accompanying notes to the basic financial statements.

**City of London**  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
*Proprietary Funds*  
*For the Year Ended December 31, 2006*

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
<b>Operating Revenue</b>				
Charges for Services	\$ 1,202,630	\$ 2,046,063	\$ 932,858	\$ 4,181,551
<b>Operating Expenses</b>				
Personal Services	525,661	574,141	411,214	1,511,016
Contractual Services	121,388	192,560	272,430	586,378
Materials and Supplies	248,965	279,737	74,807	603,509
Depreciation	182,984	286,471	42,673	512,128
Other	0	0	1,011	1,011
<i>Total Operating Expenses</i>	<u>1,078,998</u>	<u>1,332,909</u>	<u>802,135</u>	<u>3,214,042</u>
<i>Operating Income</i>	<u>123,632</u>	<u>713,154</u>	<u>130,723</u>	<u>967,509</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest	8,538	17,684	0	26,222
Other Non-Operating Revenues	0	0	21,690	21,690
Interest and Fiscal Charges	(55,389)	(216,162)	(36)	(271,587)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(46,851)</u>	<u>(198,478)</u>	<u>21,654</u>	<u>(223,675)</u>
<i>Income (Loss) Before Transfers</i>	76,781	514,676	152,377	743,834
Transfers In	0	139,213	0	139,213
<i>Change in Net Assets</i>	76,781	653,889	152,377	883,047
<i>Net Assets Beginning of Year</i>	<u>2,884,092</u>	<u>3,798,994</u>	<u>760,893</u>	<u>7,443,979</u>
<i>Net Assets End of Year</i>	<u>\$ 2,960,873</u>	<u>\$ 4,452,883</u>	<u>\$ 913,270</u>	<u>\$ 8,327,026</u>

See accompanying notes to the basic financial statements.



**City of London**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Year Ended December 31, 2006

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
<b>Increase in Cash and Cash Equivalents</b>				
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$ 1,260,378	\$ 2,080,731	\$ 933,598	\$ 4,274,707
Other Operating Receipts	0	0	0	0
Cash Payments to Suppliers for Goods and Services	(241,061)	(269,246)	(74,884)	(585,191)
Cash Payments to Employees	(520,485)	(574,980)	(409,262)	(1,504,727)
Cash Payments for Contractual Services	(121,688)	(243,425)	(283,081)	(648,194)
<i>Net Cash Provided by Operating Activities</i>	<u>377,144</u>	<u>993,080</u>	<u>166,371</u>	<u>1,536,595</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Other Non-Operating Receipts	0	474	21,690	22,164
Transfers In	0	139,213	0	139,213
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>0</u>	<u>139,687</u>	<u>21,690</u>	<u>161,377</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from Loans	0	11,738,465	0	11,738,465
Acquisition of Capital Assets	0	(9,888,982)	0	(9,888,982)
Principal Payments on Debt	(63,818)	(1,959,802)	(17,643)	(2,041,263)
Interest Payments	(55,392)	(216,159)	(36)	(271,587)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(119,210)</u>	<u>(326,478)</u>	<u>(17,679)</u>	<u>(463,367)</u>
<b>Cash Flows from Investing Activities</b>				
Interest	8,538	17,684	0	26,222
<i>Net Cash Provided by Investing Activities</i>	<u>8,538</u>	<u>17,684</u>	<u>0</u>	<u>26,222</u>
<i>Net Increase in Cash and Cash Equivalents</i>	266,472	823,973	170,382	1,260,827
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>778,253</u>	<u>1,996,142</u>	<u>520,069</u>	<u>3,294,464</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 1,044,725</u>	<u>\$ 2,820,115</u>	<u>\$ 690,451</u>	<u>\$ 4,555,291</u>

(continued)

**City of London**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Year Ended December 31, 2006

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>				
Operating Income	\$ 123,632	\$ 713,154	\$ 130,723	\$ 967,509
Adjustments:				
Depreciation	182,984	286,471	42,673	512,128
(Increase) Decrease in Assets:				
Accounts Receivable	47,403	34,668	740	82,811
Materials and Supplies Inventory	5,155	3,060	0	8,215
Prepaid Items	940	(433)	346	853
Increase (Decrease) in Liabilities:				
Accounts Payable	1,509	(42,717)	(9,526)	(50,734)
Accrued Wages	2,332	(3,045)	1,907	1,194
Compensated Absences Payable	3,655	1,728	707	6,090
Customer Deposits Payable	10,345	0	0	10,345
Intergovernmental Payable	(811)	194	(1,199)	(1,816)
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 377,144</u>	<u>\$ 993,080</u>	<u>\$ 166,371</u>	<u>\$ 1,536,595</u>

See accompanying notes to the basic financial statements.

**City of London**  
*Statement of Fiduciary Assets and Liabilities*  
*Fiduciary Funds*  
*December 31, 2006*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 138,766</u>
<b>Liabilities</b>	
Undistributed Monies	<u>138,766</u>

See accompanying notes to the basic financial statements.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

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**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.

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

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local 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 THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

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

**A. *Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The 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 THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

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**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.

**Capital Improvements Special Revenue Fund** - This fund is used to account for financial resources to be used for capital improvements.

**Capital Projects - Garfield Avenue Capital Projects Fund** - This fund is used to account for financial resources to be used for the Garfield Avenue 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, 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 only fiduciary funds are agency funds. The City's agency funds account for money received and held until distribution requirement to others is met upon final plan approval.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

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

***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.

***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. Private purpose trust funds are reported using the economic resources measurement focus.

***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.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

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

***Revenues – Exchange and Non-Exchange Transactions (Continued)***

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 8.) 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.

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 for which there is no enforceable claim as of as of December 31, 2006, but which were levied to finance fiscal year 2007 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 of 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.



**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

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

***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 certificates of deposit and repurchase agreements, which are reported at cost.

During 2006, investments were limited to certificates of deposit, overnight repurchase agreements, STAROhio and federal government securities.

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, 2006.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2006 amounted to \$205,942 which includes \$131,608 assigned from other City funds.

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. See Note 6, Deposits and Investments.

***F. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2006 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***

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventory consists of expendable supplies.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

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

***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.

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	5-20 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	8 Years	8 Years
Infrastructure	15 Years	N/A
Water Lines	N/A	50 Years
Sewer Lines	N/A	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.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

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

***J. Interfund Balances***

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” 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.

***K. 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.

***L. 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 that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds, capital leases and long-term loans are recognized as a liability on the government fund financial statements when due.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

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

***M. 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.

Net assets restricted for other purposes include recreation, street construction and repair, and the operation of the police and fire departments.

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

***N. Fund Balance Reserves***

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

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

***O. 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 non-operating.

***P. 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.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

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

***Q. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.

***R. 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.

***S. 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 department level within the general fund and at the fund level for all other funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

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

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

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

***T. Changes in Accounting Principles***

For the year ended December 31, 2006, the City has implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and Statement No. 47, *Accounting for Termination Benefits*.

Statement No. 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements. At December 31, 2006, \$233,426 of the City's net assets were restricted by enabling legislation.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to *all* termination benefits without limitations as to the period of time during which the benefits are offered.

The implementation of these GASB statements did not have an effect on the financial statements of the City.

**NOTE 3: RESTATEMENT OF FUND BALANCE AND NET ASSETS**

***Correction of an Error***

Fund balances have been restated to correctly record the activity of TIF Settlement Fund in the General Fund and to decrease accounts payable in the Capital Projects-Garfield Avenue Fund. The net effect of these corrections on fund balances is as follows:

	<u>General</u>	<u>Capital Improvements</u>	<u>Capital Projects-Garfield</u>	<u>All Other Governmental</u>	<u>Total Governmental</u>
Fund Balance, 12/31/05	\$ 1,276,431	\$ 452,355	\$ (829,742)	\$ 892,897	\$ 1,791,941
Correction of an error	71,700	0	0	(71,700)	-
Decrease in accounts payable	<u>0</u>	<u>0</u>	<u>107,379</u>	<u>0</u>	<u>107,379</u>
Fund Balance, 01/01/06	<u>\$ 1,348,131</u>	<u>\$ 452,355</u>	<u>\$ (722,363)</u>	<u>\$ 821,197</u>	<u>\$ 1,899,320</u>

Also, during fiscal year 2006, it was determined that the value of equipment and accounts payable at December 31, 2005 had been overstated by \$632,493 and \$107,379 respectively in the governmental activities. The net effect of the correction of an error in governmental net assets is as follows:

Governmental Activities Net Assets, December 31, 2005	\$ 17,352,183
Correction of an error	<u>(525,114)</u>
Governmental Activities Net Assets, January 1, 2006	<u>\$ 16,827,069</u>

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 4: BUDGETARY BASIS OF ACCOUNTING**

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

The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund 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).

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

**Net Change in Fund Balance**

	General	Capital Improvements
GAAP Basis	\$ 241,907	\$ 458,133
Revenue accruals	(23,933)	(17,101)
Expenditure accruals	8,605	(27,871)
Encumbrances	(34,446)	(284,595)
Budget Basis	\$ 192,133	\$ 128,566

**NOTE 5: ACCOUNTABILITY AND COMPLIANCE**

***Deficit Fund Balances***

Fund balances at December 31, 2006 included the following individual fund deficits:

	Deficit
Non-major funds:	
Police Pension	\$ 21,565
Fire Pension	19,334

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.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

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**NOTE 5: ACCOUNTABILITY AND COMPLIANCE (Continued)**

*Appropriations Exceeding Estimated Resources*

Ohio Revised Code Section 5705.41(B) provides, in part, that no subdivision or taxing unit “shall make any expenditure of money unless it has been appropriated as provided in such chapter.” At September 30, 2006 expenditures were in excess of the City’s appropriations at the legal level of control in the Capital Projects – Garfield Ave. Fund (Operations) by \$81,824. Appropriations were amended by December 31, 2006 to eliminate the excess.

**NOTE 6: 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.

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

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



**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 6:      DEPOSITS AND INVESTMENTS (Continued)**

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio).
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.

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 2006, the City and public depositories complied with the provisions of these statutes.

**Deposits with Financial Institutions**

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.

At year-end, the carrying amount of the City's deposits was \$5,293,224. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2006, \$5,399,188 of the City's bank balance of \$5,515,188 was collateralized with securities held by pledging financial institutions trust department or agent, but not in the City's name, while \$116,000 was covered by Federal Deposit Insurance Corporation.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 6: DEPOSITS AND INVESTMENTS (Continued)**

**Investments**

As of December 31, 2006, the City had the following investment and maturity:

Investment Type	Fair Value	Investment Maturities (in Months)				
		0-3	4-6	7-9	10-12	12>
Money Market	\$ 164,042	\$ 164,042	\$ 0	\$ 0	\$ 0	\$ 0
Federal Home Loan Bank	59,813	0	0	0	0	0
Federal National Mtg Assoc.	834,665	0	0	168,353	59,813	666,312
STAROhio	401,753	401,753	0	0	0	0
Repurchase Agreement	853,461	853,461	0	0	0	0
	<u>\$ 2,313,734</u>	<u>\$ 1,419,256</u>	<u>\$ 0</u>	<u>\$ 168,353</u>	<u>\$ 59,813</u>	<u>\$ 666,312</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*** Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. The City's investments in US government agencies have a AAA credit rating from Standard & Poor's Corporation. The City's investments in the money market and STAROhio have a credit rating of AAAM. The City's investment in a repurchase agreement is exposed to credit risk due to the underlying securities are held by the investment's counter party or its trust department or agent, not in the City's name. The City does not have a formal investment policy regarding exposure to credit risk.

***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. The following table includes the percentage to total of each investment type held by the City at December 31, 2006:

Investment Type	Percent of Total
Money Market	7.09%
Federal Home Loan Bank	2.59%
Federal Home Loan Mtg.	36.07%
STAROhio	17.36%
Repurchase Agreement	36.89%
	<u>100.00%</u>

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 7: 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 will be deferred and will be due and payable only after payment of all the Partnership's operating expenses and all sums due to the private lender. The entire principal balance, \$500,000 at December 31, 2006, and all unpaid interest, \$195,492 will be due and payable on January 1, 2011. The note is secured by the related property. The note receivable is equally offset by a reservation of fund balance.

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. During 2006, the City received \$67 of principal payments and \$45 of interest payments. The balance on the note at December 31, 2006 is \$12,779. The note receivable is equally offset by a reservation of fund balance.

**NOTE 8: 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 2006 for real and public utility property taxes represents collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by the State law at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2006.

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. 2006 public utility property taxes which became a lien on December 31, 2005, are levied after October 1, 2006, and are collected in 2006 with real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005, on the values as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for inventory.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 8: PROPERTY TAXES (Continued)**

The full tax rate for all City operations for the year ended December 31, 2006, was \$5.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real Property	\$ 146,165,810
Tangible Personal Property	28,713,040
Public Utility Property	<u>5,344,840</u>
 Total	 <u>\$ 180,223,690</u>

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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

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 represent real and tangible personal property, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006 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 2006 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.

**NOTE 9: 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.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 10: RECEIVABLES**

Receivables at December 31, 2006 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.

**NOTE 11: CAPITAL ASSETS**

A summary of changes in governmental capital assets during 2006 follows:

	Restated Balance 01/01/06	Additions	Deletions	Balance 12/31/2006
<b>Governmental Activities:</b>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 404,379	\$ 0	\$ 0	\$ 404,379
Construction in Progress	2,121,328	157,908	0	2,279,236
<i>Total Capital Assets Not Being Depreciated</i>	<u>2,525,707</u>	<u>157,908</u>	<u>0</u>	<u>2,683,615</u>
<i>Capital Assets, Being Depreciated:</i>				
Land Improvements	593,158	7,451	0	600,609
Buildings	607,807	0	0	607,807
Equipment and Machinery	692,503	176,302	(84,395)	784,410
Vehicles	1,457,864	537,432	(20,114)	1,975,182
Infrastructure	14,004,476	0	0	14,004,476
<i>Total Capital Assets, Being Depreciated</i>	<u>17,355,808</u>	<u>721,185</u>	<u>(104,509)</u>	<u>17,972,484</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(232,920)	(23,141)	0	(256,061)
Buildings	(369,921)	(17,889)	0	(387,810)
Equipment and Machinery	(371,616)	(57,429)	15,850	(413,195)
Vehicles	(1,305,860)	(103,229)	20,114	(1,388,975)
Infrastructure	(3,368,791)	(491,139)	0	(3,859,930)
<i>Total Accumulated Depreciation</i>	<u>(5,649,108)</u>	<u>(692,827)</u>	<u>35,964</u>	<u>(6,305,971)</u>
Total Capital Assets Being Depreciated, Net	<u>11,706,700</u>	<u>28,358</u>	<u>(68,545)</u>	<u>11,666,513</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 14,232,407</u>	<u>\$ 186,266</u>	<u>\$ (68,545)</u>	<u>\$ 14,350,128</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 30,068
Security of Persons and Property	126,095
Community and Economic Development	1,039
Leisure Time Activities	40,115
Transportation	<u>495,510</u>
	<u>\$ 692,827</u>

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 11: CAPITAL ASSETS (Continued)**

	Balance 12/31/2005	Additions	Deletions	Balance 12/31/2006
<b>Business-Type Activities:</b>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 275,926	\$ 0	\$ 0	\$ 275,926
Construction in progress	3,552,683	10,252,079	(1,690,823)	12,113,939
<i>Total Capital Assets Not Being Depreciated</i>	<u>3,828,609</u>	<u>10,252,079</u>	<u>(1,690,823)</u>	<u>12,389,865</u>
<i>Capital Assets, Being Depreciated:</i>				
Land Improvements	17,639	0	0	17,639
Buildings	1,352,576	0	(12,650)	1,339,926
Improvements Other Than Buildings	5,361,074	0	(6,217)	5,354,857
Equipment and Machinery	2,160,842	0	(447,699)	1,713,143
Vehicles	597,520	199,982	0	797,502
Water and Sewer Lines	7,506,968	1,690,823	(13,653)	9,184,138
<i>Total Capital Assets, Being Depreciated</i>	<u>16,996,619</u>	<u>1,890,805</u>	<u>(480,219)</u>	<u>18,407,205</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(8,041)	(882)	0	(8,923)
Buildings	(686,284)	(35,859)	12,650	(709,493)
Improvements Other Than Buildings	(2,933,720)	(185,805)	6,217	(3,113,308)
Equipment and Machinery	(1,536,971)	(66,396)	280,507	(1,322,860)
Vehicles	(360,624)	(60,738)	0	(421,362)
Water and Sewer Lines	(3,598,419)	(162,448)	12,291	(3,748,576)
<i>Total Accumulated Depreciation</i>	<u>(9,124,059)</u>	<u>(512,128)</u>	<u>311,665</u>	<u>(9,324,522)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>7,872,560</u>	<u>1,378,677</u>	<u>(168,554)</u>	<u>9,082,683</u>
<i>Total Business-Type Activities Capital Assets, Net</i>	<u>\$ 11,701,169</u>	<u>\$ 11,630,756</u>	<u>\$ (1,859,377)</u>	<u>\$ 21,472,548</u>

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 12: 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 2006, the City contracted with several companies for various types of commercial insurance as follows:

<u>Type of Risk</u>	<u>Maximum Coverage</u>	<u>Deductible</u>
Law enforcement liability	\$1 million per occurrence/aggregate	\$15,000
Umbrella excess liability	\$5 million per occurrence/aggregate	\$10,000
Public entity employment practices	\$1 million per offense/aggregate	\$25,000
Public entity management liability	\$1 million per wrongful act/aggregate	\$15,000

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 13: DEFINED BENEFIT PENSION PLANS**

**A. *Ohio Public Employees Retirement System***

The City of London participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 13: DEFINED BENEFIT PENSION PLANS (Continued)**

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary. The employer contribution rate for pension benefits for 2006 was 13.70 percent of covered payroll. For both the law enforcement and public safety divisions, the employer contribution rate was 16.93 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005 and 2004 were \$262,640, \$244,727 and \$252,738, respectively; 92.2 percent has been contributed for 2006 and 100 percent for 2005 and 2004.

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

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer public employee deferred 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 are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary, while the City is required to contribute 19.5 percent for police officers and 24 percent for firefighters. The City's contributions to OP&F for police and firefighters were \$132,829 and \$127,672 for the year ended December 31, 2006, \$127,008 and \$110,662 for the year ended December 31, 2005, \$123,212 and \$113,666 for 2004; 69.8 percent and 62.3 percent, respectively, has been contributed for 2006. The full amount has been contributed for 2005 and 2004.

**NOTE 14: POSTEMPLOYMENT BENEFITS**

***A. Ohio Public Employees Retirement System***

The Ohio Public Employees Retirement System of Ohio (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70 percent of covered payroll; 4.5 percent of covered payroll was the portion that was used to fund health care.



**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 14: POSTEMPLOYMENT BENEFITS (Continued)**

Benefits are advanced-funded using the age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.50 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50 percent and 6 percent annually for the next nine years and 4 percent annually subsequently.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the Traditional and Combined plans was 369,214. The City's actual contributions for 2006 which were used to fund postemployment benefits were \$86,277. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. OPERS took additional actions to improve the solvency of the health care fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

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

The Ohio Police and Fire Pension Fund (OP&F) provides access to postretirement 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. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2006 and 2005. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 14: POSTEMPLOYMENT BENEFITS (Continued)**

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$52,733 for police and \$41,238 for firefighters. The OP&F's total health care expenses for the year ended December 31, 2005 (the latest information available) were \$108,039,449 which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 was 13,922 for police and 10,537 for firefighters.

**NOTE 15: 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 fourth 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.

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, 2006, the accrued liability for unpaid compensated absences was \$356,846.

**NOTE 16: CAPITALIZED LEASES – LESSEE DISCLOSURE**

In 2004, the City entered into a capitalized lease for a fax machine. In 2001, the City entered into a capitalized lease for the acquisition of a garbage truck. All leases meet 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 assets acquired by the leases have been capitalized in the governmental activities and business-type activities in the amounts of \$4,398 and \$103,414, respectively, 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.

**CITY OF LONDON, OHIO**  
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**NOTE 16: CAPITALIZED LEASES – LESSEE DISCLOSURE (Continued)**

The lease for the 2001 International truck was paid off during 2006.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2006:

<u>Year</u>	<u>Governmental Activities</u>
2007	\$ 1,356
2008	1,243
Total Minimum Lease Payments	2,599
Less: Amount Representing Interest	<u>(258)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 2,341</u>

**NOTE 17: LONG-TERM OBLIGATIONS**

<u>Debt Issue</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Date of Maturity</u>
<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	January 2, 2015
Pool Improvement General Obligation Bonds - 1994	5.80%	310,000	June 1, 2009
Various 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 I OPWC Loan - 2006	0.00%	273,756	January 1, 2026
Garfield Ave. Rehab II OPWC Loan - 2006	0.00%	580,087	January 2, 2027
<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 - 2004	1.00%	1,530,338	July 1, 2010
Sewer Improvements OWDA Loan - 2005	1.00%	173,208	January 1, 2011
Sewer Improvements OWDA Loan - 2005	1.00%	1,711,877	July 1, 2025
Sewer Improvements OWDA Loan - 2006	0.80%	32,844,304	January 1, 2029

**CITY OF LONDON, OHIO**  
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**NOTE 17: LONG-TERM OBLIGATIONS (Continued)**

Changes in the long-term obligations of the City during 2006 were as follows:

	Amount Outstanding 12/31/05	Additions	(Reductions)	Amount Outstanding 12/31/06	Amounts Due Within One Year
<b>The Ohio Public Works</b>					
<b>Governmental Activities:</b>					
Special Assessment Bonds	\$ 55,000	\$ 0	\$ (6,000)	\$ 49,000	\$ 7,000
OPWC Loan-1993	120,447	0	(13,383)	107,064	13,383
OPWC Loan-2006 Phase I	0	273,756	(13,688)	260,068	13,688
OPWC Loan-2006 Phase II	0	538,668	0	538,668	0
General Obligation Bonds:					
Pool Improvement Debt	110,000	0	(25,000)	85,000	25,000
Various Purpose Bonds	0	303,800	0	303,800	24,200
Fire Truck Acquisition Bonds	0	375,000	0	375,000	68,000
Capital Leases	3,385	0	(1,044)	2,341	1,162
Compensated Absences	211,295	42,666	(12,775)	241,186	44,940
Police and Fire Pension Payable	66,144	0	(1,159)	64,985	1,209
<b>Total Governmental Activities</b>	<b>\$ 566,271</b>	<b>\$ 1,533,890</b>	<b>\$ (73,049)</b>	<b>\$ 2,027,112</b>	<b>\$ 198,582</b>
<b>Business-Type Activities:</b>					
OWDA Loans:					
Sewer Improvements-1988	\$ 2,470,360	\$ 0	\$ (279,836)	\$ 2,190,524	\$ 301,244
Sewer Improvements-1988	290,939	0	(32,746)	258,193	35,319
Water Improvements-2001	1,353,762	0	(63,818)	1,289,944	66,487
Sewer Improvements-2004	1,521,616	8,722	(1,530,338)	0	0
Sewer Improvements-2005	1,419,726	273,030	(116,882)	1,575,874	0
Sewer Improvements-2006	0	11,456,713	0	11,456,713	0
<b>Total OWDA Loans</b>	<b>7,056,403</b>	<b>11,738,465</b>	<b>(2,023,620)</b>	<b>16,771,248</b>	<b>403,050</b>
Capital Lease	17,643	0	(17,643)	0	0
Compensated Absences	109,570	6,090	0	115,660	27,514
<b>Total Business-Type Activities</b>	<b>\$ 7,183,616</b>	<b>\$ 11,744,555</b>	<b>\$ (2,041,263)</b>	<b>\$ 16,886,908</b>	<b>\$ 430,564</b>

The Ohio Public Works Commission (OPWC) loan and the Pool Improvement Bonds will be paid from the Capital Improvement Fund. The special assessment bond will be paid from the proceeds of special assessments levied against benefited property owners. The Ohio Water Development Authority (OWDA) loans will be paid from charges for services revenue in the water, sewer and sanitation funds. Compensated absences reported in the "compensated absences payable" account and pension contributed 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 revenues of the general fund. The police and fire pension liability will be paid from taxes received in the police and fire pension special revenue fund.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 17: LONG-TERM OBLIGATIONS (Continued)**

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 plan. During 2005 this loan was rolled into a new design 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 Rehabilitation Project in the amount of \$32,844,304. As of December 31, 2006, the City had drawn down \$11,456,713. Until the loan is fully drawn down, a final amortization schedule is not available.

In 2005 the City was awarded a loan for the design of the Oak Run Interceptor Rehabilitation Project. The loan total is \$173,208 and as of December 31, 2006 nothing has been disbursed.

In 2005 the City was awarded a new loan from the OWDA in the amount of \$1,711,877. The proceeds of this loan are being used for the Northeast Interceptor Project. As of December 31, 2006 the City had drawn down \$1,692,756. Until the loan is fully drawn down, a final amortization schedule is not available.

In 2006, \$303,800 in bonds were issued to pay for the costs of widening, constructing, paving and installing sidewalks on East High Street. Bonds in the amount of \$375,000 were also issued to acquire a fire truck.

In 2006 the City was awarded two loans from the OPWC in the amounts of 273,756 and 580,087. The proceeds of these loans are being used for the rehabilitation of Garfield Ave. As of December 31, 2006 the City had drawn down \$538,668 of the second loan. Until the loan is fully drawn down, a final amortization schedule is not available.

The annual requirements to retire the governmental activities long-term obligations outstanding at December 31, 2006 are as follows:

Year	Police and		General		Special		OPWC	Total	
	Fire Pension		Obligation Bonds		Assessment Bonds		Loans	Principal	Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Principal	Interest
2007	\$ 1,209	\$ 2,749	\$ 117,200	\$ 36,381	\$ 7,000	\$ 2,572	\$ 27,071	\$ 152,480	\$ 41,702
2008	1,261	2,697	127,400	30,480	7,000	2,206	27,071	162,732	35,383
2009	1,315	2,643	131,700	24,192	7,000	1,838	27,071	167,086	28,673
2010	1,371	2,587	106,000	18,573	7,000	1,470	27,071	141,442	22,630
2011	1,429	2,528	111,300	13,623	7,000	1,103	27,071	146,800	17,254
2012-2016	8,128	11,663	170,200	26,082	14,000	1,103	108,588	300,916	38,848
2017-2021	10,030	9,761	0	0	0	0	68,439	78,469	9,761
2022-2026	12,377	7,413	0	0	0	0	54,750	67,127	7,413
2027-2031	15,273	4,517	0	0	0	0	0	15,273	4,517
2032-2035	12,592	1,082	0	0	0	0	0	12,592	1,082
<b>Total</b>	<b>\$ 64,985</b>	<b>\$ 47,640</b>	<b>\$ 763,800</b>	<b>\$ 149,331</b>	<b>\$ 49,000</b>	<b>\$ 10,292</b>	<b>\$ 367,132</b>	<b>\$ 1,244,917</b>	<b>\$ 207,263</b>

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 17: LONG-TERM OBLIGATIONS (Continued)**

The annual requirements to retire the business-type activities long-term obligations outstanding at December 31, 2006 are as follows:

Year	OWDA Loans	
	Principal	Interest
2007	\$ 403,050	\$ 240,593
2008	431,653	211,989
2009	462,353	181,290
2010	495,307	138,171
2011	530,685	112,957
2012-2016	930,726	189,760
2017-2021	484,887	51,556
Total	\$ 3,738,661	\$ 1,126,316

**NOTE 18: SHORT TERM NOTE PAYABLE**

The following is a summary of bond anticipation note obligations for the year ended December 31, 2006:

	Balance 12/31/05	Principal Issued	Principal Retired	Balance 12/31/06
Bond Anticipation Note, 4.5%	\$ 333,800	\$ 0	\$ (333,800)	\$ 0

This bond anticipation note was issued to repair and replace East High Street plus two other items. The note was backed by the full faith and credit of the City of London and matured in 2006.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE 19: CONTRACTUAL COMMITMENTS**

As of December 31, 2006, the City had contractual commitments for the following projects:

Contractor	Purpose of Contract	Contractual Commitment	Expended	Balance 12/31/06
CH2MHill	Oak Run Interceptor	\$ 151,200	\$ 129,024	\$ 22,176
CH2MHill	Wastewater Treatment Plant	1,730,000	1,730,000	0
Adams & Robinson	Wastewater Treatment Plant	25,133,000	6,997,110	18,135,890
Miller Pipeline	Oak Run Sewer Construction	2,326,975	1,651,284	675,691
CH2MHill	Wastewater Treatment Plant	1,700,000	911,448	788,552
A&B Asphalt	Street Resurfacing	231,142	0	231,142
Asebriik Architech	Shelter House	8,500	0	8,500
		<u>\$ 31,280,817</u>	<u>\$ 11,418,866</u>	<u>\$ 19,861,951</u>

**NOTE 20: INTERFUND TRANSFERS AND BALANCES**

<u>Transfer To</u>	<u>Transfer From</u>		
	<u>General</u>	<u>Other Governmental</u>	<u>Total</u>
General	\$ 0	\$ 3,693	\$ 3,693
Other Governmental	386,516	0	386,516
Sewer	139,213	0	139,213
Total	<u>\$ 525,729</u>	<u>\$ 3,693</u>	<u>\$ 529,422</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.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

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**NOTE 20: INTERFUND TRANSFERS AND BALANCES (Continued)**

Interfund balances were reclassified in 2006 to long-term as follows:

	Advances	
	From Other Funds	To Other Funds
Capital Improvements	\$ 0	\$ 40,000
Sewer	40,000	0
Total	\$ 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.

**NOTE 21: 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, 2006.

**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.



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

To the City Council  
City of London, Ohio

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, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as item 2006-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe the significant deficiency described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These instances of noncompliance are reported as items 2006-2 and 2006-3 in the accompanying schedule of findings.

We noted certain additional matters that we reported to management of the City in a separate letter dated June 22, 2007.

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

This report is intended for the information and use of the audit committee, management, and City Council, and is not intended to be and should not be used by anyone other than these specified parties.



Kennedy Cottrell Richards LLC  
June 22, 2007

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**SCHEDULE OF FINDINGS**

**DECEMBER 31, 2006**

**2006-1 Material Weakness – Financial Reporting**

The compilation and presentation of materially correct financial statements and the related footnotes is the responsibility of management of the City. This responsibility remains intact, even if management decides to outsource this function for efficiency purposes, or any other reason, to another accountant or consultant. It is also important to note that independent auditors are not part of an entity's internal control structure and should not be relied upon by management to detect misstatements in the financial statements.

Thus, it is important that management develop control procedures related to drafting financial statements and footnotes that enable management to prevent and detect potential misstatements in the financial statements and footnotes prior to audit.

As a result of our audit, we identified material misstatements in the City's financial statements, as well as other misstatements that were not necessarily material, but were more than inconsequential. We provided adjusting entries to the consultant that management had hired to prepare the financial statements. The consultant subsequently corrected the misstatements. The misstatements are a strong indicator that the City does not have sufficient internal control procedures in place related to financial reporting.

We recommend the City implement sufficient control procedures over the financial reporting process in order to enable management to prevent and detect potential misstatements in the financial statements and footnotes. Control procedures could include a separate review and analysis of the compiled financial statements and related journal entries by someone within management who is knowledgeable of generally accepted accounting principles.

Official's Response

The auditor pledges that future consultant's work will be scrutinized thoroughly for accuracy by either the staff or another with knowledge of generally accepted accounting principles. Particularly the construction in progress capital assets will be scrutinized.

**2006-2 Noncompliance – Expenditures Exceeded Appropriations**

Ohio Revised Code Section 5705.41(B) provides, in part, that no subdivision or taxing unit shall "make any expenditure of money unless it has been appropriated as provided in such chapter."

During our testing we noted that expenditures exceeded amounts appropriated in Fund 315 by \$81,824 during the year. The noncompliance had been corrected by the end of the year.

We recommend that the City monitor actual versus budgetary expenditures more closely in order to ensure that continued noncompliance does not occur.

Official's Response

While the error was corrected by the end of the year, the staff will monitor actual versus budgetary expenditures in a timely manner.

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**SCHEDULE OF FINDINGS**

**DECEMBER 31, 2006**

**2006-3      Noncompliance – Expenditure of Money**

Ohio Revised Code Section 5705.41 states, in part:

No subdivision or taxing unit shall: ...

(D)(1) Except as otherwise provided in division (D)(2) of this section and section 5705.44 of the Revised Code, make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation or, in the case of a continuing contract to be performed in whole or in part in an ensuing fiscal year, the amount required to meet the obligation in the fiscal year in which the contract is made, has been lawfully appropriated for such purpose and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every such contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

Of the 60 expenditures we tested, 12 did not have any Purchase Order associated with the voucher. An additional five had Purchase Orders, but the Purchase Orders only covered part of the obligation.

Although amounts of less \$3,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion a "then and now" certificate permitted by Section 5705.41, provided that the expenditure is otherwise lawful; the City did not utilize "then and now" certificates during 2006.

We recommend that the City begin executing Purchase Orders as required by ORC 5705.41. In cases where the amount is less than \$3,000, "then and now" certificates may be utilized instead.

Official's Response

To comply, the auditor's office will execute quarterly purchase orders for recurring/monthly expenditures, particularly utility expenditures.



**Mary Taylor, CPA**  
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 30, 2007**