

City of London

Madison County

Financial Statements

For the Fiscal Year Ended December 31, 2007



Mary Taylor, CPA
Auditor of State

City Council
City of London
102 South Main Street
London, Ohio 43140

We have reviewed the *Independent Auditor's Report* of the City of London, Madison County, prepared by Kennedy Cottrell Richards LLC, for the audit period January 1, 2007 through December 31, 2007. 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 12, 2008

This Page is Intentionally Left Blank.

**City of London
Madison County**

Table of Contents

	<u>Page</u>
Independent Auditor's Report	2
Management's Discussion & Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – Capital Improvements Fund	18
Statement of Fund Net Assets – Proprietary Funds	19
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	20
Statement of Cash Flows – Proprietary Funds	21
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds	23
Notes to the Basic Financial Statements	24
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 <i>Government Auditing Standards</i>	52
Schedule of Findings	54
Summary Schedule of Prior Audit Findings	55

This Page is Intentionally Left Blank.

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, 2007, 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, 2007, 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 26, 2008 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 26, 2008

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(Unaudited)

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, 2007. 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 2007 are as follows:

- Governmental activities general revenues accounted for \$5.6 million in revenue or 90 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$653,822 or 10 percent of total revenues of \$6.2 million.
- Total program expenses were \$10.4 million, \$6.7 million in governmental activities and \$3.7 million in business-type activities.
- In total, net assets increased \$588,880. Net assets of governmental activities decreased \$567,656, which represents a 3 percent decrease from 2006. Net assets of business-type activities increased \$1.2 million or 14 percent from 2006.
- Outstanding debt increased from \$18.6 million to \$31.7 million 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 2007 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 and Capital Improvement 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, 2007
(Unaudited)

A question typically asked about the City's finances "How did we do financially during fiscal year 2007?" 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 and Capital Improvement 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 city operations. 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 and Capital Improvement fund 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, 2007
(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 2007 compared to 2006:

(Table 1)
Net Assets

	2007			2006 (Restated)		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Assets:						
Current and Other						
Assets	\$ 7,365,198	7,541,317	14,906,515	6,931,951	4,880,538	11,812,489
Capital Assets	<u>14,355,917</u>	<u>34,972,638</u>	<u>49,328,555</u>	<u>14,350,128</u>	<u>21,472,548</u>	<u>35,822,676</u>
Total Assets	<u>21,721,115</u>	<u>42,513,955</u>	<u>64,235,070</u>	<u>21,282,079</u>	<u>26,353,086</u>	<u>47,635,165</u>
Liabilities:						
Current and Other						
Liabilities	2,276,176	2,868,192	5,144,368	1,146,591	1,139,152	2,285,743
Long-term Liabilities	<u>1,904,219</u>	<u>30,162,201</u>	<u>32,066,420</u>	<u>2,027,112</u>	<u>16,886,908</u>	<u>18,914,020</u>
Total Liabilities	<u>4,180,395</u>	<u>33,030,393</u>	<u>37,210,788</u>	<u>3,173,703</u>	<u>18,026,060</u>	<u>21,199,763</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	12,782,626	4,929,277	17,711,903	12,629,186	4,701,302	17,330,488
Restricted	1,770,926	-	1,770,926	3,865,592	-	3,865,592
Unrestricted	<u>2,987,168</u>	<u>4,554,285</u>	<u>7,541,453</u>	<u>1,613,598</u>	<u>3,625,724</u>	<u>5,239,322</u>
Total Net Assets	<u>\$ 17,540,720</u>	<u>9,483,562</u>	<u>27,024,282</u>	<u>18,108,376</u>	<u>8,327,026</u>	<u>26,435,402</u>

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(Unaudited)

Total assets increased by \$16.6 million with governmental activities assets increasing \$439,036 and business-type assets increasing \$16.2 million. An increase of \$13.5 million in total capital assets reflects new construction in progress and an increase in infrastructure. Total liabilities increased by \$16.0 million with business-type activities increasing \$15.0 million. The majority of this increase was the result of loans proceeds from OWDA for the waste water project in business-type activities.

Total net assets increased by \$588,880. This number reflects a decrease of \$567,656 in governmental activities and an increase of \$1.2 million in the net assets of the business-type activities for 2007. Table 2 shows the changes in net assets for fiscal years 2007 and 2006.

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006 (Restated)	2007	2006	2007	2006 (Restated)
REVENUES:						
Program Revenues:						
Charges for Services	\$ 184,529	354,276	4,685,788	4,181,551	4,870,317	4,535,827
Operating Grants and Contributions	460,064	572,723	-	-	460,064	572,723
Capital Grants and Contributions	9,229	1,038,554	-	-	9,229	1,038,554
General Revenues:						
Property Taxes	1,084,378	873,834	-	-	1,084,378	873,834
Income Taxes	3,692,027	3,089,965	-	-	3,692,027	3,089,965
Grants and Contributions not Restricted	430,426	410,628	-	-	430,426	410,628
Investment Income	273,226	229,237	27,191	26,222	300,417	255,459
Other Revenue	93,517	72,642	2,171	21,690	95,688	94,332
Total Revenue	<u>6,227,396</u>	<u>6,641,859</u>	<u>4,715,150</u>	<u>4,229,463</u>	<u>10,942,546</u>	<u>10,871,322</u>
EXPENSES:						
General Government	1,007,295	1,226,897	-	-	1,007,295	1,226,897
Security of Persons and Property	3,214,367	2,373,857	-	-	3,214,367	2,373,857
Public Health Services	2,000	125	-	-	2,000	125
Transportation	1,754,952	1,109,891	-	-	1,754,952	1,109,891
Community and Economic Development	418,935	213,208	-	-	418,935	213,208
Leisure Time Activities	266,094	255,993	-	-	266,094	255,993
Water	-	-	1,221,180	1,134,387	1,221,180	1,134,387
Sewer	-	-	1,698,024	1,549,071	1,698,024	1,549,071
Sanitation	-	-	731,418	802,171	731,418	802,171
Interest Expense	39,400	41,368	-	-	39,400	41,368
Total Expenses	<u>6,703,043</u>	<u>5,221,339</u>	<u>3,650,622</u>	<u>3,485,629</u>	<u>10,353,665</u>	<u>8,706,968</u>
Change in Net Assets Before Transfers	(475,647)	1,420,520	1,064,528	743,834	588,881	2,164,354
Transfers	(92,008)	(139,213)	92,008	139,213	-	-
Change in Net Assets	(567,655)	1,281,307	1,156,536	883,047	588,881	2,164,354
Net Assets, Beginning of Year	18,108,376	16,827,069	8,327,026	7,443,979	26,435,402	24,271,048
Net Assets, End of Year	<u>\$ 17,540,721</u>	<u>18,108,376</u>	<u>9,483,562</u>	<u>8,327,026</u>	<u>27,024,283</u>	<u>26,435,402</u>

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(Unaudited)

Governmental Activities

Revenues totaled \$6.2 million in 2007, a decrease of approximately \$400,000 from the prior year. The cause for the decrease was a combination of a decrease in the capital grants and contributions of \$1.0 million due to timing differences in the draws for the community development block grant and an increase in income tax revenue of \$602,062. The increase in income tax revenue can be attributed to increase growth in areas east of the City.

Total expenses increased \$1.5 million from 2006. The functions of security of persons and property and transportation represent the largest increase in governmental activities expenses. The increase in security of persons and property of approximately \$800,000 is primarily due to increases in personnel costs such as wages and benefits, while the increase in transportation of approximately \$600,000 is the result of increased costs of street repair and maintenance.

Business-Type Activities

Business-type activities increased the City's net assets by \$1.2 million in 2007 which was approximately \$200,000 greater than the increase recorded in 2006. This increase is due primarily to an increase in charges for services of \$504,237 with a slight increase in expenditures of \$164,993. Charges for services revenue increased due to a scheduled increase in rates in an attempt to recover costs of maintaining the water and sewer lines and to provide for future debt service associated with the construction of the new waste water system.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

Table 3
Total and Net Cost of Services

	<u>2007</u>		<u>2006</u>	
	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 1,007,295	(914,062)	1,226,897	(1,147,413)
Security of Persons and Property	3,214,367	(2,892,533)	2,373,857	(2,244,468)
Public Health Services	2,000	(1,799)	125	(125)
Transportation	1,754,952	(1,581,113)	1,109,891	(580,090)
Community and Economic Development	418,935	(387,573)	213,208	951,340
Leisure Time Activities	266,094	(232,741)	255,993	(193,662)
Interest Expense	39,400	(39,400)	41,368	(41,368)
	<u>\$ 6,703,043</u>	<u>(6,049,221)</u>	<u>5,221,339</u>	<u>(3,255,786)</u>
BUSINESS-TYPE ACTIVITIES:				
Water	\$ 1,221,180	145,410	1,134,387	68,243
Sewer	1,698,024	688,919	1,549,071	496,992
Sanitation	731,418	200,837	802,171	130,687
	<u>\$ 3,650,622</u>	<u>1,035,166</u>	<u>3,485,629</u>	<u>695,922</u>

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(Unaudited)

The City's Funds

Governmental Funds

The focus of the City's governmental funds is to provide information on near term inflows, outflows, and balances of expendable resources. As of December 31, 2007 the City's governmental funds reported revenues of \$6.7 million and expenditures of \$6.8 million, with combined fund balances of \$3.7 million. Of the \$3.7 million fund balance, \$3.0 million constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate purchase orders of the prior period and other non-current assets.

The General Fund is the chief operating fund of the City. At December 31, 2007, unreserved fund balance of the General Fund was \$1.4 million. Unreserved fund balance represents 39.4 percent of total General Fund expenditures.

The Capital Improvement fund is used to account for financial resources to be used for improvement, construction or replacement of government property and equipment. Through an ordinance of the City Council, this fund receives an allocation of income tax revenue.

Proprietary Funds

The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail. Unrestricted net assets at the end of the year amounted to \$1.1 million, \$2.6 million and \$856,460 for the water, sewer and sanitation funds, respectively. The increase in net assets for the water, sewer and sanitation funds was \$153,195, \$801,422 and \$201,919, respectively. Total operating expenses for all proprietary funds were \$3.4 million which was less than operating revenues of \$4.7 million, by \$1.3 million or 28 percent of operating revenues.

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 2007, 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 \$409,895, over the final budget estimates of \$3.7 million. Of this excess, most was attributable to increased income tax and increased intergovernmental revenue.

Final appropriations of \$3.7 million were \$161,157 higher than the \$3.5 million in the original budget.

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of year 2007, the City had \$49.3 million invested in land, buildings, equipment, infrastructure and vehicles net of accumulated depreciation. A total of \$14.4 million of this was for governmental activities with the remainder attributable to business-type activities. Table 4 shows fiscal year 2007 balances compared with 2006.

(Table 4)
Capital Assets at December 31

	2007			2006		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 404,379	275,926	680,305	404,379	275,926	680,305
Land Improvements	636,229	17,639	653,868	600,609	17,639	618,248
Buildings	731,259	1,339,926	2,071,185	607,807	1,339,926	1,947,733
Improvements Other than Buildings	-	5,304,035	5,304,035	-	5,354,857	5,354,857
Equipment	862,288	1,577,550	2,439,838	784,410	1,713,143	2,497,553
Vehicles	1,970,932	923,215	2,894,147	1,975,182	797,502	2,772,684
Construction in Progress	458,398	25,977,684	26,436,082	2,279,236	12,113,939	14,393,175
Infrastructure	16,267,029	-	16,267,029	14,004,476	-	14,004,476
Water and Sewer Lines	-	9,168,097	9,168,097	-	9,184,138	9,184,138
Less: Accumulated Depreciation	(6,974,597)	(9,611,434)	(16,586,031)	(6,305,971)	(9,324,522)	(15,630,493)
Totals	\$ <u>14,355,917</u>	<u>34,972,638</u>	<u>49,328,555</u>	<u>14,350,128</u>	<u>21,472,548</u>	<u>35,822,676</u>

The \$13.5 million increase in capital assets was attributable to additions to construction in progress for the waste water project. Note 10 provides capital asset activity during the 2007 year.

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(Unaudited)

Debt

The outstanding debt for the City of London as of December 31, 2007 was \$31.6 million with \$700,255 due within one year. Table 5 summarizes outstanding debt.

	Governmental Activities		Business-Type Activities		Total	
	2006	2007	2006	2007	2006	2007
General Obligation Bonds	\$ 763,800	\$ 646,600	\$ -	\$ -	\$ 763,800	\$ 646,600
Special Assessment Bonds	49,000	42,000	-	-	49,000	42,000
OPWC Loan	905,800	883,511	-	-	905,800	883,511
OWDA Loans	-	-	16,711,248	29,932,746	16,711,248	29,932,746
Police and Fire Pension	64,985	64,730	-	-	64,985	64,730
Total	\$ 1,783,585	\$ 1,636,841	\$ 16,711,248	\$ 29,932,746	\$ 18,494,833	\$ 31,569,587

The general obligation bonds are composed of city improvement bonds, capital acquisition 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.

The OPWC loans were issued for the reconstruction of Garfield Avenue which was completed during fiscal year 2007.

The OWDA loans were issued for improvements to the waste water treatment plant and Oak Run Interceptor. These projects continued in fiscal year 2007 as a result the City made draws from these loans to cover those costs.

Additional information concerning the City's debt can be found in Note 16 to the basic financial statements.

Current Financial Issues

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 \$32 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, 2007

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 2,513,104	\$ 6,898,769	\$ 9,411,873
Cash and Cash Equivalents with Fiscal Agents	48,513	-	48,513
Investments	566,119	-	566,119
Taxes Receivable	2,332,512	-	2,332,512
Accounts Receivable	27,366	478,734	506,100
Intergovernmental Receivable	912,024	-	912,024
Special Assessments Receivable	111,456	3,425	114,881
Internal Balances	40,000	(40,000)	-
Prepaid Items	39,620	16,427	56,047
Materials and Supplies Inventory	45,643	66,768	112,411
Notes Receivable	728,841	-	728,841
Restricted Cash and Cash Equivalents	-	117,194	117,194
Non-Depreciable Capital Assets	862,777	26,253,610	27,116,387
Depreciable Capital Assets, net	13,493,140	8,719,028	22,212,168
<i>Total Assets</i>	<u>21,721,115</u>	<u>42,513,955</u>	<u>64,235,070</u>
Liabilities			
Accounts Payable	57,388	73,598	130,986
Accrued Wages	188,970	56,470	245,440
Contracts Payable	276,335	1,255,664	1,531,999
Retainage Payable	-	1,302,941	1,302,941
Intergovernmental Payable	268,753	62,325	331,078
Customer Deposits Payable	-	117,194	117,194
Accrued Interest Payable	3,200	-	3,200
Unearned Revenue	1,481,530	-	1,481,530
Long-Term Liabilities:			
Due Within One Year	230,902	559,313	790,215
Due in More Than One Year	1,673,317	29,602,888	31,276,205
<i>Total Liabilities</i>	<u>4,180,395</u>	<u>33,030,393</u>	<u>37,210,788</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	12,782,626	4,929,277	17,711,903
Restricted for Debt Service	6,844	-	6,844
Restricted for Other Purposes	1,764,082	-	1,764,082
Unrestricted	2,987,168	4,554,285	7,541,453
<i>Total Net Assets</i>	<u>\$ 17,540,720</u>	<u>\$ 9,483,562</u>	<u>\$ 27,024,282</u>

See accompanying notes to the basic financial statements.

City of London
Statement of Activities
For the Year Ended December 31, 2007

	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
Governmental Activities:							
General Government	1,007,295	26,313	66,920	-	(914,062)	-	(914,062)
Security of Persons and Property	3,214,367	90,832	231,002	-	(2,892,533)	-	(2,892,533)
Public Health Services	2,000	57	144	-	(1,799)	-	(1,799)
Leisure Time Activities	266,094	9,413	23,940	-	(232,741)	-	(232,741)
Community and Economic Development	418,935	8,851	13,282	9,229	(387,573)	-	(387,573)
Transportation	1,754,952	49,063	124,776	-	(1,581,113)	-	(1,581,113)
Interest and Fiscal Charges	39,400	-	-	-	(39,400)	-	(39,400)
<i>Total Governmental Activities</i>	<u>6,703,043</u>	<u>184,529</u>	<u>460,064</u>	<u>9,229</u>	<u>(6,049,221)</u>	<u>-</u>	<u>(6,049,221)</u>
Business-Type Activities:							
Water	1,221,180	1,366,590	-	-	-	145,410	145,410
Sewer	1,698,024	2,386,943	-	-	-	688,919	688,919
Sanitation	731,418	932,255	-	-	-	200,837	200,837
<i>Total Business-Type Activities</i>	<u>3,650,622</u>	<u>4,685,788</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,035,166</u>	<u>1,035,166</u>
<i>Total - Primary Government</i>	<u>10,353,665</u>	<u>4,870,317</u>	<u>460,064</u>	<u>9,229</u>	<u>(6,049,221)</u>	<u>1,035,166</u>	<u>(5,014,055)</u>
General Revenues:							
Property Taxes Levied for:							
General Purposes					733,057	-	733,057
Other Purposes					351,321	-	351,321
Income Taxes Levied for:							
General Purposes					2,399,036	-	2,399,036
Other Purposes					1,292,991	-	1,292,991
Grants and Entitlements not Restricted to Specific Programs					430,426	-	430,426
Investment Earnings					273,226	27,191	300,417
Miscellaneous					93,516	2,171	95,687
<i>Total General Revenues</i>					<u>5,573,573</u>	<u>29,362</u>	<u>5,602,935</u>
Transfers					(92,008)	92,008	-
<i>Total General Revenues and Transfers</i>					<u>5,481,565</u>	<u>121,370</u>	<u>5,602,935</u>
<i>Change in Net Assets</i>					(567,656)	1,156,536	588,880
<i>Net Assets Beginning of Year, restated</i>					<u>18,108,376</u>	<u>8,327,026</u>	<u>26,435,402</u>
<i>Net Assets End of Year</i>					<u>\$ 17,540,720</u>	<u>\$ 9,483,562</u>	<u>\$ 27,024,282</u>

See accompanying notes to the basic financial statements.

City of London
Balance Sheet
Governmental Funds
December 31, 2007

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 933,397	\$ 790,411	\$ 789,296	\$ 2,513,104
Cash and Cash Equivalents in Segregated Accounts	-	-	48,513	48,513
Investments	566,119	-	-	566,119
Taxes Receivable	1,419,352	246,719	666,441	2,332,512
Accounts Receivable	26,752	-	614	27,366
Intergovernmental Receivable	130,097	-	781,927	912,024
Special Assessments Receivable	20,388	-	91,068	111,456
Prepaid Items	27,017	-	12,603	39,620
Materials and Supplies Inventory	1,104	-	44,539	45,643
Interfund Receivable	-	40,000	-	40,000
Notes Receivable	-	-	728,841	728,841
<i>Total Assets</i>	<u>\$ 3,124,226</u>	<u>\$ 1,077,130</u>	<u>\$ 3,163,842</u>	<u>\$ 7,365,198</u>
Liabilities				
Accounts Payable	30,808	-	26,580	57,388
Accrued Wages	156,631	-	32,339	188,970
Contracts Payable	-	228,508	47,827	276,335
Intergovernmental Payable	154,389	-	114,364	268,753
Deferred Revenue	1,350,169	178,541	1,318,912	2,847,622
<i>Total Liabilities</i>	<u>1,691,997</u>	<u>407,049</u>	<u>1,540,022</u>	<u>3,639,068</u>
Fund Balances				
Reserved for Encumbrances	22,248	69,011	33,702	124,961
Reserved for Materials and Supplies Inventory	1,104	-	44,539	45,643
Reserved for Prepaid Items	27,017	-	12,603	39,620
Reserved for Notes Receivable	-	-	500,000	500,000
Unreserved, Undesignated, Reported in:				
General Fund	1,381,860	-	-	1,381,860
Special Revenue Funds	-	601,070	1,026,973	1,628,043
Debt Service Funds	-	-	5,953	5,953
Capital Projects Funds	-	-	50	50
<i>Total Fund Balances</i>	<u>1,432,229</u>	<u>670,081</u>	<u>1,623,820</u>	<u>3,726,130</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,124,226</u>	<u>\$ 1,077,130</u>	<u>\$ 3,163,842</u>	<u>\$ 7,365,198</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, 2007*

Total Governmental Fund Balances \$ 3,726,130

*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. 14,355,917

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

Special Assessments	\$ 2,174
Intergovernmental	360,217
Income Taxes	714,165
Notes Receivable	216,514
Property Taxes	<u>73,022</u>

Total 1,366,092

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (3,200)

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

General Obligation Bonds	\$ (646,600)
Special Assessment Bonds	(42,000)
Loans Payable	(883,511)
Capital Leases	(1,180)
Compensated Absences	(266,198)
Police and Fire Pension Liability	<u>(64,730)</u>

Total (1,904,219)

Net Assets of Governmental Activities \$ 17,540,720

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, 2007

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 2,814,633	\$ 694,419	\$ 843,724	\$ 4,352,776
Special Assessments	-	-	81,375	81,375
Charges for Services	112,746	-	35	112,781
Fines, Licenses and Permits	15,752	-	72,128	87,880
Intergovernmental	654,833	-	991,969	1,646,802
Interest	324,522	-	8,139	332,661
Other	32,548	-	36,855	69,403
<i>Total Revenues</i>	<u>3,955,034</u>	<u>694,419</u>	<u>2,034,225</u>	<u>6,683,678</u>
Expenditures				
Current:				
General Government	728,704	-	259,618	988,322
Security of Persons and Property	2,527,210	-	594,425	3,121,635
Public Health Services	2,000	-	-	2,000
Leisure Time Activities	219,708	-	5,667	225,375
Community and Economic Development	15,321	-	406,007	421,328
Transportation	-	507,570	625,861	1,133,431
Capital Outlay	10,299	427,255	316,191	753,745
Debt Service:				
Principal Retirement	-	-	151,272	151,272
Interest and Fiscal Charges	-	-	38,954	38,954
<i>Total Expenditures</i>	<u>3,503,242</u>	<u>934,825</u>	<u>2,397,995</u>	<u>6,836,062</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>451,792</u>	<u>(240,406)</u>	<u>(363,770)</u>	<u>(152,384)</u>
Other Financing Sources (Uses)				
Transfers In	-	-	525,468	525,468
Proceeds from Sale of Notes	4,782	-	-	4,782
Proceeds from Sale of Capital Assets	3,093	-	-	3,093
Transfers Out	(617,476)	-	-	(617,476)
<i>Total Other Financing Sources (Uses)</i>	<u>(609,601)</u>	<u>-</u>	<u>525,468</u>	<u>(84,133)</u>
<i>Net Change in Fund Balance</i>	(157,809)	(240,406)	161,698	(236,517)
<i>Fund Balances Beginning of Year, restated</i>	<u>1,590,038</u>	<u>910,487</u>	<u>1,462,122</u>	<u>3,962,647</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$ 1,432,229</u>	<u>\$ 670,081</u>	<u>\$ 1,623,820</u>	<u>\$ 3,726,130</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, 2007*

Net Change in Fund Balances - Total Governmental Funds	\$	(236,517)
 <i>Amounts reported for governmental activities in the statement of activities are different because</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital Asset Additions	\$ 753,745	
Current Year Depreciation	<u>(747,956)</u>	
Total		5,789
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Special Assessments	(97,507)	
Intergovernmental	(747,083)	
Income Taxes	420,731	
Interest	(59,435)	
Notes Receivable	21,021	
Delinquent Property Taxes	<u>2,898</u>	
Total		(459,375)
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.		
		152,687
Issuance of debt is an other financing source in the governmental funds, but the proceeds are reported as long-term liabilities in the statement of net assets		
		(4,782)
In the statement of activities, interest accrued on outstanding bonds, whereas in governmental funds the expenditure is reported when due.		
		(446)
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>(25,012)</u>
<i>Change in Net Assets of Governmental Activities</i>	<u>\$</u>	<u>(567,656)</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
General Fund
For the Year Ended December 31, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$ 640,776	\$ 662,131	\$ 731,145	\$ 69,014
Income Taxes	1,923,455	2,003,356	2,231,498	228,142
Charges for Services	112,160	116,820	130,123	13,303
Licenses and Permits	1,702	1,773	1,975	202
Fines and Forfeitures	14,354	14,950	16,653	1,703
Intergovernmental	570,374	594,068	661,720	67,652
Interest	223,851	233,150	259,701	26,551
Other	28,055	29,220	32,548	3,328
<i>Total Revenues</i>	<u>3,514,727</u>	<u>3,655,468</u>	<u>4,065,363</u>	<u>409,895</u>
Expenditures				
Current:				
General Government	802,146	812,303	737,840	74,463
Security of Persons and Property	2,452,236	2,603,236	2,440,524	162,712
Public Health Services	2,000	2,000	2,000	-
Leisure Time Activities	250,377	250,377	222,171	28,206
Community and Economic Development	18,010	18,010	14,898	3,112
Capital Outlay	10,299	10,299	10,299	-
<i>Total Expenditures</i>	<u>3,535,068</u>	<u>3,696,225</u>	<u>3,427,732</u>	<u>268,493</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(20,341)</u>	<u>(40,757)</u>	<u>637,631</u>	<u>678,388</u>
Other Financing Sources (Uses)				
Advances In	-	-	-	-
Proceeds from Sale of Capital Assets	-	-	3,100	3,100
Transfers Out	(638,220)	(640,480)	(617,476)	23,004
<i>Total Other Financing Sources (Uses)</i>	<u>(638,220)</u>	<u>(640,480)</u>	<u>(614,376)</u>	<u>26,104</u>
<i>Net Change in Fund Balance</i>	(658,561)	(681,237)	23,255	704,492
<i>Fund Balance Beginning of Year</i>	1,325,135	1,325,135	1,325,135	-
Prior Year Encumbrances Appropriated	34,446	34,446	34,446	-
<i>Fund Balance End of Year</i>	<u>\$ 701,020</u>	<u>\$ 678,344</u>	<u>\$ 1,382,836</u>	<u>\$ 704,492</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, 2007*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Income Taxes	\$ 780,000	\$ 720,000	\$ 743,832	\$ 23,832
<i>Total Revenues</i>	<u>780,000</u>	<u>720,000</u>	<u>743,832</u>	<u>23,832</u>
Expenditures				
Current:				
Transportation	1,302,306	1,219,806	878,344	341,462
Capital Outlay	185,789	185,789	185,789	-
<i>Total Expenditures</i>	<u>1,488,095</u>	<u>1,405,595</u>	<u>1,064,133</u>	<u>341,462</u>
<i>Net Change in Fund Balance</i>	(708,095)	(685,595)	(320,301)	365,294
<i>Fund Balance Beginning of Year</i>	491,306	491,306	491,306	-
Prior Year Encumbrances Appropriated	284,595	284,595	284,595	-
<i>Fund Balance (Deficit) End of Year</i>	<u>\$ 67,806</u>	<u>\$ 90,306</u>	<u>\$ 455,600</u>	<u>\$ 365,294</u>

See accompanying notes and accountant's compilation report.

City of London
Statement of Fund Net Assets
Proprietary Funds
December 31, 2007

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
Assets				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$ 1,121,845	\$ 4,913,709	\$ 863,215	\$ 6,898,769
Accounts Receivable	191,681	281,586	5,467	478,734
Prepaid Items	8,067	5,323	3,037	16,427
Special Assessments Receivable	-	3,425	-	3,425
Materials and Supplies Inventory	8,323	2,645	55,800	66,768
<i>Total Current Assets</i>	<u>1,329,916</u>	<u>5,206,688</u>	<u>927,519</u>	<u>7,464,123</u>
<i>Non-Current Assets:</i>				
Restricted Cash and Cash Equivalents	117,194	-	-	117,194
Non-Depreciable Capital Assets	191,232	25,962,418	99,960	26,253,610
Depreciable Capital Assets, Net	3,040,994	5,408,650	269,384	8,719,028
<i>Total Non-Current Assets</i>	<u>3,349,420</u>	<u>31,371,068</u>	<u>369,344</u>	<u>35,089,832</u>
<i>Total Assets</i>	<u>4,679,336</u>	<u>36,577,756</u>	<u>1,296,863</u>	<u>42,553,955</u>
Liabilities				
<i>Current Liabilities</i>				
Accounts Payable	13,509	38,231	21,858	73,598
Accrued Wages	31,606	11,782	13,082	56,470
Contracts Payable	75,000	1,180,664	-	1,255,664
Retainage Payable	-	1,302,941	-	1,302,941
Intergovernmental Payable	33,892	13,337	15,096	62,325
Customer Deposits Payable	117,194	-	-	117,194
Interfund Payable	-	40,000	-	40,000
Compensated Absences Payable	16,603	6,397	4,943	27,943
Capital Lease Payable	-	-	20,917	20,917
OWDA Loans Payable	69,269	441,184	-	510,453
<i>Total Current Liabilities</i>	<u>357,073</u>	<u>3,034,536</u>	<u>75,896</u>	<u>3,467,505</u>
<i>Long-Term Liabilities</i>				
Compensated Absences Payable - net of current portion	54,007	20,810	16,080	90,897
Capital Leases Payable - net of current portion	-	-	89,698	89,698
OWDA Loans Payable - net of current portion	1,154,188	28,268,105	-	29,422,293
<i>Total Long-Term Liabilities</i>	<u>1,208,195</u>	<u>28,288,915</u>	<u>105,778</u>	<u>29,602,888</u>
<i>Total Liabilities</i>	<u>1,565,268</u>	<u>31,323,451</u>	<u>181,674</u>	<u>33,070,393</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,008,769	2,661,779	258,729	4,929,277
Unrestricted	1,105,299	2,592,526	856,460	4,554,285
<i>Total Net Assets</i>	<u>\$ 3,114,068</u>	<u>\$ 5,254,305</u>	<u>\$ 1,115,189</u>	<u>\$ 9,483,562</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, 2007

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
Operating Revenue				
Charges for Services	\$ 1,366,590	\$ 2,386,943	\$ 932,255	\$ 4,685,788
<i>Total Operating Revenues</i>	<u>1,366,590</u>	<u>2,386,943</u>	<u>932,255</u>	<u>4,685,788</u>
Operating Expenses				
Salaries and Wages	416,730	356,619	339,459	1,112,808
Contractual Services	294,502	317,721	338,322	950,545
Materials and Supplies	292,632	535,090	10,474	838,196
Depreciation	164,593	279,913	43,163	487,669
<i>Total Operating Expenses</i>	<u>1,168,457</u>	<u>1,489,343</u>	<u>731,418</u>	<u>3,389,218</u>
<i>Operating Income</i>	<u>198,133</u>	<u>897,600</u>	<u>200,837</u>	<u>1,296,570</u>
Non-Operating Revenues (Expenses)				
Interest	7,785	19,406	-	27,191
Other Non-Operating Revenues	-	1,089	1,082	2,171
Gain (loss) on Sale of Assets	-	(21,694)	-	(21,694)
Interest and Fiscal Charges	(52,723)	(186,987)	-	(239,710)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(44,938)</u>	<u>(188,186)</u>	<u>1,082</u>	<u>(232,042)</u>
<i>Income (Loss) Before Transfers</i>	153,195	709,414	201,919	1,064,528
Transfers In	-	92,008	-	92,008
<i>Change in Net Assets</i>	153,195	801,422	201,919	1,156,536
<i>Net Assets Beginning of Year</i>	<u>2,960,873</u>	<u>4,452,883</u>	<u>913,270</u>	<u>8,327,026</u>
<i>Net Assets End of Year</i>	<u>\$ 3,114,068</u>	<u>\$ 5,254,305</u>	<u>\$ 1,115,189</u>	<u>\$ 9,483,562</u>

See accompanying notes to the basic financial statements.

City of London
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2007

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
Increase in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash Received from Customers	\$ 1,302,215	\$ 2,305,868	\$ 929,611	\$ 4,537,694
Cash Payments to Suppliers for Goods and Services	(475,085)	(820,045)	(385,784)	(1,680,914)
Cash Payments to Employees	(439,357)	(370,593)	(357,052)	(1,167,002)
<i>Net Cash Provided by Operating Activities</i>	<u>387,773</u>	<u>1,115,230</u>	<u>186,775</u>	<u>1,689,778</u>
Cash Flows from Noncapital Financing Activities				
Other Non-Operating Receipts	-	1,132	1,082	2,214
Transfers In	-	92,008	-	92,008
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>-</u>	<u>93,140</u>	<u>1,082</u>	<u>94,222</u>
Cash Flows from Capital and Related Financing Activities				
Proceeds from Loans	-	13,495,791	-	13,495,791
Acquisition of Capital Assets	(82,034)	(12,054,144)	(13,000)	(12,149,178)
Principal Payments on Debt	(66,487)	(413,275)	(2,093)	(481,855)
Interest Payments	(52,723)	(186,706)	-	(239,429)
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	<u>(201,244)</u>	<u>841,666</u>	<u>(15,093)</u>	<u>625,329</u>
Cash Flows from Investing Activities				
Interest	7,785	43,558	-	51,343
<i>Net Cash Provided by Investing Activities</i>	<u>7,785</u>	<u>43,558</u>	<u>-</u>	<u>51,343</u>
<i>Net Increase in Cash and Cash Equivalents</i>	194,314	2,093,594	172,764	2,460,672
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>1,044,725</u>	<u>2,820,115</u>	<u>690,451</u>	<u>4,555,291</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 1,239,039</u>	<u>\$ 4,913,709</u>	<u>\$ 863,215</u>	<u>\$ 7,015,963</u>

(continued)

City of London
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2007
(Continued)

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income	\$ 198,133	\$ 897,600	\$ 200,837	\$ 1,296,570
Adjustments:				
Depreciation	164,593	279,913	43,163	487,669
(Increase) Decrease in Assets:				
Accounts Receivable	(64,375)	(81,075)	(2,644)	(148,094)
Materials and Supplies Inventory	(1,519)	(1,002)	(55,800)	(58,321)
Prepaid Items	2,718	2,600	656	5,974
Special Assessments Receivable	-	334	-	334
Increase (Decrease) in Liabilities:				
Accounts Payable	2,644	17,213	3,017	22,874
Accrued Wages	4,347	1,373	(2,581)	3,139
Contracts Payable	75,000	-	-	75,000
Compensated Absences Payable	1,832	110	1,238	3,180
Intergovernmental Payable	4,400	(1,836)	(1,111)	1,453
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 387,773</u>	<u>\$ 1,115,230</u>	<u>\$ 186,775</u>	<u>\$ 1,689,778</u>

Noncash Capital Financing Activities:

During 2007, noncash activity occurred in the sewer enterprise fund for contracts payable and retainage payable related to sewer projects in the amount of \$ 145,539.

See accompanying notes to the basic financial statements.

City of London
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
December 31, 2007

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 157,093</u>
<i>Total Assets</i>	<u><u>157,093</u></u>
Liabilities	
Undistributed Monies	<u>157,093</u>
<i>Total Liabilities</i>	<u><u>\$ 157,093</u></u>

See accompanying notes to the basic financial statements.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

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, 2007

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, 2007

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 Improvement – This fund is used to account for financial resources to be used for the improvement, construction or replacement of general government property and equipment.

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 agency funds account for money received and held until distribution requirement to others is met upon final plan approval.

C. Measurement Focus

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Like government-wide financial statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary fund activities.

D. *Basis of Accounting*

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

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

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Property taxes for which there is no enforceable claim as of as of December 31, 2007, but which were levied to finance fiscal year 2008 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.

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 2007, 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, 2007.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund and other governmental funds during 2007 amounted to \$324,522 and \$8,139, respectively.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments. See Note 5, Deposits and Investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2007 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

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

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of the proprietary funds are expensed when used.

Inventory consists of expendable supplies.

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. Interest capitalized for the proprietary funds for fiscal year 2007 was \$154,652.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Land Improvements	5-20 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.

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.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, material and supplies inventory, and long-term notes receivable.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and sewer 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.

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 the current year.

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

NOTE 3: BUDGETARY BASIS OF ACCOUNTING

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

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

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 3: BUDGETARY BASIS OF ACCOUNTING (Continued)

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

Net Change in Fund Balance

	General	Capital Improvement
GAAP Basis	\$ (157,809)	\$ (240,406)
Revenue accruals	110,329	49,413
Expenditure accruals	109,663	205,503
Encumbrances	(34,153)	(334,811)
Other	(4,775)	-
Budget Basis	\$ 23,255	\$ (320,301)

NOTE 4: ACCOUNTABILITY AND COMPLIANCE

A. *Accountability*

Fund balances at December 31, 2007 included the following individual fund deficits:

	Deficit
Police Grants	(7)
Police Pension	(18,785)
Fire Pension	(33,459)
Debt Service – N. End Sewer	(891)

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, 2007

NOTE 5: DEPOSITS AND INVESTMENTS

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

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

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

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

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;
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;

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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 2007, 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 \$6,824,548. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2007, \$6,766,664 of the City's bank balance of \$6,983,519 was collateralized with securities held by pledging financial institutions trust department or agent, but not in the City's name and \$216,855 was covered by Federal Deposit Insurance Corporation.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

Investments

As of December 31, 2007, the City had the following investment and maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>0-3</u>	<u>4-6</u>
Money Market	571,886	571,886	-
Federal Home Loan Bank	300,939	-	300,939
Federal National Mtg Assoc.	250,078	250,078	-
Repurchase Agreement	1,951,804	1,951,804	-
STAROhio	401,537	401,537	-
	<u>\$ 3,476,244</u>	<u>\$ 3,175,305</u>	<u>\$ 300,939</u>

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

Credit Risk The City's 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 AAA and AAAM, respectively. 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.

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

<u>Investment Type</u>	<u>Percent of Total</u>
Money Market	16.45%
Federal Home Loan Bank	8.66%
Federal National Mtg. Assoc.	7.19%
Repurchase Agreement	56.15%
STAROhio	11.55%
	<u>100.00%</u>

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 6: NOTES RECEIVABLE

On August 2, 1994, the City received a \$500,000 promissory note from London Limited Partnership (the Partnership), an Ohio limited partnership formed to construct low income housing with Federal Financial Assistance granted to the City of London as well as funds, which the Partnership borrowed from a private lender. The note receivable began to accrue interest at a rate of 3 percent per annum on December 1, 1995 when the Partnership reached the permanent loan closing with the private lender who financed the remainder of the project. Interest 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, 2007, and all unpaid interest, \$216,514 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 2007, the City received \$451 of principal payments and \$1,195 of interest payments. The balance on the note at December 31, 2007 is \$12,327. The note receivable is equally offset by a reservation of fund balance.

NOTE 7: PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2007 for real and public utility property taxes represents collections of the 2006 taxes. Property tax payments received during 2007 for tangible personal property (other than public utility property) are for 2007 taxes.

2007 real property taxes are levied after October 1, 2007, on the assessed value as of January 1, 2007, the lien date. Assessed values are established by the State law at 35 percent of appraised market value. 2007 real property taxes are collected in and intended to finance 2007.

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. 2007 public utility property taxes which became a lien on December 31, 2004, are levied after October 1, 2007, and are collected in 2007 with real property taxes.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 7: PROPERTY TAXES (Continued)

2007 tangible personal property taxes are levied after October 1, 2006, on the values as of December 31, 2006. Collections are made in 2007. In prior years, tangible personal property assessments were 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out – the assessed percentage for all property, including inventory for 2006 was 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero percent for 2009.

The full tax rate for all City operations for the year ended December 31, 2007, was \$5.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2007 property tax receipts were based are as follows:

Real Property	\$ 132,336,980
Tangible Personal Property	22,770,260
Public Utility Property	<u>6,035,450</u>
Total	<u><u>\$ 161,142,690</u></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, 2007 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 2007 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 8: INCOME TAXES

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

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

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 9: RECEIVABLES

Receivables at December 31, 2007 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 10: CAPITAL ASSETS

A summary of changes in governmental capital assets during 2007 follows:

	<u>Balance</u> <u>12/31/2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2007</u>
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 404,379	\$ -	\$ -	\$ 404,379
Construction in Progress	<u>2,279,236</u>	<u>437,400</u>	<u>(2,258,238)</u>	<u>458,398</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>2,683,615</u>	<u>437,400</u>	<u>(2,258,238)</u>	<u>862,777</u>
<i>Capital Assets, Being Depreciated:</i>				
Land Improvements	600,609	35,620		636,229
Buildings	607,807	149,228	(25,776)	731,259
Equipment and Machinery	784,410	103,056	(25,178)	862,288
Vehicles	1,975,182	24,126	(28,376)	1,970,932
Infrastructure	<u>14,004,476</u>	<u>2,262,553</u>	<u>-</u>	<u>16,267,029</u>
<i>Total Capital Assets, Being Depreciated</i>	<u>17,972,484</u>	<u>2,574,583</u>	<u>(79,330)</u>	<u>20,467,737</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(256,061)	(24,319)		(280,380)
Buildings	(387,810)	(18,930)	25,776	(380,964)
Equipment and Machinery	(413,195)	(82,874)	25,178	(470,891)
Vehicles	(1,388,975)	(96,456)	28,376	(1,457,055)
Infrastructure	<u>(3,859,930)</u>	<u>(525,377)</u>	<u>-</u>	<u>(4,385,307)</u>
<i>Total Accumulated Depreciation</i>	<u>(6,305,971)</u>	<u>(747,956)</u>	<u>79,330</u>	<u>(6,974,597)</u>
Total Capital Assets Being Depreciated, Net	<u>11,666,513</u>	<u>1,826,627</u>	<u>-</u>	<u>13,493,140</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 14,350,128</u>	<u>\$ 2,264,027</u>	<u>\$ (2,258,238)</u>	<u>\$ 14,355,917</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 12,509
Security of Persons and Property	78,881
Leisure Time Activities	39,121
Transportation	<u>617,445</u>
	<u>\$ 747,956</u>

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 10: CAPITAL ASSETS (Continued)

	Balance 12/31/2006	Additions	Deletions	Balance 12/31/2007
Business-Type Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 275,926	\$ -	\$ -	\$ 275,926
Construction in progress	12,113,939	13,863,745	-	25,977,684
<i>Total Capital Assets Not Being Depreciated</i>	<u>12,389,865</u>	<u>13,863,745</u>	<u>-</u>	<u>26,253,610</u>
<i>Capital Assets, Being Depreciated:</i>				
Land Improvements	17,639	-	-	17,639
Buildings	1,339,926	-	-	1,339,926
Improvements Other Than Buildings	5,354,857	-	(50,822)	5,304,035
Equipment and Machinery	1,713,143	20,000	(155,593)	1,577,550
Vehicles	797,502	125,713	-	923,215
Water and Sewer Lines	9,184,138	-	(16,041)	9,168,097
<i>Total Capital Assets, Being Depreciated</i>	<u>18,407,205</u>	<u>145,713</u>	<u>(222,456)</u>	<u>18,330,462</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(8,923)	(882)	-	(9,805)
Buildings	(709,493)	(28,108)	-	(737,601)
Improvements Other Than Buildings	(3,113,308)	(169,019)	50,822	(3,231,505)
Equipment and Machinery	(1,322,860)	(52,837)	133,899	(1,241,798)
Vehicles	(421,362)	(79,758)	-	(501,120)
Water and Sewer Lines	(3,748,576)	(157,070)	16,041	(3,889,605)
<i>Total Accumulated Depreciation</i>	<u>(9,324,522)</u>	<u>(487,674)</u>	<u>200,762</u>	<u>(9,611,434)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>9,082,683</u>	<u>(341,961)</u>	<u>(21,694)</u>	<u>8,719,028</u>
<i>Total Business-Type Activities Capital Assets, Net</i>	<u>\$ 21,472,548</u>	<u>\$ 13,521,784</u>	<u>\$ (21,694)</u>	<u>\$ 34,972,638</u>

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 11: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2007, 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 12: 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
DECEMBER 31, 2007

NOTE 12: DEFINED BENEFIT PENSION PLANS (Continued)

For the year ended December 31, 2007, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9.5 percent of their annual covered salaries. The employer contribution rate for 2007 was 13.85 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, 2007, 2006 and 2005 were \$293,937, \$262,640 and \$244,727, respectively; 87 percent has been contributed for 2007 and 100 percent for 2006 and 2005.

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 required contributions to OP&F for police and firefighters were \$310,468 for the year ended December 31, 2007, \$260,501 for 2006 and \$237,670 for 2005; 66 percent has been contributed for 2007. The full amount has been contributed for 2006 and 2005.

NOTE 13: 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 Post employment 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 2007 local government employer contribution rate was 13.85 percent of covered payroll; 5.00 percent of covered payroll was the portion that was used to fund health care from January 1 through June 30, 2007 and 6.00 percent from July 1 through December 31, 2007.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 13: POSTEMPLOYMENT BENEFITS (Continued)

Benefits are advanced-funded using the age normal cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 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 0.50 percent and 5.00 percent annually for the next eight years and 4 percent annually after eight years.

All investments are carried at market. 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.

The number of active contributing participants in the traditional and combined plans was 362,130. The City's actual contributions for 2007 which were used to fund post employment benefits were \$116,693. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2006 (the latest information available) were \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 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. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed 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 Post employment 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 6.75 percent of covered payroll was applied to the post employment health care program during 2007. 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
DECEMBER 31, 2007

NOTE 13: POSTEMPLOYMENT BENEFITS (Continued)

The City's actual contributions for 2007 that were used to fund post employment benefits were \$97,332 for police and firefighters. The OP&F's total health care expenses for the year ended December 31, 2006 (the latest information available) were \$120,373,722 which was net of member contributions of \$58,532,848. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006 was 14,120 for police and 10,563 for firefighters.

NOTE 14: COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Employees earn vacation time based on length of service. Employees earning two weeks or more of vacation annually must take vacation in a forty hour increment at least once per calendar year. Employees who earn four weeks or more of vacation annually must take vacation leave in 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, 2007, the accrued liability for unpaid compensated absences was \$385,038.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 15: CAPITALIZED LEASES – LESSEE DISCLOSURE

In 2004, the City entered into a capitalized lease for a fax machine. In 2007, the City entered into a capitalized lease for the acquisition of a packer 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 \$142,044 and \$112,708, 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.

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, 2007:

Year	Governmental Activities	Business-Type Activities	Total
2008	\$ 1,244	\$ 25,568	\$ 26,812
2009	-	25,568	25,568
2010	-	25,568	25,568
2011	-	25,568	25,568
2012	-	23,473	23,473
Total Minimum Lease Payments	1,244	125,745	126,989
Less Amount Representing Interest	(64)	(15,130)	(15,194)
Present Value of Minimum Lease Payments	\$ 1,180	\$ 110,615	\$ 111,795

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 16: LONG-TERM OBLIGATIONS

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
Governmental Activities			
N. End Sewer Project Special Assessment Bonds - 1993	5.25%	\$ 127,000	December 1, 2013
East High Street OPWC Loan - 1993	0.00%	267,660	July 1, 2014
Pool Improvement General Obligation Bonds - 1994	5.80%	310,000	June 1, 2019
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 Phase I - OPWC 2006	0.00%	273,756	January 1, 2026
Garfield Ave. Rehab Phase II - OPWC 2006	0.00%	580,087	January 2, 2027
Business-Type Activities			
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 - 2005	1.00%	1,711,877	January 1, 2025
Sewer Improvements OWDA Loan - 2006	0.80%	32,844,304	January 1, 2029

Changes in the long-term obligations of the City during 2007 were as follows:

	Amount Outstanding 12/31/2006	Additions	(Reductions)	Amount Outstanding 12/31/2007	Amounts Due Within One Year
Governmental Activities:					
Special Assessment Bonds	\$ 49,000	\$ -	\$ (7,000)	\$ 42,000	\$ 7,000
OPWC Loan - 1993	107,064	-	(13,383)	93,681	13,383
OPWC Loan - 2006 Phase I	260,068	-	(13,688)	246,380	13,688
OPWC Loan - 2006 Phase II	538,668	4,782	-	543,450	27,172
General Obligation Bonds:					
Pool Improvement	85,000	-	(25,000)	60,000	30,000
Various Purpose	303,800	-	(24,200)	279,600	25,400
Fire Truck Acquisition	375,000	-	(68,000)	307,000	72,000
Capital Leases	2,341	-	(1,161)	1,180	1,180
Compensated Absences	241,186	50,872	(25,860)	266,198	39,920
Police and Fire Pension Payable	64,985	-	(255)	64,730	1,159
Total Governmental Activities	<u>\$ 2,027,112</u>	<u>\$ 55,654</u>	<u>\$ (178,547)</u>	<u>\$ 1,904,219</u>	<u>\$ 230,902</u>
Business-Type Activities:					
OWDA Loans:					
Sewer Improvements 1988	\$ 2,190,524	\$ -	\$ (301,244)	\$ 1,889,280	\$ 324,289
Sewer Improvements 1988	258,193	-	(35,320)	222,873	38,096
Water Improvements 2001	1,289,944	-	(66,487)	1,223,457	69,269
Sewer Improvements 2005	1,575,874	-	(76,711)	1,499,163	78,799
Sewer Improvements 2006	11,456,713	13,641,260	-	25,097,973	-
Total OWDA Loans	<u>16,771,248</u>	<u>13,641,260</u>	<u>(479,762)</u>	<u>29,932,746</u>	<u>510,453</u>
Capital Lease	-	112,708	(2,093)	110,615	20,917
Compensated Absences	115,660	29,412	(26,232)	118,840	27,943
Total Business-Type Activities	<u>\$ 16,886,908</u>	<u>\$ 13,783,380</u>	<u>\$ (508,087)</u>	<u>\$ 30,162,201</u>	<u>\$ 559,313</u>

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 16: LONG-TERM OBLIGATIONS (Continued)

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 contribution reported in the “intergovernmental payable” account will both be paid from general operating revenues of the fund from which the employees’ salaries are paid. Capital leases are paid from revenues of the General fund and operating revenue of the Sanitation fund. The police and fire pension liability will be paid from taxes revenue of the Police and Fire Pension fund.

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 loan from the OWDA with a new loan total of \$1,553,591. In 2006 this design loan was rolled into a loan for the waste water treatment plant expansion and Oak Run Interceptor Project in the amount of \$32,844,304. As of December 31, 2007, the City had drawn down \$25,097,973. Until the loan is fully drawn down a final amortization schedule is not available, as a result, the balances of these loans are not included in the annual requirements to maturity table.

The annual requirements to retire the governmental activities long-term obligations outstanding at December 31, 2007 are as follows:

Year	Principal	Interest
2008	\$ 188,643	\$ 32,685
2009	192,943	26,030
2010	167,243	20,043
2011	172,543	14,725
2012	92,143	9,160
2013-2017	377,367	18,024
2018-2022	204,301	-
2023-2027	176,928	-
Total	\$ 1,572,111	\$ 120,667

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 16: LONG-TERM OBLIGATIONS (Continued)

The annual requirements to retire the business-type activities long-term obligations outstanding at December 31, 2007 are as follows:

Year	Principal	Interest
2008	\$ 510,452	\$ 226,784
2009	541,942	195,295
2010	575,694	161,543
2011	611,877	125,359
2012	650,714	86,522
2013-2017	884,709	179,313
2018-2022	828,868	56,339
2023-2025	230,517	3,469
Total	\$ 4,834,773	\$ 1,034,624

NOTE 17: INTERFUND TRANSFERS AND BALANCES

Transfer To	Transfer From General
Other Governmental	\$ 525,468
Sewer	92,008
Total	\$ 617,476

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, 2007

NOTE 17: INTERFUND TRANSFERS AND BALANCES (Continued)

As of December 31, 2007, interfund balances were 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 18: CONTINGENCIES

A. *Grants*

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City at December 31, 2007.

B. *Litigation*

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

NOTE 19: CONTRACTUAL COMMITMENTS

As of December 31, 2007, the City had the following contractual commitments due to the construction and repair of the City's waste water treatment facility.

Contractor	Balance 12/31/2007
CH2MHill	\$ 474,509
Adams-Robinson	5,661,973
Miller Pipeline	159,475
	\$ 6,295,957

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 20: RESTATEMENT OF FUND BALANCE AND NET ASSETS

The beginning fund balance of the Other Governmental Funds and the beginning net asset balance of the Governmental Activities were restated due to an understatement of deferred revenue related to a note receivable on the fund statements and an overstatement of deferred revenue related to the same note receivable on the entity-wide statements. The beginning balances were restated to what they would have been had the error not occurred.

In addition, in fiscal year 2007, the City's Capital Improvements- Garfield Avenue Fund failed to meet the minimum criteria for mandatory major fund reporting and needed to be reclassified accordingly.

The effects of these adjustments are presented below:

	<u>Capital Improvement- Garfield</u>	<u>Other Governmental Funds</u>
Fund Balance, December 31, 2006	\$ 5,363	\$ 1,592,817
Garfield Fund Reclassification	(5,363)	5,363
Deferred Revenue Understatement	-	(136,058)
Fund Balance, January 1, 2007	<u>\$ -</u>	<u>\$ 1,462,122</u>

	<u>Governmental Activities</u>
Net Assets, December 31, 2006	\$ 18,048,941
Deferred Revenue Overstatement	59,435
Net Assets, January 1, 2007	<u>\$ 18,108,376</u>

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, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 26, 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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 as item 2007-1 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted other matters that we reported to the City's management in a separate letter dated June 26, 2008.

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.

A handwritten signature in black ink that reads "Kennedy Cottrell Richards LLC". The signature is written in a cursive, flowing style.

Kennedy Cottrell Richards LLC
June 26, 2008

**CITY OF LONDON, OHIO
MADISON COUNTY**

SCHEDULE OF FINDINGS

DECEMBER 31, 2007

2007-1 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 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.

CITY OF LONDON, OHIO
MADISON COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i></u>
2006-001	Financial reporting	No	Not corrected. Reported as finding number 2007-001.
2006-002	Expenditures exceeding appropriations	Yes	
2006-003	Expenditure of money	Yes	



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 26, 2008**