

**City of London  
Madison County**

Financial Statements  
and Independent Auditor's Reports

For the Year Ended December 31, 2008







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, 2008 through December 31, 2008. 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

July 14, 2009

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**City of London  
Madison County**

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of London, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of London, Madison County, Ohio (the City) as of and for the year ended December 31, 2008, 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, 2008, 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 18, 2009 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 18, 2009

**City of London**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2008*  
*(Unaudited)*

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The discussion and analysis of the City of London's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2008. 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 2008 are as follows:

- Governmental activities general revenues accounted for \$5.0 million in revenue or 78 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$1.4 million or 22 percent of total revenues of \$6.4 million.
- Total program expenses were \$12 million, \$6.8 million in governmental activities and \$5.2 million in business-type activities.
- In total, net assets decreased \$625,301. Net assets of governmental activities decreased \$567,377, which represents a 3 percent decrease from 2007. Net assets of business-type activities decreased \$57,924 or 1 percent from 2007.
- Outstanding debt increased from \$31.6 million to \$37.8 million through the issuance of new debt for the construction of the water and sewer treatment plant.

***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 2008 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, 2008*  
(Unaudited)

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A question typically asked about the City's finances "How did we do financially during fiscal year 2008?" 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 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, 2008*  
(Unaudited)

The City adopts an annual appropriated budget for each of its funds. A budgetary comparison statement has been provided for the general fund and capital improvements 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 2008 compared to 2007:

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

	2008			2007		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Assets:						
Current and Other Assets	\$ 6,283,824	7,774,337	14,058,161	7,365,198	7,541,317	14,906,515
Capital Assets	14,091,520	39,146,747	53,238,267	14,355,917	34,972,638	49,328,555
Total Assets	20,375,344	46,921,084	67,296,428	21,721,115	42,513,955	64,235,070
Liabilities:						
Current and Other Liabilities	1,648,266	947,425	2,595,691	2,276,176	2,868,192	5,144,368
Long-term Liabilities	1,753,735	36,548,021	38,301,756	1,904,219	30,162,201	32,066,420
Total Liabilities	3,402,001	37,495,446	40,897,447	4,180,395	33,030,393	37,210,788
Net Assets:						
Invested in Capital Assets, Net of Related Debt	12,708,052	4,485,158	17,193,210	12,782,626	4,929,277	17,711,903
Restricted	1,581,660	-	1,581,660	1,770,926	-	1,770,926
Unrestricted	2,683,631	4,940,480	7,624,111	2,987,168	4,554,285	7,541,453
Total Net Assets	\$ 16,973,343	9,425,638	26,398,981	17,540,720	9,483,562	27,024,282

**City of London**  
*Management's Discussion and Analysis*  
For the Year Ended December 31, 2008  
(Unaudited)

Total assets increased by \$3.1 million with governmental activities assets decreasing \$1.3 million and business-type assets increasing \$4.4 million. An increase of \$3.9 million in total capital assets reflects new construction in progress and an increase in infrastructure. Total liabilities increased by \$3.7 million with business-type activities increasing \$4.5 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 decreased by \$625,301. This number reflects a decrease of \$567,377 in governmental activities and a decrease of \$57,924 in the net assets of the business-type activities for 2008. Table 2 shows the changes in net assets for fiscal years 2008 and 2007.

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

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>REVENUES:</b>						
Program Revenues:						
Charges for Services	\$ 464,429	184,529	4,379,710	4,685,788	4,844,139	4,870,317
Operating Grants and Contributions	927,314	460,064	-	-	927,314	460,064
Capital Grants and Contributions	42,864	9,229	373,492	-	416,356	9,229
General Revenues:						
Property Taxes	1,181,432	1,084,378	-	-	1,181,432	1,084,378
Income Taxes	3,145,486	3,692,027	-	-	3,145,486	3,692,027
Grants and Contributions not Restricted	449,616	430,426	-	-	449,616	430,426
Investment Income	167,244	273,226	17,897	27,191	185,141	300,417
Other Revenue	70,788	93,517	115,619	2,171	186,407	95,688
Total Revenue	<u>6,449,173</u>	<u>6,227,396</u>	<u>4,886,718</u>	<u>4,715,150</u>	<u>11,335,891</u>	<u>10,942,546</u>
<b>EXPENSES:</b>						
General Government	1,346,407	1,007,295	-	-	1,346,407	1,007,295
Security of Persons and Property	3,400,262	3,214,367	-	-	3,400,262	3,214,367
Public Health Services	800	2,000	-	-	800	2,000
Transportation	1,226,241	1,754,953	-	-	1,226,241	1,754,953
Community and Economic Development	419,094	418,935	-	-	419,094	418,935
Leisure Time Activities	347,952	266,094	-	-	347,952	266,094
Water	-	-	1,374,121	1,221,180	1,374,121	1,221,180
Sewer	-	-	2,994,061	1,698,024	2,994,061	1,698,024
Sanitation	-	-	820,463	731,418	820,463	731,418
Interest Expense	31,791	39,400	-	-	31,791	39,400
Total Expenses	<u>6,772,547</u>	<u>6,703,044</u>	<u>5,188,645</u>	<u>3,650,622</u>	<u>11,961,192</u>	<u>10,353,666</u>
Change in Net Assets Before Transfers	(323,374)	(475,648)	(301,927)	1,064,528	(625,301)	588,880
Transfers	(244,003)	(92,008)	244,003	92,008	-	-
Change in Net Assets	(567,377)	(567,656)	(57,924)	1,156,536	(625,301)	588,880
Net Assets, Beginning of Year	<u>17,540,720</u>	<u>18,108,376</u>	<u>9,483,562</u>	<u>8,327,026</u>	<u>27,024,282</u>	<u>26,435,402</u>
Net Assets, End of Year	<u>\$ 16,973,343</u>	<u>17,540,720</u>	<u>9,425,638</u>	<u>9,483,562</u>	<u>26,398,981</u>	<u>27,024,282</u>

**City of London**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2008*  
(Unaudited)

**Governmental Activities**

Revenues totaled \$6.4 million in 2008, an increase of approximately \$200,000 from the prior year. The cause for the increase was a combination of an increase in program revenues of approximately \$700,000 and a decrease in income tax revenue of approximately \$500,000.

Total expenses increased \$69,503 from 2007. The functions of general government and security of persons and property represent the largest increase in governmental activities expenses. However, transportation expenses decreased approximately \$500,000. The increase in general government and security of persons and property of approximately \$525,000 is primarily due to increases in personnel costs such as wages and benefits, while the decrease in transportation is the result of the City expending more on street repair and maintenance in the prior year reducing the need for repair and maintenance in the current year.

**Business-Type Activities**

Business-type activities decreased the City's net assets by \$57,924 in 2008 which was approximately \$1.0 million less than the increase recorded in 2007. This decrease is due primarily to an increase in non-capital expenditures associated with the sewer treatment plant construction and loss on disposal of water and sewer lines replaced by the new sewer treatment plant.

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>2008</u>		<u>2007</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>
<b>GOVERNMENTAL ACTIVITIES:</b>				
General Government	\$ 1,346,407	(1,054,423)	1,007,295	(914,062)
Security of Persons and Property	3,400,262	(2,629,295)	3,214,367	(2,892,533)
Public Health Services	800	(613)	2,000	(1,799)
Transportation	1,226,241	(1,080,460)	1,754,952	(1,581,113)
Community and Economic Development	419,094	(264,336)	418,935	(387,573)
Leisure Time Activities	347,952	(277,022)	266,094	(232,741)
Interest Expense	31,791	(31,791)	39,400	(39,400)
	<u>\$ 6,772,547</u>	<u>(5,337,940)</u>	<u>6,703,043</u>	<u>(6,049,221)</u>
<b>BUSINESS-TYPE ACTIVITIES:</b>				
Water	\$ 1,374,121	(89,155)	1,221,180	145,410
Sewer	2,994,061	(798,973)	1,698,024	688,919
Sanitation	820,463	452,685	731,418	200,837
	<u>\$ 5,188,645</u>	<u>(435,443)</u>	<u>3,650,622</u>	<u>1,035,166</u>

**City of London**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2008*  
*(Unaudited)*

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***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, 2008 the City's governmental funds reported revenues of \$6.4 million and expenditures of \$6.9 million, with combined fund balances of \$3.2 million. Of the \$3.2 million fund balance, \$2.5 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, 2008, unreserved fund balance of the General Fund was \$.9 million. Unreserved fund balance represents 24 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 \$1.2 million, \$2.8 million and \$894,493 for the water, sewer and sanitation funds, respectively. The change in net assets was an increase of \$290,320 in the water fund, a decrease of \$756,619 in the sewer fund and an increase of \$408,375 in the sanitation fund.. Total operating expenses for all proprietary funds were \$4.1 million which was less than operating revenues of \$4.4 million, by \$247,879 or 6 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 2008, 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 \$149,466, over the final budget estimates of \$3.6 million. Of this excess, most was attributable to increased income and property tax and increased intergovernmental revenue.

Final appropriations of \$4.8 million were \$55,091 higher than the original budget.

**City of London**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2008*  
*(Unaudited)*

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of year 2008, the City had \$53.2 million invested in land, buildings, equipment, infrastructure and vehicles net of accumulated depreciation. A total of \$14.1 million of this was for governmental activities with the remainder attributable to business-type activities. Table 4 shows fiscal year 2008 balances compared with 2007.

**(Table 4)**  
**Capital Assets at December 31**

	2008			2007		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 505,598	275,926	781,524	404,379	275,926	680,305
Land Improvements	654,929	17,639	672,568	636,229	17,639	653,868
Buildings	999,827	4,695,835	5,695,662	731,259	1,339,926	2,071,185
Improvements Other than Buildings	-	19,497,677	19,497,677	-	5,304,035	5,304,035
Equipment	874,372	4,173,301	5,047,673	862,288	1,577,550	2,439,838
Vehicles	2,040,049	885,477	2,925,526	1,970,932	923,215	2,894,147
Construction in Progress	33,326	274,002	307,328	458,398	25,977,684	26,436,082
Infrastructure	16,694,900	-	16,694,900	16,267,029	-	16,267,029
Water and Sewer Lines	-	16,844,231	16,844,231	-	9,168,097	9,168,097
Less: Accumulated Depreciation	(7,711,481)	(7,517,341)	(15,228,822)	(6,974,597)	(9,611,434)	(16,586,031)
Totals	\$ 14,091,520	39,146,747	53,238,267	14,355,917	34,972,638	49,328,555

The \$3.9 million increase in capital assets was attributable to additions due to the near completion of the waste water project. Note 10 provides capital asset activity during the 2008 year.

**City of London**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2008*  
*(Unaudited)*

**Debt**

The outstanding debt for the City of London as of December 31, 2008 was \$37.8 million with \$736,044 due within one year. Table 5 summarizes outstanding debt.

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
General Obligation Bonds	\$ 646,600	\$ 519,200	\$ -	\$ -	\$ 646,600	\$ 519,200
Special Assessment Bonds	42,000	35,000	-	-	42,000	35,000
OPWC Loans	883,511	829,268	-	-	883,511	829,268
OWDA Loans	-	-	29,932,746	36,321,659	29,932,746	36,321,659
Police and Fire Pension	<u>64,730</u>	<u>62,848</u>	<u>-</u>	<u>-</u>	<u>64,730</u>	<u>62,848</u>
Total	<u>\$ 1,636,841</u>	<u>\$ 1,446,316</u>	<u>\$ 29,932,746</u>	<u>\$ 36,321,659</u>	<u>\$ 31,569,587</u>	<u>\$ 37,767,975</u>

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 2008.

The OWDA loans were issued for improvements to the waste water treatment plant and Oak Run Interceptor. These projects continued in fiscal year 2008 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 was completed during 2008. This project will increase plant capacity by 100 percent and is expected to improve treatment efficiency greatly in the future.

***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, 2008

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 2,314,320	\$ 7,198,820	\$ 9,513,140
Cash and Cash Equivalents in Segregated Accounts	48,513	-	48,513
Investments	201,000	-	201,000
Taxes Receivable	2,165,040	-	2,165,040
Accounts Receivable	33,285	430,079	463,364
Intergovernmental Receivable	397,436	-	397,436
Special Assessments Receivable	255,071	3,091	258,162
Internal Balances	40,000	(40,000)	-
Prepaid Items	37,016	19,936	56,952
Materials and Supplies Inventory	41,645	38,839	80,484
Notes Receivable	750,498	-	750,498
Restricted Cash and Cash Equivalents	-	123,572	123,572
Non-Depreciable Capital Assets	538,924	549,928	1,088,852
Depreciable Capital Assets, net	13,552,596	38,596,819	52,149,415
<i>Total Assets</i>	<u>20,375,344</u>	<u>46,921,084</u>	<u>67,296,428</u>
<b>Liabilities</b>			
Accounts Payable	36,687	52,931	89,618
Accrued Wages	203,905	65,301	269,206
Contracts Payable	204,714	93,875	298,589
Retainage Payable	-	574,602	574,602
Intergovernmental Payable	212,652	43,522	256,174
Customer Deposits Payable	-	117,194	117,194
Accrued Interest Payable	2,242	-	2,242
Unearned Revenue	988,066	-	988,066
Long-Term Liabilities:			
Due Within One Year	234,022	591,785	825,807
Due in More Than One Year	1,519,713	35,956,236	37,475,949
<i>Total Liabilities</i>	<u>3,402,001</u>	<u>37,495,446</u>	<u>40,897,447</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	12,708,052	4,485,158	17,193,210
Restricted for Other Purposes	1,581,660	-	1,581,660
Unrestricted	2,683,631	4,940,480	7,624,111
<i>Total Net Assets</i>	<u>\$ 16,973,343</u>	<u>\$ 9,425,638</u>	<u>\$ 26,398,981</u>

See accompanying notes to the basic financial statements.

**City of London**  
*Statement of Activities*  
For the Year Ended December 31, 2008

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General Government	\$ 1,346,407	\$ 93,698	\$ 198,286	\$ -	\$ (1,054,423)	\$ -	\$ (1,054,423)
Security of Persons and Property	3,400,262	250,145	520,822	-	(2,629,295)	-	(2,629,295)
Public Health Services	800	60	127	-	(613)	-	(613)
Leisure Time Activities	347,952	23,014	47,916	-	(277,022)	-	(277,022)
Community and Economic Development	419,094	50,212	61,682	42,864	(264,336)	-	(264,336)
Transportation	1,226,241	47,300	98,481	-	(1,080,460)	-	(1,080,460)
Interest and Fiscal Charges	31,791	-	-	-	(31,791)	-	(31,791)
<i>Total Governmental Activities</i>	<u>6,772,547</u>	<u>464,429</u>	<u>927,314</u>	<u>42,864</u>	<u>(5,337,940)</u>	<u>-</u>	<u>(5,337,940)</u>
<b>Business-Type Activities:</b>							
Water	1,374,121	1,284,966	-	-	-	(89,155)	(89,155)
Sewer	2,994,061	2,195,088	-	-	-	(798,973)	(798,973)
Sanitation	820,463	899,656	-	373,492	-	452,685	452,685
<i>Total Business-Type Activities</i>	<u>5,188,645</u>	<u>4,379,710</u>	<u>-</u>	<u>373,492</u>	<u>-</u>	<u>(435,443)</u>	<u>(435,443)</u>
<i>Total - Primary Government</i>	<u>11,961,192</u>	<u>4,844,139</u>	<u>927,314</u>	<u>416,356</u>	<u>(5,337,940)</u>	<u>(435,443)</u>	<u>(5,773,383)</u>
<b>General Revenues:</b>							
Property Taxes Levied for:							
General Purposes					824,466	-	824,466
Other Purposes					356,966	-	356,966
Income Taxes Levied for:							
General Purposes					2,144,768	-	2,144,768
Other Purposes					1,000,718	-	1,000,718
Grants and Entitlements not Restricted to Specific Programs					449,616	-	449,616
Investment Earnings					167,244	17,897	185,141
Miscellaneous					70,788	115,619	186,407
<i>Total General Revenues</i>					<u>5,014,566</u>	<u>133,516</u>	<u>5,148,082</u>
Transfers					<u>(244,003)</u>	<u>244,003</u>	<u>-</u>
<i>Total General Revenues and Transfers</i>					<u>4,770,563</u>	<u>377,519</u>	<u>5,148,082</u>
<i>Change in Net Assets</i>					<u>(567,377)</u>	<u>(57,924)</u>	<u>(625,301)</u>
<i>Net Assets Beginning of Year</i>					<u>17,540,720</u>	<u>9,483,562</u>	<u>27,024,282</u>
<i>Net Assets End of Year</i>					<u>\$ 16,973,343</u>	<u>\$ 9,425,638</u>	<u>\$ 26,398,981</u>

See accompanying notes to the basic financial statements.



**City of London**  
*Balance Sheet*  
*Governmental Funds*  
*December 31, 2008*

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 710,241	\$ 732,062	\$ 872,017	\$ 2,314,320
Cash and Cash Equivalents in Segregated Accounts	-	-	48,513	48,513
Investments	201,000	-	-	201,000
Taxes Receivable	1,553,810	-	611,230	2,165,040
Accounts Receivable	32,701	-	584	33,285
Intergovernmental Receivable	120,607	-	276,829	397,436
Special Assessments Receivable	177,246	-	77,825	255,071
Prepaid Items	26,215	-	10,801	37,016
Materials and Supplies Inventory	410	-	41,235	41,645
Interfund Receivable	-	40,000	-	40,000
Notes Receivable	-	-	750,498	750,498
<i>Total Assets</i>	<u>\$ 2,822,230</u>	<u>\$ 772,062</u>	<u>\$ 2,689,532</u>	<u>\$ 6,283,824</u>
<b>Liabilities</b>				
Accounts Payable	17,090	-	19,597	36,687
Accrued Wages	170,837	-	33,068	203,905
Contracts Payable	-	119,229	85,485	204,714
Intergovernmental Payable	107,026	-	105,626	212,652
Deferred Revenue	1,534,499	-	868,339	2,402,838
<i>Total Liabilities</i>	<u>1,829,452</u>	<u>119,229</u>	<u>1,112,115</u>	<u>3,060,796</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	33,501	65,169	76,499	175,169
Reserved for Materials and Supplies Inventory	410	-	41,235	41,645
Reserved for Prepaid Items	26,215	-	10,801	37,016
Reserved for Notes Receivable	-	-	500,000	500,000
Unreserved, Undesignated, Reported in:				
General Fund	932,652	-	-	932,652
Special Revenue Funds	-	587,664	960,317	1,547,981
Debt Service Funds	-	-	(11,434)	(11,434)
Capital Projects Funds	-	-	(1)	(1)
<i>Total Fund Balances</i>	<u>992,778</u>	<u>652,833</u>	<u>1,577,417</u>	<u>3,223,028</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 2,822,230</u>	<u>\$ 772,062</u>	<u>\$ 2,689,532</u>	<u>\$ 6,283,824</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, 2008*

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**Total Governmental Fund Balances** \$ 3,223,028

*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. 14,091,520

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

Special Assessments	\$ 177,246
Intergovernmental	303,134
Income Taxes	615,785
Notes Receivable	238,171
Property Taxes	<u>80,436</u>

Total 1,414,772

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (2,242)

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

General Obligation Bonds	\$ (519,200)
Special Assessment Bonds	(35,000)
Loans Payable	(829,268)
Compensated Absences	(307,419)
Police and Fire Pension Liability	<u>(62,848)</u>

Total (1,753,735)

*Net Assets of Governmental Activities* \$ 16,973,343

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, 2008*

	General	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 3,145,801	\$ 675,807	\$ 596,276	\$ 4,417,884
Special Assessments	-	-	39,609	39,609
Charges for Services	108,829	-	-	108,829
Fines, Licenses and Permits	22,107	-	118,815	140,922
Intergovernmental	455,261	-	1,021,613	1,476,874
Interest	163,643	-	3,601	167,244
Other	32,789	-	16,342	49,131
<i>Total Revenues</i>	<u>3,928,430</u>	<u>675,807</u>	<u>1,796,256</u>	<u>6,400,493</u>
<b>Expenditures</b>				
Current:				
General Government	952,345	27,934	252,051	1,232,330
Security of Persons and Property	2,670,559	14,665	603,267	3,288,491
Public Health Services	800	-	-	800
Leisure Time Activities	227,037	64,157	11,487	302,681
Community and Economic Development	1,670	2,057	412,673	416,400
Transportation	-	24,980	597,109	622,089
Capital Outlay	-	559,262	274,573	833,835
Debt Service:				
Principal Retirement	3,062	-	188,643	191,705
Interest and Fiscal Charges	64	-	32,685	32,749
<i>Total Expenditures</i>	<u>3,855,537</u>	<u>693,055</u>	<u>2,372,488</u>	<u>6,921,080</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>72,893</u>	<u>(17,248)</u>	<u>(576,232)</u>	<u>(520,587)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	-	534,661	534,661
Proceeds from Sale of Capital Assets	17,485	-	-	17,485
Transfers Out	(529,829)	-	(4,832)	(534,661)
<i>Total Other Financing Sources (Uses)</i>	<u>(512,344)</u>	<u>-</u>	<u>529,829</u>	<u>17,485</u>
<i>Net Change in Fund Balance</i>	(439,451)	(17,248)	(46,403)	(503,102)
<i>Fund Balances Beginning of Year</i>	<u>1,432,229</u>	<u>670,081</u>	<u>1,623,820</u>	<u>3,726,130</u>
<i>Fund Balances End of Year</i>	<u>\$ 992,778</u>	<u>\$ 652,833</u>	<u>\$ 1,577,417</u>	<u>\$ 3,223,028</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, 2008*

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**Net Change in Fund Balances - Total Governmental Funds** \$ (503,102)

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

Governmental funds report capital outlays as expenditures.

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

Capital Asset Additions	\$ 589,832	
Current Year Depreciation	<u>(830,801)</u>	
Total		(240,969)

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

(23,428)

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

Special Assessments	175,072	
Intergovernmental	(57,083)	
Income Taxes	(98,380)	
Notes Receivable	21,657	
Delinquent Property Taxes	<u>7,414</u>	
Total		48,680

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.

191,705

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

958

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>(41,221)</u>	
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*Change in Net Assets of Governmental Activities* \$ (567,377)

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, 2008*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues</b>				
Property Taxes	\$ 807,351	\$ 779,357	\$ 819,642	\$ 40,285
Income Taxes	2,243,888	2,149,760	2,231,971	82,211
Charges for Services	108,170	103,633	107,596	3,963
Licenses and Permits	1,106	1,059	1,100	41
Fines and Forfeitures	20,061	19,219	19,954	735
Intergovernmental	454,366	435,306	451,953	16,647
Interest	120,254	115,209	119,615	4,406
Other	32,154	30,806	31,984	1,178
<i>Total Revenues</i>	<u>3,787,350</u>	<u>3,634,349</u>	<u>3,783,815</u>	<u>149,466</u>
<b>Expenditures</b>				
Current:				
General Government	1,085,838	1,111,011	974,623	136,388
Security of Persons and Property	2,908,916	2,917,916	2,718,766	199,150
Public Health Services	2,000	2,000	1,550	450
Leisure Time Activities	264,900	264,900	232,426	32,474
Community and Economic Development	5,161	5,161	2,270	2,891
<i>Total Expenditures</i>	<u>4,266,815</u>	<u>4,300,988</u>	<u>3,929,635</u>	<u>371,353</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(479,465)</u>	<u>(666,639)</u>	<u>(145,820)</u>	<u>520,819</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	-	-	-	-
Proceeds from Sale of Capital Assets	-	-	17,485	17,485
Transfers Out	(525,113)	(546,031)	(529,829)	16,202
<i>Total Other Financing Sources (Uses)</i>	<u>(525,113)</u>	<u>(546,031)</u>	<u>(512,344)</u>	<u>33,687</u>
<i>Net Change in Fund Balance</i>	(1,004,578)	(1,212,670)	(658,164)	554,506
<i>Fund Balance Beginning of Year</i>	1,382,836	1,382,836	1,382,836	-
Prior Year Encumbrances Appropriated	34,153	34,153	34,153	-
<i>Fund Balance End of Year</i>	<u>\$ 412,411</u>	<u>\$ 204,319</u>	<u>\$ 758,825</u>	<u>\$ 554,506</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, 2008*

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues</b>				
Income Taxes	\$ 780,000	\$ 706,000	\$ 743,985	\$ 37,985
<i>Total Revenues</i>	<u>780,000</u>	<u>706,000</u>	<u>743,985</u>	<u>37,985</u>
<b>Expenditures</b>				
Current:				
General Government	214,643	214,643	174,043	40,600
Security of Persons and Property	19,785	19,785	16,043	3,742
Leisure Time Activities	79,123	79,123	64,157	14,966
Community and Economic Development	2,537	2,537	2,057	480
Transportation	228,998	228,998	185,683	43,315
Capital Outlay	<u>689,724</u>	<u>689,724</u>	<u>559,262</u>	<u>130,462</u>
<i>Total Expenditures</i>	<u>1,234,810</u>	<u>1,234,810</u>	<u>1,001,245</u>	<u>233,565</u>
<i>Net Change in Fund Balance</i>	(454,810)	(528,810)	(257,260)	271,550
<i>Fund Balance Beginning of Year</i>	455,600	455,600	455,600	-
Prior Year Encumbrances Appropriated	<u>334,811</u>	<u>334,811</u>	<u>334,811</u>	<u>-</u>
<i>Fund Balance (Deficit) End of Year</i>	<u>\$ 335,601</u>	<u>\$ 261,601</u>	<u>\$ 533,151</u>	<u>\$ 271,550</u>

See accompanying notes and accountant's compilation report.

**City of London**  
*Statement of Fund Net Assets*  
*Proprietary Funds*  
*December 31, 2008*

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
<b>Assets</b>				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$ 1,180,942	\$ 5,103,464	\$ 914,414	\$ 7,198,820
Accounts Receivable	172,548	251,564	5,967	430,079
Prepaid Items	8,276	8,841	2,819	19,936
Special Assessments Receivable	-	3,091	-	3,091
Materials and Supplies Inventory	9,407	3,669	25,763	38,839
<i>Total Current Assets</i>	<u>1,371,173</u>	<u>5,370,629</u>	<u>948,963</u>	<u>7,690,765</u>
<i>Non-Current Assets:</i>				
Restricted Cash and Cash Equivalents	123,572	-	-	123,572
Non-Depreciable Capital Assets	383,200	66,768	99,960	549,928
Depreciable Capital Assets, Net	2,962,533	35,015,477	618,809	38,596,819
<i>Total Non-Current Assets</i>	<u>3,469,305</u>	<u>35,082,245</u>	<u>718,769</u>	<u>39,270,319</u>
<i>Total Assets</i>	<u>4,840,478</u>	<u>40,452,874</u>	<u>1,667,732</u>	<u>46,961,084</u>
<b>Liabilities</b>				
<i>Current Liabilities</i>				
Accounts Payable	13,145	19,663	20,123	52,931
Accrued Wages	35,260	15,272	14,769	65,301
Contracts Payable	-	93,875	-	93,875
Retainage Payable	-	574,602	-	574,602
Intergovernmental Payable	23,417	9,807	10,298	43,522
Customer Deposits Payable	117,194	-	-	117,194
Interfund Payable	-	40,000	-	40,000
Compensated Absences Payable	18,992	7,054	1,897	27,943
Capital Lease Payable	-	-	21,900	21,900
OWDA Loans Payable	72,166	469,776	-	541,942
<i>Total Current Liabilities</i>	<u>280,174</u>	<u>1,230,049</u>	<u>68,987</u>	<u>1,579,210</u>
<i>Long-Term Liabilities</i>				
Compensated Absences Payable - net of current portion	73,893	27,445	7,383	108,721
Capital Leases Payable - net of current portion	-	-	67,798	67,798
OWDA Loans Payable - net of current portion	1,082,023	34,697,694	-	35,779,717
<i>Total Long-Term Liabilities</i>	<u>1,155,916</u>	<u>34,725,139</u>	<u>75,181</u>	<u>35,956,236</u>
<i>Total Liabilities</i>	<u>1,436,090</u>	<u>35,955,188</u>	<u>144,168</u>	<u>37,535,446</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	2,191,544	1,664,543	629,071	4,485,158
Unrestricted	1,212,844	2,833,143	894,493	4,940,480
<i>Total Net Assets</i>	<u>\$ 3,404,388</u>	<u>\$ 4,497,686</u>	<u>\$ 1,523,564</u>	<u>\$ 9,425,638</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, 2008*

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
<b>Operating Revenue</b>				
Charges for Services	\$ 1,284,966	\$ 2,195,088	\$ 899,656	\$ 4,379,710
<i>Total Operating Revenues</i>	<u>1,284,966</u>	<u>2,195,088</u>	<u>899,656</u>	<u>4,379,710</u>
<b>Operating Expenses</b>				
Salaries and Wages	530,239	333,941	380,910	1,245,090
Contractual Services	398,466	287,263	324,310	1,010,039
Materials and Supplies	104,513	403,701	124,227	632,441
Depreciation	158,961	1,032,935	52,365	1,244,261
<i>Total Operating Expenses</i>	<u>1,192,179</u>	<u>2,057,840</u>	<u>881,812</u>	<u>4,131,831</u>
<i>Operating Income</i>	<u>92,787</u>	<u>137,248</u>	<u>17,844</u>	<u>247,879</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest	3,472	14,425	-	17,897
Other Non-Operating Revenues	-	93,929	21,690	115,619
Loss on Sale of Assets	-	(839,575)	-	(839,575)
Interest and Fiscal Charges	(49,942)	(162,646)	(4,651)	(217,239)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(46,470)</u>	<u>(893,867)</u>	<u>17,039</u>	<u>(923,298)</u>
<i>Income (Loss) Before Capital Contributions</i>	46,317	(756,619)	34,883	(675,419)
Capital Contributions	244,003	-	373,492	617,495
<i>Change in Net Assets</i>	290,320	(756,619)	408,375	(57,924)
<i>Net Assets Beginning of Year</i>	<u>3,114,068</u>	<u>5,254,305</u>	<u>1,115,189</u>	<u>9,483,562</u>
<i>Net Assets End of Year</i>	<u>\$ 3,404,388</u>	<u>\$ 4,497,686</u>	<u>\$ 1,523,564</u>	<u>\$ 9,425,638</u>

See accompanying notes to the basic financial statements.



**City of London**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Year Ended December 31, 2008

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
<b>Increase in Cash and Cash Equivalents</b>				
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$ 1,304,099	\$ 2,225,110	\$ 899,156	\$ 4,428,365
Cash Payments to Suppliers for Goods and Services	(539,181)	(727,411)	(434,619)	(1,701,211)
Cash Payments to Employees	(480,240)	(313,352)	(381,162)	(1,174,754)
<i>Net Cash Provided by Operating Activities</i>	<u>284,678</u>	<u>1,184,347</u>	<u>83,375</u>	<u>1,552,400</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Other Non-Operating Receipts	-	94,263	21,690	115,953
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>-</u>	<u>94,263</u>	<u>21,690</u>	<u>115,953</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from Loans	-	6,899,365	-	6,899,365
Acquisition of Capital Assets	(103,465)	(7,424,066)	(28,298)	(7,555,829)
Principal Payments on Debt	(69,268)	(441,184)	(20,917)	(531,369)
Interest Payments	(49,942)	(162,646)	(4,651)	(217,239)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(222,675)</u>	<u>(1,128,531)</u>	<u>(53,866)</u>	<u>(1,405,072)</u>
<b>Cash Flows from Investing Activities</b>				
Interest	3,472	39,676	-	43,148
<i>Net Cash Provided by Investing Activities</i>	<u>3,472</u>	<u>39,676</u>	<u>-</u>	<u>43,148</u>
<i>Net Increase in Cash and Cash Equivalents</i>	65,475	189,755	51,199	306,429
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>1,239,039</u>	<u>4,913,709</u>	<u>863,215</u>	<u>7,015,963</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 1,304,514</u>	<u>\$ 5,103,464</u>	<u>\$ 914,414</u>	<u>\$ 7,322,392</u>

(continued)

**City of London**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Year Ended December 31, 2008  
(Continued)

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>				
Operating Income (Loss)	\$ 92,787	\$ 137,248	\$ 17,844	\$ 247,879
Adjustments:				
Depreciation	158,961	1,032,935	52,365	1,244,261
(Increase) Decrease in Assets:				
Accounts Receivable	19,133	30,022	(500)	48,655
Materials and Supplies Inventory	(1,084)	(1,024)	30,037	27,929
Prepaid Items	(209)	(3,518)	218	(3,509)
Increase (Decrease) in Liabilities:				
Accounts Payable	(364)	(18,568)	(1,735)	(20,667)
Accrued Wages	3,654	3,490	1,687	8,831
Compensated Absences Payable	22,275	7,292	(11,743)	17,824
Intergovernmental Payable	(10,475)	(3,530)	(4,798)	(18,803)
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 284,678</u>	<u>\$ 1,184,347</u>	<u>\$ 83,375</u>	<u>\$ 1,552,400</u>

**Noncash Capital Financing Activities:**

During 2008, the City received contributed capital in the form of building additions from developers in the amount of \$373,492 and assets from the Governmental Activities in the form of contributed capital in the amount of \$244,003

During 2008 Governmental Activities transferred a vehicle to the Water Fund with an acquisition cost of \$14,660. The asset was fully depreciated prior to the transfer.

See accompanying notes to the basic financial statements.

**City of London**  
*Statement of Fiduciary Assets and Liabilities*  
*Fiduciary Funds*  
*December 31, 2008*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 155,626</u>
<i>Total Assets</i>	<u><u>155,626</u></u>
<b>Liabilities</b>	
Undistributed Monies	<u>155,626</u>
<i>Total Liabilities</i>	<u><u>\$ 155,626</u></u>

See accompanying notes to the basic financial statements.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

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**NOTE 1: REPORTING ENTITY**

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

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

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the levying of taxes or the issuance of debt. The City has no component units.

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

**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, 2008**

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

**A. *Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

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

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

**B. *Fund Accounting***

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

***Governmental Funds*** - Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental fund types:

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

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

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

**Capital 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, 2008**

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**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, 2008**

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**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, 2008, but which were levied to finance fiscal year 2009 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 2008, 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, 2008.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund and other governmental funds during 2008 amounted to \$163,643 and \$3,601, respectively.



**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

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**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, 2008 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.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

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

***I. Capital Assets***

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

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

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

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

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

***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.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

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

***K. Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

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

***L. Accrued Liabilities and Long-Term Obligations***

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

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

***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.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

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

***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.

***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.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

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

***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.

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, 2008**

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**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	(439,451)	(17,248)
Revenue Accruals	(144,615)	68,178
Expenditure Accruals	(40,597)	(109,279)
Encumbrances	(33,501)	(198,911)
Budget Basis	(658,164)	(257,260)

**NOTE 4: ACCOUNTABILITY AND COMPLIANCE**

**A. *Accountability***

Fund balances at December 31, 2008 included the following individual fund deficits:

	Deficit
Police Pension	(43,012)
Fire Pension	(38,725)
Debt Service – N. End Sewer	(11,433)

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

**NOTE 5: DEPOSITS AND INVESTMENTS**

State statutes 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.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

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

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;
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.

**CITY OF LONDON, OHIO**  
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**NOTE 5: DEPOSITS AND INVESTMENTS (Continued)**

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

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 2008, 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 \$7,631,647. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2008, \$6,526,654 of the City's bank balance of \$7,752,657 was collateralized with securities held by pledging financial institutions trust department or agent, but not in the City's name and \$1,226,003 was covered by Federal Deposit Insurance Corporation.

**Investments**

As of December 31, 2008, the City had the following investment and maturity:

Investment Type	Fair Value	Investment Maturities (in Years)	
		<1	1-3
Federal National Mortgage Association	201,000	-	201,000
Repurchase Agreement	1,808,725	1,808,725	-
STAR Ohio	400,479	400,479	-
	<u>2,410,204</u>	<u>2,209,204</u>	<u>201,000</u>

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



**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 5: DEPOSITS AND INVESTMENTS (Continued)**

***Credit Risk*** The City's investments in US government agencies have a AAA credit rating from Standard & Poor's Corporation. The City's investment in STAROhio has a credit rating of AAAM. The City does not have a formal investment policy regarding exposure to credit risk.

***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>
Federal National Mortgage Association	8.34%
Repurchase Agreement	75.04%
STAR Ohio	16.62%

**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, 2008, and all unpaid interest, \$238,171 will be due and payable on January 1, 2011. The note is secured by the related property. The principal balance of 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. The balance on the note at December 31, 2008 is \$12,327.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**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 2008 for real and public utility property taxes represents collections of the 2007 taxes. Property tax payments received during 2008 for tangible personal property (other than public utility property) are for 2008 taxes.

2008 real property taxes are levied after October 1, 2008, on the assessed value as of January 1, 2008, the lien date. Assessed values are established by the State law at 35 percent of appraised market value. 2008 real property taxes are collected in and intended to finance 2009.

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. 2008 public utility property taxes which became a lien on December 31, 2007, are levied after October 1, 2008, and are collected in 2009 with real property taxes.

2008 tangible personal property taxes are levied after October 1, 2007, on the values as of December 31, 2007. Collections are made in 2008. 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 2008 was 6.25 percent and zero percent for 2009.

The full tax rate for all City operations for the year ended December 31, 2008, was \$5.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2008 property tax receipts were based are as follows:

Real Property	\$	168,367,370
Tangible Personal Property		11,422,810
Public Utility Property		<u>4,980,870</u>
Total	\$	<u><u>184,771,050</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.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 7: PROPERTY TAXES (Continued)**

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, 2008 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 2008 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.

**NOTE 9: RECEIVABLES**

Receivables at December 31, 2008 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.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE 10: CAPITAL ASSETS**

A summary of changes in governmental capital assets during 2008 follows:

	Balance 12/31/2007	Additions	Deletions	Balance 12/31/2008
<b>Governmental Activities:</b>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 404,379	\$ 101,219	\$ -	\$ 505,598
Construction in Progress	458,398	33,326	(458,398)	33,326
<i>Total Capital Assets Not Being Depreciated</i>	<u>862,777</u>	<u>134,545</u>	<u>(458,398)</u>	<u>538,924</u>
<i>Capital Assets, Being Depreciated:</i>				
Land Improvements	636,229	18,700	-	654,929
Buildings	731,259	268,568	-	999,827
Equipment and Machinery	862,288	22,500	(10,416)	874,372
Vehicles	1,970,932	176,046	(106,929)	2,040,049
Infrastructure	16,267,029	427,871	-	16,694,900
<i>Total Capital Assets, Being Depreciated</i>	<u>20,467,737</u>	<u>913,685</u>	<u>(117,345)</u>	<u>21,264,077</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(280,380)	(25,388)	-	(305,768)
Buildings	(380,964)	(27,934)	-	(408,898)
Equipment and Machinery	(470,891)	(84,932)	10,416	(545,407)
Vehicles	(1,457,055)	(109,917)	83,501	(1,483,471)
Infrastructure	(4,385,307)	(582,630)	-	(4,967,937)
<i>Total Accumulated Depreciation</i>	<u>(6,974,597)</u>	<u>(830,801)</u>	<u>93,917</u>	<u>(7,711,481)</u>
Total Capital Assets Being Depreciated, Net	<u>13,493,140</u>	<u>82,884</u>	<u>(23,428)</u>	<u>13,552,596</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 14,355,917</u>	<u>\$ 217,429</u>	<u>\$ (481,826)</u>	<u>\$ 14,091,520</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 88,346
Security of Persons and Property	91,152
Community and Economic Development	1,125
Transportation	606,555
Leisure Time Activities	43,623
	<u>\$ 830,801</u>

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

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

	Balance 12/31/2007	Additions	Deletions	Balance 12/31/2008
<b>Business-Type Activities:</b>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 275,926	\$ -	\$ -	\$ 275,926
Construction in progress	25,977,684	266,968	(25,970,650)	274,002
<i>Total Capital Assets Not Being Depreciated</i>	<u>26,253,610</u>	<u>266,968</u>	<u>(25,970,650)</u>	<u>549,928</u>
<i>Capital Assets, Being Depreciated:</i>				
Land Improvements	17,639	-	-	17,639
Buildings	1,339,926	3,722,828	(366,919)	4,695,835
Improvements Other Than Buildings	5,304,035	16,901,034	(2,707,392)	19,497,677
Equipment and Machinery	1,577,550	3,248,499	(652,748)	4,173,301
Vehicles	923,215	20,156	(57,894)	885,477
Water and Sewer Lines	9,168,097	8,083,765	(407,631)	16,844,231
<i>Total Capital Assets, Being Depreciated</i>	<u>18,330,462</u>	<u>31,976,282</u>	<u>(4,192,584)</u>	<u>46,114,160</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(9,805)	(882)	-	(10,687)
Buildings	(737,601)	(87,020)	366,919	(457,702)
Improvements Other Than Buildings	(3,231,505)	(587,914)	1,897,732	(1,921,687)
Equipment and Machinery	(1,241,798)	(237,010)	622,833	(855,975)
Vehicles	(501,120)	(100,996)	57,894	(544,222)
Water and Sewer Lines	(3,889,605)	(245,094)	407,631	(3,727,068)
<i>Total Accumulated Depreciation</i>	<u>(9,611,434)</u>	<u>(1,258,916)</u>	<u>3,353,009</u>	<u>(7,517,341)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>8,719,028</u>	<u>30,717,366</u>	<u>(839,575)</u>	<u>38,596,819</u>
<i>Total Business-Type Activities Capital Assets, Net</i>	<u>\$ 34,972,638</u>	<u>\$ 30,984,334</u>	<u>\$ (26,810,225)</u>	<u>\$ 39,146,747</u>

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

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**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 2008, the City was a member of the Ohio Government Risk Management Plan (the Plan), an unincorporated non-profit association of more than 500 public entities from all parts of Ohio joined together in the largest alternative insurance program in the state. Pursuant to Section 2744.081 of the Ohio Revised Code, the plan is deemed a separate legal entity. During 2008 the City had the following types of insurance:

<u>Coverage</u>	<u>Limit</u>
Real Property Legal Liability	\$ 1,000,000
Boiler and Machinery	\$ 10,000,000
Underground Pipes, Flues or Drains	\$ 1,000,000
Building and Property	\$ 31,038,847

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 Plan uses conventional insurance coverage and reinsures this coverage. Effective September 1, 2002, the Ohio Reinsurance Plan collects premium and shares in claims payments for liability (limited to 5% of a covered loss up to \$25,000) and property (limited to 5% of a covered loss up to \$50,000).

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.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 12: DEFINED BENEFIT PENSION PLANS (Continued)**

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report 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.

For the year ended December 31, 2008, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 10.0 percent of their annual covered salaries. The employer contribution rate for 2008 was 14.00 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, 2008, 2007 and 2006 were \$318,788, \$293,937 and \$262,640, respectively; 75 percent has been contributed for 2008 and 100 percent for 2007 and 2006.

***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 \$347,800 for the year ended December 31, 2008, \$310,468 for 2007 and \$260,501 for 2006; 87 percent has been contributed for 2008. The full amount has been contributed for 2007 and 2006.

**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. 45*. 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 2008 local government employer contribution rate was 14.0 percent of covered payroll; 7.0 percent of covered payroll was the portion that was used to fund health care for 2008.

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 13: POSTEMPLOYMENT BENEFITS (Continued)**

The City's actual contributions for 2008, 2007 and 2006, which were used to fund post employment benefits were \$157,577, \$116,693 and \$86,277, respectively. The actual contribution and the actuarially required contribution amounts are the same.

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. 45. 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 2008.

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

The City's actual contributions for 2008, 2007 and 2006 that were used to fund post employment benefits were \$109,035, \$97,332 and \$93,976 for police and firefighters, respectively.

**NOTE 14: COMPENSATED ABSENCES**

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



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

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, 2008, the accrued liability for unpaid compensated absences was \$444,083.

**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, 2008:

Year	Business-Type Activities
2009	\$ 25,568
2010	25,568
2011	25,568
2012	23,473
Total Minimum Lease Payments	100,177
Less Amount Representing Interest	(10,479)
Present Value of Minimum Lease Payments	\$ 89,698

**CITY OF LONDON, OHIO**  
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**NOTE 16: LONG-TERM OBLIGATIONS**

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<b>Governmental Activities</b>			
N. End Sewer Project Special Assessment Bonds - 1993	5.25%	\$ 127,000	December 1, 2013
East High Street OPWC Loan - 1993	0.00%	267,660	July 1, 2014
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
<b>Business-Type Activities</b>			
Sewer Improvements OWDA Loan - 1988	7.65%	5,157,855	January 1, 2013
Sewer Improvements OWDA Loan - 1988	7.86%	600,831	January 1, 2013
Water Improvements OWDA Loan - 2001	4.14%	1,610,687	July 1, 2021
Sewer Improvements OWDA Loan - 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 2008 were as follows:

	Amount Outstanding 12/31/2007	Additions	(Reductions)	Amount Outstanding 12/31/2008	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Special Assessment Bonds	\$ 42,000	\$ -	\$ (7,000)	\$ 35,000	\$ 7,000
OPWC Loan - 1993	93,681	-	(13,383)	80,298	13,383
OPWC Loan - 2006 Phase I	246,380	-	(13,688)	232,692	13,688
OPWC Loan - 2006 Phase II	543,450	-	(27,172)	516,278	27,172
General Obligation Bonds:					
Pool Improvement	60,000	-	(30,000)	30,000	30,000
Various Purpose	279,600	-	(25,400)	254,200	26,700
Fire Truck Acquisition	307,000	-	(72,000)	235,000	75,000
Capital Leases	1,180	-	(1,180)	-	0
Compensated Absences	266,198	50,472	(9,251)	307,419	39,920
Police and Fire Pension Payable	64,730	-	(1,882)	62,848	1,159
<b>Total Governmental Activities</b>	<b>\$ 1,904,219</b>	<b>\$ 50,472</b>	<b>\$ (200,956)</b>	<b>\$ 1,753,735</b>	<b>\$ 234,022</b>

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 16: LONG-TERM OBLIGATIONS (Continued)**

**Business-Type Activities:**

OWDA Loans:

Sewer Improvements 1988	\$ 1,889,280	\$ -	\$ (324,289)	\$ 1,564,991	\$ 349,097
Sewer Improvements 1988	222,873	-	(38,096)	184,777	41,090
Water Improvements 2001	1,223,457	-	(69,268)	1,154,189	72,166
Sewer Improvements 2005	1,499,163	-	(78,799)	1,420,364	79,589
Sewer Improvements 2006	<u>25,097,973</u>	<u>6,899,365</u>	<u>-</u>	<u>31,997,338</u>	<u>-</u>
Total OWDA Loans	29,932,746	6,899,365	(510,452)	36,321,659	541,942
Capital Lease	110,615	-	(20,917)	89,698	21,900
Compensated Absences	<u>118,840</u>	<u>29,412</u>	<u>(11,588)</u>	<u>136,664</u>	<u>27,943</u>
Total Business-Type Activities	<u>\$ 30,162,201</u>	<u>\$ 6,928,777</u>	<u>\$ (542,957)</u>	<u>\$ 36,548,021</u>	<u>\$ 591,785</u>

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, 2008, the City had drawn down \$31,997,338. 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, 2008 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 192,943	\$ 26,030
2010	167,243	20,043
2011	172,543	14,725
2012	92,143	9,160
2013	93,543	7,263
2014-2018	324,684	10,761
2019-2023	204,301	-
2024-2027	<u>136,068</u>	<u>-</u>
Total	<u>\$ 1,383,468</u>	<u>\$ 87,982</u>

**CITY OF LONDON, OHIO**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

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**NOTE 16: LONG-TERM OBLIGATIONS (Continued)**

The annual requirements to retire the business-type activities long-term obligations outstanding at December 31, 2008 are as follows:

Bus Act		
Year	Principal	Interest
2009	\$ 541,942	\$ 195,295
2010	575,694	161,543
2011	611,877	125,359
2012	650,714	86,522
2013	167,848	44,956
2014-2018	908,277	155,745
2019-2023	728,969	37,028
2024-2025	<u>139,000</u>	<u>1,392</u>
Total	<u>\$ 4,324,321</u>	<u>\$ 807,840</u>

**NOTE 17: INTERFUND TRANSFERS AND BALANCES**

Transfer To	Transfer From	
	General	Other Governmental
Other Governmental	\$ 529,829	\$ 4,832

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, 2008**

**NOTE 17: INTERFUND TRANSFERS AND BALANCES (Continued)**

As of December 31, 2008, 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, 2008.

**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, 2008, the City had the following contractual commitments due to the construction and repair of the City's waste water treatment facility.

Contractor	Balance 12/31/2008
Adams-Robinson	\$ 249,792
Monolithic Dome	85,000
	\$ 334,792

**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, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 18, 2009. 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 deficiencies described in the accompanying Schedule of Findings as items 2008-001 through 2008-004 to be significant deficiencies 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 as item 2008-001 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 18, 2009.

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

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



Kennedy Cottrell Richards LLC  
June 18, 2009

CITY OF LONDON, OHIO  
MADISON COUNTY

SCHEDULE OF FINDINGS

DECEMBER 31, 2008

2008-1 **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's office has strived to improve upon this finding. I think we can agree that the office has improved its oversight of the financial reporting. We will continue to improve and hopefully eliminate this finding in future audits.*



CITY OF LONDON, OHIO  
MADISON COUNTY

SCHEDULE OF FINDINGS

DECEMBER 31, 2008

**2008-2 Significant Deficiency – Utilities Revenue**

A sound internal control structure is one capable of providing management with assurance that transactions are processed accurately and completely. To achieve this desired assurance, the internal control structure must promote the timely and consistent application of internal control procedures and require that said procedures be adequately documented to evidence their application.

During review of the utilities revenue transaction cycle, we noted the following:

- There was no evidence of the review and agreement of the Consumption Report to the Trial Billing Journal to ensure accuracy of meter readings and amounts to be billed.
- There was no evidence of the review and agreement of cash received as documented on utility remittance advice stubs to actual cash received.
- There was no evidence of the daily reconciliation and balancing of the Utility Trash Bag sales to actual cash received
- There was no evidence of a supervisory review and approval of cash, consumption reports, cash receipts journals, account adjustment reports, or billing journals.

Without proper evidence of internal controls being performed, management is unable to ensure that controls have been implemented and are operating effectively. Misstatement of utility revenues, which totaled approximately \$4.4 million in 2008, could result. We recommend the City implement procedures documenting the performance of key internal control procedures. Such procedures could require the use of a monthly internal control checklist, which would not only provide adequate documentation, but would also promote the timely and consistent application of internal controls.

Official's Response

*This finding was discussed with the office manager. I am convinced that her office is providing appropriate controls. All work is being reviewed and checked by others. What is not being done is signing or initialing the documents reviewed. This will be corrected. The trash bag sales will be deposited according to the Ohio Revised Code and daily trash bag sales and cash received will be reconciled daily.*

CITY OF LONDON, OHIO  
MADISON COUNTY

SCHEDULE OF FINDINGS

DECEMBER 31, 2008

**2008-3 Significant Deficiency – Segregation of Duties**

Segregation of duties over significant accounting cycles should always be a key component of the internal control environment.

During review of the income tax receipt and payroll transaction cycles, we noted the following:

- Anyone on the income tax department staff may collect payments, review return discrepancies, create daily batch returns, and enter income tax return information into customer accounts. There is no segregation of these different functions. Additionally, there was no evidence of supervisory review or approval during the process. Income tax collections totaled approximately \$2.2 million in 2008.
- The Deputy Auditor responsible for processing payroll, prepares the payroll checks, reviews and processes the electronic payroll disbursements, disburses the payroll checks, controls the unclaimed checks, resolves any payroll inquiries, and edits the payroll master file. Additionally, there was no evidence of supervisory review or approval during the process. Payroll disbursements totaled approximately \$4.1 million in 2008.

Without proper segregation of duties over the above accounting cycles, the risk is increased of the misstatement of income tax receipts or payroll expenses in the City's financial statements. We recommend the City evaluate the procedures over the income tax receipt and payroll transaction cycles and implement adequate segregation of duties by separating some of the duties performed. Also, we recommend management implement procedures to document reviews over these transaction cycles.

Official's Response

*The finding on the tax department will be discussed with the tax director. The auditor's office will segregate the payroll duties and implement appropriate controls and review. All reviews will be signed or initialed.*

CITY OF LONDON, OHIO  
MADISON COUNTY

SCHEDULE OF FINDINGS

DECEMBER 31, 2008

**2008-4 Significant Deficiency – Monitoring Control System**

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls should assist management in assessing the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring controls should assist management in identifying unexpected results and/or possible misstatements. Some effective monitoring controls include:

- Regular review of monthly financial statements or reports;
- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
- Review of large or unusual transactions;
- Identification of unusual fluctuations;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non payroll transactions);

During our review of both the cash receipts and disbursements cycles, we were unable to obtain evidence that regular reviews by management were being performed. The lack of effective monitoring controls could lead to the misallocation or misstatement of funds, expenditure of funds contrary to the directives of the governing board, and errors or irregularities occurring in financial transactions affecting the bank reconciliations which go undetected. We recommend that management develop and implement monitoring controls over the relevant areas listed above.

Official's Response

*All documents are being reviewed and shared with city officials. However, we have not documented implementation. We will now sign or initial implementations.*

CITY OF LONDON, OHIO  
MADISON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS

DECEMBER 31, 2008

<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>
2007-1	Financial reporting	No	Not corrected. Reported as finding number 2008-1.



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  
JULY 28, 2009**