

CITY OF LONDON, OHIO

Basic Financial Statements

December 31, 2005

with

Independent Auditors' Report



**Auditor of State
Betty Montgomery**

Honorable Mayor and City Council
City of London
102 South Main Street
London, Ohio 43140

We have reviewed the *Independent Auditors' Report* of the City of London, Madison County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2005 through December 31, 2005. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 1, 2006

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CITY OF LONDON, OHIO

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Independent Auditors' 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 (the City) as of and for the year ended December 31, 2005, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the City has implemented new financial reporting standards as required by the provisions of GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Post-employment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
June 16, 2006

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(Unaudited)

The discussion and analysis of the City of London's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2005. 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 2005 are as follows:

- General revenues accounted for \$4,476,275 in revenue or 41 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$6,400,063 or 59 percent of total revenues of \$10,876,338.
- Total program expenses were \$8,291,982, \$5,110,925 in governmental activities and \$3,181,057 in business-type activities.
- In total, net assets increased \$2,584,356. Net assets of governmental activities increased \$1,690,944, which represents an 11 percent increase from 2004. Net assets of business-type activities increased \$893,412 or 14 percent from 2004.
- Outstanding debt increased from \$5,430,440 to \$7,407,994 through the issuance of new debt.

Using this Annual Financial Report

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

The Statement of Net Assets and the Statement of Changes in Net Assets provide information from a summary perspective showing the effects of the operations for the year 2005 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 projects–Garfield Ave. funds are the most significant governmental funds. The water, sewer and sanitation funds are the significant enterprise funds.

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(Unaudited)

A question typically asked about the City's finances "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the City of London's Most Significant Funds

Fund Financial Statements

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

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

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

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(Unaudited)

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

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

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

The City of London as a Whole

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

Table 1 provides a summary of the City's net assets for 2005 compared to 2004:

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	Restated 2004	2005	Restated 2004	2005	Restated 2004
Assets						
Current and Other Assets	\$ 6,301,286	\$ 5,852,298	\$ 3,712,064	\$ 2,824,000	\$ 10,013,350	\$ 8,676,298
Capital Assets	14,913,306	12,650,497	11,701,169	10,272,697	26,614,475	22,923,194
Total Assets	21,214,592	18,502,795	15,413,233	13,096,697	36,627,825	31,599,492
Liabilities						
Long-Term Liabilities	566,271	603,725	7,183,616	5,153,378	7,749,887	5,757,103
Other Liabilities	3,296,138	2,237,831	785,638	1,392,752	4,081,776	3,630,583
Total Liabilities	3,862,409	2,841,556	7,969,254	6,546,130	11,831,663	9,387,686
Net Assets						
Invested in Capital Assets Net of Debt	14,290,674	11,525,405	4,627,123	5,199,477	18,917,797	16,724,882
Restricted	2,455,081	2,780,874	0	0	2,455,081	2,780,874
Unrestricted	606,428	1,354,960	2,816,856	1,351,090	3,423,284	2,706,050
Total Net Assets	\$ 17,352,183	\$ 15,661,239	\$ 7,443,979	\$ 6,550,567	\$ 24,796,162	\$ 22,211,806

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(Unaudited)

Total assets increased by \$5,028,333 with governmental assets increasing \$2,711,797 and business-type assets increasing \$2,316,536. An increase of \$3,691,281 in total capital assets reflects new construction in progress and an increase in infrastructure. Total liabilities increased by \$2,443,977 with business-type activities increasing \$1,423,124. The majority of this increase was the result of loans proceeds from OWDA for the waste water project in business-type activities.

Total net assets increased by \$2,584,356. This number reflects an increase of \$1,690,944 in governmental activities and an increase of \$893,412 in the net assets of the business-type activities for 2005. Table 2 shows the changes in net assets for fiscal years 2005 and 2004.

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
<i>Program Revenues:</i>						
Charges for Services	\$ 382,141	\$ 230,882	\$ 4,037,892	\$ 3,444,289	\$ 4,420,033	\$ 3,675,171
Operating Grants	794,711	1,083,185	0	0	794,711	1,083,185
Capital Grants	1,185,319	593,708	0	1,003,443	1,185,319	1,597,151
<i>General Revenue:</i>						
Property Taxes	809,855	880,745	0	0	809,855	880,745
Income Taxes	2,970,107	2,919,528	0	0	2,970,107	2,919,528
Grants and Entitlements	509,803	1,013,461	0	0	509,803	1,013,461
Investment Earnings	132,870	57,050	14,682	3,250	147,552	60,300
Other	17,063	12,024	21,895	20,473	38,958	32,497
Total Revenues	6,801,869	6,790,583	4,074,469	4,471,455	10,876,338	11,262,038
Program Expenses						
General Government	1,056,127	921,755	0	0	1,056,127	921,755
Security of Persons and Property	2,317,546	2,332,414	0	0	2,317,546	2,332,414
Transportation	942,354	1,083,153	0	0	942,354	1,083,153
Public Health Services	3,985	1,632	0	0	3,985	1,632
Community and Economic Development	511,264	604,251	0	0	511,264	604,251
Leisure Time Activities	255,621	224,273	0	0	255,621	224,273
Interest and Fiscal Charges	24,028	54,544	0	0	24,028	54,544
<i>Enterprise Operations:</i>						
Water	0	0	1,238,779	1,129,422	1,238,779	1,129,422
Sewer	0	0	1,300,834	1,336,211	1,300,834	1,336,211
Sanitation	0	0	641,444	455,417	641,444	455,417
Total Program Expenses	5,110,925	5,222,022	3,181,057	2,921,050	8,291,982	8,143,072
Increase in Net Assets Before Transfers	1,690,944	1,568,561	893,412	1,550,405	2,584,356	3,118,966
Transfers and Contributions	0	2,980	0	(2,980)	0	0
Increase in Net Assets	\$ 1,690,944	\$ 1,571,541	\$ 893,412	\$ 1,547,425	\$ 2,584,356	\$ 3,118,966

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(Unaudited)

Governmental Activities

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

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

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

Police and fire represent the largest expense of the Governmental Activities. This expense of \$2,317,546 represents 45 percent of the total expenses. These two departments operate out of the general fund.

Business-Type Activities

Business-type activities include water, sewer and sanitation operations. The revenues are generated primarily from charges for services. In 2005, charges for services of \$4,037,892 accounted for 99 percent of the business-type revenues. The total expenses for business type activities were \$3,181,057. The City had an increase in net assets of \$893,412 for the business-type activities.

The City's Funds

Information about the City's governmental funds begins on page 12. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$6,421,287 and expenditures of \$7,413,431. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

Information about the proprietary funds starts on page 17. These funds are accounted for on an accrual basis. All business type funds had operating expenses of \$2,907,359 which were less than operating revenues of \$4,037,892, by \$1,130,533 or 28 percent of operating revenues.

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(Unaudited)

General Fund Budgeting Highlights

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

During the course of 2005, the City amended its general fund budget on various occasions. All recommendations for appropriation changes come to Council from the City Auditor. The Finance Committee of Council reviews them, and they make their recommendation to the Council as a whole.

For the general fund, budget basis revenue was \$3,304,593, over the original budget estimates of \$2,609,200. Of this \$695,393 excess, most was attributable to increased property tax and increased intergovernmental revenue.

Final appropriations of \$3,207,269 were \$68,930 higher than the \$3,138,339 in the original budget.

Capital Assets and Debt Administration

Capital Assets

At the end of year 2005, the City had \$26,614,475 invested in land, buildings, equipment, infrastructure and vehicles. A total of \$14,913,306 of this was for governmental activities with the remainder attributable to business-type activities. Table 3 shows fiscal year 2005 balances compared with 2004.

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

	Governmental Activities		Business-Type Activities		Total	
	2005	Restated 2004	2005	Restated 2004	2005	Restated 2004
Land	\$ 404,379	\$ 404,379	\$ 275,926	\$ 275,926	\$ 680,305	\$ 680,305
Land Improvements	360,238	327,539	0	0	360,238	327,539
Buildings	237,886	258,207	666,292	709,917	904,178	968,124
Improvements Other Than Buildings	0	0	2,436,951	2,619,602	2,436,951	2,619,602
Machinery and Equipment	1,001,786	271,064	623,871	702,603	1,625,657	973,667
Vehicles	152,004	165,204	236,896	173,961	388,900	339,165
Construction in Progress	2,121,328	839,596	3,552,683	1,750,888	5,674,011	2,590,484
Infrastructure	10,635,685	10,384,508	0	0	10,635,685	10,384,508
Water and Sewer Lines	0	0	3,908,550	4,039,800	3,908,550	4,039,800
Totals	\$ 14,913,306	\$ 12,650,497	\$ 11,701,169	\$ 10,272,697	\$ 26,614,475	\$ 22,923,194

The \$3,691,281 increase in capital assets was attributable to additional purchases exceeding depreciation expense. Note 11 provides capital asset activity during the 2005 year.

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(Unaudited)

Debt

The outstanding debt for the City of London as of December 31, 2005 was \$7,407,994 with \$421,942 due within one year. Table 4 summarizes outstanding debt.

(Table 4)
Outstanding Debt, at December 31

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	\$ 110,000	\$ 135,000	\$ 0	\$ 0	\$ 110,000	\$ 135,000
Special Assessment Bonds	55,000	61,000	0	0	55,000	61,000
OPWC Loan	120,447	133,830	0	0	120,447	133,830
OWDA Loans	0	0	7,056,403	5,033,550	7,056,403	5,033,550
Police and Fire Pension	66,144	67,060		0	66,144	67,060
<i>Total</i>	\$ 351,591	\$ 396,890	\$ 7,056,403	\$ 5,033,550	\$ 7,407,994	\$ 5,430,440

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

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

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

Current Financial Issues

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

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

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Jim Slagle, Auditor of City of London, Ohio, 102 South Main Street, London, OH 43140.

City of London
Statement of Net Assets
December 31, 2005

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 896,444	\$ 3,187,895	\$ 4,084,339
Cash and Cash Equivalents with Fiscal Agents	41,483	0	41,483
Investments	1,031,109	0	1,031,109
Taxes Receivable	1,968,467	0	1,968,467
Accounts Receivable	19,996	413,451	433,447
Intergovernmental Receivable	1,430,581	0	1,430,581
Special Assessments Receivable	98,434	4,233	102,667
Internal Balances	40,000	(40,000)	0
Prepaid Items	47,582	23,254	70,836
Materials and Supplies Inventory	39,256	16,662	55,918
Notes Receivable	687,934	0	687,934
Restricted Cash and Cash Equivalents	0	106,569	106,569
Non-Depreciable Capital Assets	2,525,707	3,828,609	6,354,316
Depreciable Capital Assets, net	12,387,599	7,872,560	20,260,159
<i>Total Assets</i>	<u>21,214,592</u>	<u>15,413,233</u>	<u>36,627,825</u>
Liabilities			
Accounts Payable	76,429	101,458	177,887
Accrued Wages	127,673	52,137	179,810
Contracts Payable	1,664,169	462,506	2,126,675
Intergovernmental Payable	228,794	62,688	291,482
Customer Deposits Payable	0	106,849	106,849
Accrued Interest Payable	6,898	0	6,898
Unearned Revenue	858,375	0	858,375
Notes Payable	333,800	0	333,800
Long-Term Liabilities:			
Due Within One Year	86,506	421,986	508,492
Due in More Than One Year	479,765	6,761,630	7,241,395
<i>Total Liabilities</i>	<u>3,862,409</u>	<u>7,969,254</u>	<u>11,831,663</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	14,290,674	4,627,123	18,917,797
Restricted for Debt Service	164,996	0	164,996
Restricted for Other Purposes	2,290,085	0	2,290,085
Unrestricted	606,428	2,816,856	3,423,284
<i>Total Net Assets</i>	<u>\$ 17,352,183</u>	<u>\$ 7,443,979</u>	<u>\$ 24,796,162</u>

See accompanying notes to the basic financial statements.

City of London
Statement of Activities
For the Year Ended December 31, 2005

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 1,056,127	\$ 60,564	\$ 0	\$ 5,000	\$ (990,563)	\$ 0	\$ (990,563)
Security of Persons and Property	2,317,546	31,699	116,950	0	(2,168,897)	0	(2,168,897)
Public Health Services	3,985	0	0	0	(3,985)	0	(3,985)
Leisure Time Activities	255,621	51,320	103,074	0	(101,227)	0	(101,227)
Community and Economic Development	511,264	128,250	0	1,180,172	797,158	0	797,158
Transportation	942,354	110,308	574,687	147	(257,212)	0	(257,212)
Interest and Fiscal Charges	24,028	0	0	0	(24,028)	0	(24,028)
<i>Total Governmental Activities</i>	<u>5,110,925</u>	<u>382,141</u>	<u>794,711</u>	<u>1,185,319</u>	<u>(2,748,754)</u>	<u>0</u>	<u>(2,748,754)</u>
Business-Type Activities:							
Water	1,238,779	1,202,727	0	0	0	(36,052)	(36,052)
Sewer	1,300,834	2,062,682	0	0	0	761,848	761,848
Sanitation	641,444	772,483	0	0	0	131,039	131,039
<i>Total Business-Type Activities</i>	<u>3,181,057</u>	<u>4,037,892</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>856,835</u>	<u>856,835</u>
<i>Total - Primary Government</i>	<u>\$ 8,291,982</u>	<u>\$ 4,420,033</u>	<u>\$ 794,711</u>	<u>\$ 1,185,319</u>	<u>(2,748,754)</u>	<u>856,835</u>	<u>(1,891,919)</u>
General Revenues:							
Property Taxes Levied for:							
General Purposes					504,994	0	504,994
Other Purposes					304,861	0	304,861
Income Taxes Levied for:							
General Purposes					2,295,869	0	2,295,869
Other Purposes					674,238	0	674,238
Grants and Entitlements not Restricted to Specific Programs					509,803	0	509,803
Investment Earnings					132,870	14,682	147,552
Miscellaneous					17,063	21,895	38,958
<i>Total General Revenues</i>					<u>4,439,698</u>	<u>36,577</u>	<u>4,476,275</u>
<i>Change in Net Assets</i>					1,690,944	893,412	2,584,356
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>					<u>15,661,239</u>	<u>6,550,567</u>	<u>22,211,806</u>
<i>Net Assets End of Year</i>					<u>\$ 17,352,183</u>	<u>\$ 7,443,979</u>	<u>\$ 24,796,162</u>

See accompanying notes to the basic financial statements.

City of London
Balance Sheet
Governmental Funds
December 31, 2005

	General	Capital Projects Garfield Ave.	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 21,364	\$ 18,592	\$ 856,488	\$ 896,444
Cash and Cash Equivalents in Segregated Accounts	0	0	41,483	41,483
Investments	1,031,109	0	0	1,031,109
Taxes Receivable	1,353,130	0	615,337	1,968,467
Accounts Receivable	19,871	0	125	19,996
Intergovernmental Receivable	135,569	785,855	509,157	1,430,581
Special Assessments Receivable	0	0	98,434	98,434
Prepaid Items	29,024	0	18,558	47,582
Materials and Supplies Inventory	1,581	0	37,675	39,256
Interfund Receivable	0	0	40,000	40,000
Notes Receivable	0	0	687,934	687,934
<i>Total Assets</i>	<u>\$ 2,591,648</u>	<u>\$ 804,447</u>	<u>\$ 2,905,191</u>	<u>\$ 6,301,286</u>
Liabilities				
Accounts Payable	23,107	18,426	34,896	76,429
Accrued Wages	102,577	0	25,096	127,673
Contracts Payable	0	1,615,763	48,406	1,664,169
Intergovernmental Payable	115,861	0	112,933	228,794
Accrued Interest Payable	0	0	6,255	6,255
Deferred Revenue	1,073,672	0	998,553	2,072,225
Notes Payable	0	0	333,800	333,800
<i>Total Liabilities</i>	<u>1,315,217</u>	<u>1,634,189</u>	<u>1,559,939</u>	<u>4,509,345</u>
Fund Balances				
Reserved for Encumbrances	9,854	0	99,663	109,517
Reserved for Materials and Supplies Inventory	1,581	0	37,675	39,256
Reserved for Prepaid Items	29,024	0	18,558	47,582
Reserved for Notes Receivable	0	0	687,934	687,934
Unreserved, Undesignated, Reported in:				
General Fund	1,235,972	0	0	1,235,972
Special Revenue Funds	0	0	741,185	741,185
Debt Service Funds	0	0	98,841	98,841
Capital Projects Funds	0	(829,742)	(338,604)	(1,168,346)
<i>Total Fund Balances</i>	<u>1,276,431</u>	<u>(829,742)</u>	<u>1,345,252</u>	<u>1,791,941</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 2,591,648</u>	<u>\$ 804,447</u>	<u>\$ 2,905,191</u>	<u>\$ 6,301,286</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, 2005*

Total Governmental Fund Balances \$ 1,791,941

*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. 14,913,306

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

Special Assessments	\$ 98,434
Intergovernmental	504,400
Income Taxes	307,654
Interest	39,031
Property Taxes	<u>264,331</u>

Total 1,213,850

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (643)

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

General Obligation Bonds	\$ (110,000)
Special Assessment Bonds	(55,000)
Loans Payable	(120,447)
Capital Leases	(3,385)
Compensated Absences	(211,295)
Police and Fire Pension Liability	<u>(66,144)</u>

Total (566,271)

Net Assets of Governmental Activities \$ 17,352,183

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, 2005

	General	Capital Projects - Garfield Ave.	All Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$ 472,524	\$ 0	\$ 284,306	\$ 756,830
Income Taxes	2,174,065	0	675,540	2,849,605
Special Assessments	0	0	38,486	38,486
Charges for Services	51,320	0	0	51,320
Licenses and Permits	50,443	0	96,150	146,593
Fines and Forfeitures	28,235	0	3,464	31,699
Intergovernmental	489,973	1,063,172	856,500	2,409,645
Interest	97,489	0	8,401	105,890
Rent	10,121	0	0	10,121
Contributions and Donations	0	0	8,074	8,074
Other	867	0	12,157	13,024
<i>Total Revenues</i>	<u>3,375,037</u>	<u>1,063,172</u>	<u>1,983,078</u>	<u>6,421,287</u>
Expenditures				
Current:				
General Government	814,221	0	220,218	1,034,439
Security of Persons and Property	1,744,432	0	490,817	2,235,249
Public Health Services	3,985	0	0	3,985
Leisure Time Activities	211,983	0	11,445	223,428
Community and Economic Development	1,660	0	507,566	509,226
Transportation	12,722	0	1,001,524	1,014,246
Capital Outlay	0	2,082,914	231,464	2,314,378
Debt Service:				
Principal Retirement	469	0	53,706	54,175
Debt Issuance Costs	0	0	3,857	3,857
Interest and Fiscal Charges	209	0	20,239	20,448
<i>Total Expenditures</i>	<u>2,789,681</u>	<u>2,082,914</u>	<u>2,540,836</u>	<u>7,413,431</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>585,356</u>	<u>(1,019,742)</u>	<u>(557,758)</u>	<u>(992,144)</u>
Other Financing Sources (Uses)				
Transfers In	0	190,000	289,832	479,832
Premium on Debt Issued	0	0	4,039	4,039
Transfers Out	(237,500)	0	(242,332)	(479,832)
<i>Total Other Financing Sources (Uses)</i>	<u>(237,500)</u>	<u>190,000</u>	<u>51,539</u>	<u>4,039</u>
<i>Net Change in Fund Balance</i>	347,856	(829,742)	(506,219)	(988,105)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	928,080	0	1,845,000	2,773,080
Increase in Reserve for Inventory	495	0	6,471	6,966
<i>Fund Balances (Deficit) End of Year</i>	<u>\$ 1,276,431</u>	<u>\$ (829,742)</u>	<u>\$ 1,345,252</u>	<u>\$ 1,791,941</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, 2005*

Net Change in Fund Balances - Total Governmental Funds \$ (988,105)

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

Governmental funds report capital outlays as expenditures.

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

Capital Asset Additions	\$ 2,868,749	
Current Year Depreciation	<u>(600,767)</u>	
 Total		 2,267,982

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.

(5,173)

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

Special Assessments	788	
Intergovernmental	177,182	
Income Taxes	120,503	
Interest	19,806	
Delinquent Property Taxes	<u>53,265</u>	
 Total		 371,544

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.

54,175

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

277

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	(16,722)	
Change in Inventory	<u>6,966</u>	
 Total		 <u>(9,756)</u>

Change in Net Assets of Governmental Activities \$ 1,690,944

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$ 50,000	\$ 436,000	\$ 472,524	\$ 36,524
Income Taxes	2,172,000	1,928,672	2,108,352	179,680
Charges for Services	43,000	43,000	51,320	8,320
Licenses and Permits	52,500	52,500	50,131	(2,369)
Fines and Forfeitures	25,000	25,000	28,414	3,414
Intergovernmental	227,000	261,400	501,466	240,066
Interest	30,000	30,000	81,305	51,305
Rent	9,000	9,000	10,121	1,121
Other	700	700	960	260
<i>Total Revenues</i>	<u>2,609,200</u>	<u>2,786,272</u>	<u>3,304,593</u>	<u>518,321</u>
Expenditures				
Current:				
General Government	864,000	905,644	810,557	95,087
Security of Persons and Property	1,738,774	1,807,660	1,707,931	99,729
Public Health Services	3,500	4,570	3,985	585
Leisure Time Activities	228,550	228,750	208,268	20,482
Community and Economic Development	3,015	3,015	1,652	1,363
Transportation	46,000	12,730	12,722	8
<i>Total Expenditures</i>	<u>2,883,839</u>	<u>2,962,369</u>	<u>2,745,115</u>	<u>217,254</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(274,639)</u>	<u>(176,097)</u>	<u>559,478</u>	<u>735,575</u>
Other Financing Sources (Uses)				
Transfers Out	(254,500)	(244,900)	(237,500)	7,400
<i>Total Other Financing Sources (Uses)</i>	<u>(254,500)</u>	<u>(244,900)</u>	<u>(237,500)</u>	<u>7,400</u>
<i>Net Change in Fund Balance</i>	(529,139)	(420,997)	321,978	742,975
<i>Fund Balance Beginning of Year</i>	684,461	684,461	684,461	0
Prior Year Encumbrances Appropriated	41,430	41,430	41,430	0
<i>Fund Balance End of Year</i>	<u>\$ 196,752</u>	<u>\$ 304,894</u>	<u>\$ 1,047,869</u>	<u>\$ 742,975</u>

See accompanying notes to the basic financial statements.

City of London
Statement of Fund Net Assets
Proprietary Funds
December 31, 2005

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
Assets				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$ 671,684	\$ 1,996,142	\$ 520,069	\$ 3,187,895
Accounts Receivable	174,709	235,179	3,563	413,451
Prepaid Items	11,725	7,490	4,039	23,254
Special Assessments Receivable	0	4,233	0	4,233
Materials and Supplies Inventory	11,959	4,703	0	16,662
<i>Total Current Assets</i>	<u>870,077</u>	<u>2,247,747</u>	<u>527,671</u>	<u>3,645,495</u>
<i>Non-Current Assets:</i>				
Restricted Cash and Cash Equivalents	106,569	0	0	106,569
Non-Depreciable Capital Assets	109,198	3,619,451	99,960	3,828,609
Depreciable Capital Assets, Net	3,388,571	4,254,477	229,512	7,872,560
<i>Total Non-Current Assets</i>	<u>3,604,338</u>	<u>7,873,928</u>	<u>329,472</u>	<u>11,807,738</u>
<i>Total Assets</i>	<u>4,474,415</u>	<u>10,121,675</u>	<u>857,143</u>	<u>15,453,233</u>
Liabilities				
<i>Current Liabilities</i>				
Accounts Payable	9,356	63,735	28,367	101,458
Accrued Wages	24,927	13,454	13,756	52,137
Contracts Payable	0	462,506	0	462,506
Intergovernmental Payable	30,303	14,979	17,406	62,688
Customer Deposits Payable	106,849	0	0	106,849
Interfund Payable	0	40,000	0	40,000
Compensated Absences Payable	13,278	5,263	9,402	27,943
Capital Lease Payable	0	0	17,643	17,643
OWDA Loans Payable	63,818	312,582	0	376,400
<i>Total Current Liabilities</i>	<u>248,531</u>	<u>912,519</u>	<u>86,574</u>	<u>1,247,624</u>
<i>Long-Term Liabilities</i>				
Compensated Absences Payable - net of current portion	51,845	20,106	9,676	81,627
OWDA Loans Payable - net of current portion	1,289,947	5,390,056	0	6,680,003
<i>Total Long-Term Liabilities</i>	<u>1,341,792</u>	<u>5,410,162</u>	<u>9,676</u>	<u>6,761,630</u>
<i>Total Liabilities</i>	<u>1,590,323</u>	<u>6,322,681</u>	<u>96,250</u>	<u>8,009,254</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,144,007	2,171,287	311,829	4,627,123
Unrestricted	740,085	1,627,707	449,064	2,816,856
<i>Total Net Assets</i>	<u>\$ 2,884,092</u>	<u>\$ 3,798,994</u>	<u>\$ 760,893</u>	<u>\$ 7,443,979</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, 2005

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
Operating Revenue				
Charges for Services	\$ 1,202,727	\$ 2,062,682	\$ 772,483	\$ 4,037,892
<i>Total Operating Revenues</i>	<u>1,202,727</u>	<u>2,062,682</u>	<u>772,483</u>	<u>4,037,892</u>
Operating Expenses				
Salaries and Wages	446,130	220,624	248,930	915,684
Fringe Benefits	165,378	71,799	78,272	315,449
Contractual Services	120,192	307,997	224,527	652,716
Materials and Supplies	250,299	224,410	50,470	525,179
Depreciation	198,755	261,734	37,628	498,117
Other	71	71	72	214
<i>Total Operating Expenses</i>	<u>1,180,825</u>	<u>1,086,635</u>	<u>639,899</u>	<u>2,907,359</u>
<i>Operating Income</i>	<u>21,902</u>	<u>976,047</u>	<u>132,584</u>	<u>1,130,533</u>
Non-Operating Revenues (Expenses)				
Interest	6,192	8,490	0	14,682
Other Non-Operating Revenues	0	0	21,895	21,895
Interest and Fiscal Charges	(57,954)	(214,199)	(1,545)	(273,698)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(51,762)</u>	<u>(205,709)</u>	<u>20,350</u>	<u>(237,121)</u>
<i>Income (Loss) Before Transfers</i>	<u>(29,860)</u>	<u>770,338</u>	<u>152,934</u>	<u>893,412</u>
Transfers In	132,000	0	0	132,000
Transfers Out	0	(66,000)	(66,000)	(132,000)
<i>Change in Net Assets</i>	<u>102,140</u>	<u>704,338</u>	<u>86,934</u>	<u>893,412</u>
<i>Net Assets Beginning of Year-Restated (See Note 3)</i>	<u>2,781,952</u>	<u>3,094,656</u>	<u>673,959</u>	<u>6,550,567</u>
<i>Net Assets End of Year</i>	<u>\$ 2,884,092</u>	<u>\$ 3,798,994</u>	<u>\$ 760,893</u>	<u>\$ 7,443,979</u>

See accompanying notes to the basic financial statements.

City of London
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
Increase in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash Received from Customers	\$ 1,174,925	\$ 2,027,636	\$ 799,647	\$ 4,002,208
Cash Payments to Suppliers for Goods and Services	(255,573)	(228,416)	(49,495)	(533,484)
Cash Payments to Employees	(606,294)	(281,760)	(337,551)	(1,225,605)
Cash Payments for Contractual Services	(121,735)	(895,138)	(222,906)	(1,239,779)
Other Operating Expenses	0	(81)	0	(81)
<i>Net Cash Provided by Operating Activities</i>	<u>191,323</u>	<u>622,241</u>	<u>189,695</u>	<u>1,003,259</u>
Cash Flows from Noncapital Financing Activities				
Other Non-Operating Receipts	1,768	525	21,895	24,188
Transfers In	132,000	0	0	132,000
Transfers Out	0	(66,000)	(66,000)	(132,000)
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>133,768</u>	<u>(65,475)</u>	<u>(44,105)</u>	<u>24,188</u>
Cash Flows from Capital and Related Financing Activities				
Proceeds from Loans	0	2,641,219	0	2,641,219
Acquisition of Capital Assets	0	(1,815,358)	(113,000)	(1,928,358)
Disposal of Capital Assets	0	0	0	0
Principal Payments on Debt	(61,256)	(557,110)	(22,027)	(640,393)
Interest Payments	(57,954)	(214,199)	(1,545)	(273,698)
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	<u>(119,210)</u>	<u>54,552</u>	<u>(136,572)</u>	<u>(201,230)</u>
Cash Flows from Investing Activities				
Interest	6,192	7,965	0	14,157
<i>Net Cash Provided by Investing Activities</i>	<u>6,192</u>	<u>7,965</u>	<u>0</u>	<u>14,157</u>
<i>Net Increase in Cash and Cash Equivalents</i>	212,073	619,283	9,018	840,374
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>566,180</u>	<u>1,376,859</u>	<u>511,051</u>	<u>2,454,090</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 778,253</u>	<u>\$ 1,996,142</u>	<u>\$ 520,069</u>	<u>\$ 3,294,464</u>

(continued)

City of London
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005
(Continued)

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income	\$ 21,902	\$ 976,047	\$ 132,584	\$ 1,130,533
Adjustments:				
Depreciation	198,755	261,734	37,628	498,117
(Increase) Decrease in Assets:				
Accounts Receivable	(32,191)	(35,046)	27,164	(40,073)
Materials and Supplies Inventory	(2,012)	(3,467)	0	(5,479)
Prepaid Items	(1,728)	(1,122)	794	(2,056)
Special Assessments Receivable	0	(81)	0	(81)
Increase (Decrease) in Liabilities:				
Accounts Payable	(3,006)	27,077	1,874	25,945
Accrued Wages	1,319	1,159	825	3,303
Contracts Payable	0	(613,564)	0	(613,564)
Compensated Absences Payable	16,965	16,629	(4,182)	29,412
Customer Deposits Payable	4,389	0	0	4,389
Intergovernmental Payable	(13,070)	(7,125)	(6,992)	(27,187)
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 191,323</u>	<u>\$ 622,241</u>	<u>\$ 189,695</u>	<u>\$ 1,003,259</u>

See accompanying notes to the basic financial statements.

City of London
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
December 31, 2005

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 127,662
Accounts Receivable	<u>7,033</u>
<i>Total Assets</i>	<u><u>134,695</u></u>
Liabilities	
Accounts Payable	\$ 3,884
Undistributed Monies	<u>130,811</u>
<i>Total Liabilities</i>	<u><u>\$ 134,695</u></u>

See accompanying notes to the basic financial statements.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1: REPORTING ENTITY

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and Interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The most significant of the City's accounting policies are described below.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

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, 2005

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 Projects – Garfield Avenue Capital Projects Fund – This fund is used to account for financial resources to be used for the Garfield Avenue project.

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

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

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

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

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

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

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's 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, 2005

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 8.) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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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, 2005, but which were levied to finance fiscal year 2006 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 2005, 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, 2005.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2005 amounted to \$97,489 which includes \$80,604 assigned from other City funds.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

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 6, Deposits and Investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the payment and an expenditure/expense is reported in the year in which services are consumed.

G. Materials and Supplies Inventory

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

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

Inventory consists of expendable supplies.

H. Restricted Assets

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

I. Capital Assets

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental columns of the statement of net assets except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

K. Compensated Absences

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Net Assets

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

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

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

N. Fund Balance Reserves

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

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Operating Revenues and Expenses

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

P. Interfund Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Q. Extraordinary and Special Items

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

R. Estimates

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

S. Budgetary Data

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLES, CORRECTION OF AN ERROR AND RESTATEMENT OF FUND BALANCE AND NET ASSETS

A. Change in Accounting Principle

For fiscal year 2005, the City implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement modifies and expands disclosure requirements for deposits and investments. These additional disclosures can be found in Note 6.

The City also adopted GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Post-employment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*. This technical bulletin requires governments to recognize pension expenditures/expenses in the period to which a payment relates even if the payment is not due until the next fiscal period.

B. Correction of an Error and Change in Estimate

Income tax revenue and capital assets were misstated as of December 31, 2004. Income tax revenue was understated in the general fund and other governmental funds. Capital assets were overstated in the governmental activities and the water, sewer and sanitation major proprietary funds and business-type activities. Also, the City changed the estimated useful lives of the City's assets.

The effect of the change in accounting principle and correction of an error on fund balance is as follows:

	General	All Other Governmental Funds	Total
Fund Balance, December 31, 2004	\$ 796,378	\$ 1,859,741	\$ 2,656,119
Implementation of GASB TB 2004-02	-	(83,163)	(83,163)
Correction of Income Tax Revenue	131,702	68,422	200,124
Adjusted Fund Balance, December 31, 2004	<u>\$ 928,080</u>	<u>\$ 1,845,000</u>	<u>\$ 2,773,080</u>

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLES, CORRECTION OF AN ERROR AND RESTATEMENT OF FUND BALANCE AND NET ASSETS (Continued)

The effect of the correction of an error and change in accounting estimate had the following effect on the governmental activities and business-type activities net assets:

Governmental Activities Net Assets, December 31, 2004	\$ 16,508,463
Correction of Capital Assets	(864,038)
Change in Estimate	16,814
Adjusted Net Assets, December 31, 2004	<u>\$ 15,661,239</u>

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total Business- Type Activities</u>
Proprietary Net Assets, December 31, 2004	\$ 2,817,985	\$ 5,435,662	\$ 643,599	\$ 8,897,246
Correction of Capital Assets	974,740	(799,678)	51,029	226,091
Change in Estimate	(1,010,773)	(1,541,328)	(20,669)	(2,572,770)
Adjusted Net Assets, December 31, 2004	<u>\$ 2,781,952</u>	<u>\$ 3,094,656</u>	<u>\$ 673,959</u>	<u>\$ 6,550,567</u>

NOTE 4: BUDGETARY BASIS OF ACCOUNTING

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

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

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 4: 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
GAAP Basis	\$ 347,856
Revenue accruals	(70,444)
Expenditure accruals	57,999
Encumbrances	(13,433)
Budget Basis	\$ 321,978

NOTE 5: ACCOUNTABILITY AND COMPLIANCE

A. Accountability

Fund balances at December 31, 2005 included the following individual fund deficits:

	Deficit
Capital Projects – Garfield Ave.	\$ (829,742)
Non-major funds:	
Police Pension	(31,240)
Fire Pension	(24,101)
Co-Insurance Fund	(880)
Capital Projects – Keny	(338,645)

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.

B. Compliance

The City had original appropriations in excess of estimated resources in the Shade Tree Assessment, State Drug Penalty, County Mandatory Drug Fine, Permissive, Economic Development, Co-Insurance, and Capital Improvement special revenue funds, Garfield Improvement capital project fund; Water Capacity, Sewer R-I and Sewer Capacity proprietary funds.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 6: DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and any other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

6. The State Treasurer's investment pool (STAROhio).
7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in any amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

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

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the City's name. During 2005, 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 \$1,589,182. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2005, \$1,718,218 of the City's bank balance of \$1,834,218 was collateralized with securities held by pledging financial institutions trust department or agent, but not in the City's name, while \$116,000 was covered by Federal Deposit Insurance Corporation.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

Investments

As of December 31, 2005, the City had the following investment and maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Months)</u>			
		<u>0-3</u>	<u>4-6</u>	<u>7-9</u>	<u>10-12</u>
Money Market	\$ 13,002	\$ 13,002	\$ 0	\$ 0	\$ 0
Federal Home Loan Mtg	691,654	249,903	298,110	143,641	0
Federal Home Loan Bank	143,641	0	0	0	143,641
Federal National Mtg Assoc.	166,813	0	0	166,813	0
STAROhio	401,369	401,369	0	0	0
Repurchase Agreement	2,385,501	2,385,501	0	0	0
	<u>\$ 3,801,980</u>	<u>\$ 3,049,775</u>	<u>\$ 298,110</u>	<u>\$ 310,454</u>	<u>\$ 143,641</u>

Interest Rate Risk The City has no investment policy other than the previously noted state requirements.

Credit Risk The City's investments in US government agencies have a AAA credit rating from Standard & Poor's Corporation. The City's investments in the money market and STAROhio have a credit rating of AAA and AAAM, respectively. The City's investment in a repurchase agreement is exposed to credit risk due to the underlying securities are held by the investment's counter party or its trust department or agent, not in the City's name.

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 Home Loan Mtg.	18.00%
STAROhio	11.00%
Repurchase Agreement	<u>63.00%</u>
	<u>92.00%</u>

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 7: NOTES RECEIVABLE

On August 2, 1994, the City received a \$500,000 promissory note from London Limited Partnership (the Partnership), an Ohio limited partnership formed to construct low income housing with Federal Financial Assistance granted to the City of London as well as funds, which the Partnership borrowed from a private lender. The note receivable began to accrue interest at a rate of 3 percent per annum on December 1, 1995 when the Partnership reached the permanent loan closing with the private lender who financed the remainder of the project. Interest will be deferred and will be due and payable only after payment of all the Partnership's operating expenses and all sums due to the private lender. The entire principal balance, \$500,000 at December 31, 2005, and all unpaid interest, \$175,088 will be due and payable on January 1, 2011. The note is secured by the related property. The note receivable is equally offset by a reservation of fund balance.

In January 2003, the City loaned \$15,000 to Old Londontown Ltd, an Ohio Limited Liability Company formed to purchase, rehabilitate, hold, rent, or lease historic real estate for historic preservation. Proceeds from the note will be used to revitalize buildings in the City of London downtown area. The note's interest rate is 4.25 percent. The note is secured by a mortgage held by the City against the property at 105 South Main Street, London, Ohio. During 2005, the City received \$725 of principal payments and \$516 of interest payments. The balance on the note at December 31, 2005 is \$12,846. The note receivable is equally offset by a reservation of fund balance.

NOTE 8: PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2005 for real and public utility property taxes represents collections of the 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for 2005 taxes.

2005 real property taxes are levied after October 1, 2005, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by the State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2005.

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. 2005 public utility property taxes which became a lien on December 31, 2004, are levied after October 1, 2005, and are collected in 2005 with real property taxes.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 8: PROPERTY TAXES (Continued)

2005 tangible personal property taxes are levied after October 1, 2004, on the values as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for inventory.

The full tax rate for all City operations for the year ended December 31, 2005, was \$5.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

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

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

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

The County Treasurer collects property tax on behalf of all taxing districts in the County, including the City of London. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real and tangible personal property, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2005 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 2005 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

NOTE 9: INCOME TAXES

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

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

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 10: RECEIVABLES

Receivables at December 31, 2005 consisted of taxes, accounts (billed and unbilled user charged services), special assessments, notes, and intergovernmental receivables arising from grants, entitlements and shared revenues. Taxes, accounts, special assessments, notes and intergovernmental receivables are deemed collectible in full.

NOTE 11: CAPITAL ASSETS

A summary of changes in governmental capital assets during 2005 follows:

	Restated Balance 12/31/04	Additions	Deletions	Balance 12/31/2005
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 404,379	\$ 0	\$ 0	\$ 404,379
Construction in Progress	839,596	1,987,346	(705,614)	2,121,328
<i>Total Capital Assets Not Being Depreciated</i>	1,243,975	1,987,346	(705,614)	2,525,707
<i>Capital Assets, Being Depreciated:</i>				
Land Improvements	538,046	55,112	0	593,158
Buildings	607,807	0	0	607,807
Equipment and Machinery	587,727	785,675	0	1,373,402
Vehicles	1,451,540	31,920	(25,596)	1,457,864
Infrastructure	13,290,166	714,310	0	14,004,476
<i>Total Capital Assets, Being Depreciated</i>	16,475,286	1,587,017	(25,596)	18,036,707
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(210,507)	(22,413)	0	(232,920)
Buildings	(349,600)	(20,321)	0	(369,921)
Equipment and Machinery	(316,663)	(54,953)	0	(371,616)
Vehicles	(1,286,336)	(39,947)	20,423	(1,305,860)
Infrastructure	(2,905,658)	(463,133)	0	(3,368,791)
<i>Total Accumulated Depreciation</i>	(5,068,764)	(600,767)	20,423	(5,649,108)
Total Capital Assets Being Depreciated, Net	11,406,522	986,250	(5,173)	12,387,599
Total Governmental Activities Capital Assets, Net	\$ 12,650,497	\$ 2,973,596	\$ (710,787)	\$ 14,913,306

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 18,175
Security of Persons and Property	75,393
Leisure Time Activities	29,518
Transportation	477,681
	\$ 600,767

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 11: CAPITAL ASSETS (Continued)

	Restated Balance 12/31/2004	Additions	Deletions	Balance 12/31/2005
Business-Type Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 275,926	\$ 0	\$ 0	\$ 275,926
Construction in progress	1,750,888	1,801,795	0	3,552,683
<i>Total Capital Assets Not Being Depreciated</i>	<u>2,026,814</u>	<u>1,801,795</u>	<u>0</u>	<u>3,828,609</u>
<i>Capital Assets, Being Depreciated:</i>				
Buildings	1,352,576	0	0	1,352,576
Improvements Other Than Buildings	5,378,713	0	0	5,378,713
Equipment and Machinery	2,161,410	13,563	(14,131)	2,160,842
Vehicles	484,520	113,000	0	597,520
Water and Sewer Lines	7,506,968	0	0	7,506,968
<i>Total Capital Assets, Being Depreciated</i>	<u>16,884,187</u>	<u>126,563</u>	<u>(14,131)</u>	<u>16,996,619</u>
<i>Less Accumulated Depreciation:</i>				
Buildings	(642,659)	(43,625)	0	(686,284)
Improvements Other Than Buildings	(2,759,111)	(182,650)	0	(2,941,761)
Equipment and Machinery	(1,458,807)	(90,527)	12,363	(1,536,971)
Vehicles	(310,559)	(50,065)	0	(360,624)
Water and Sewer Lines	(3,467,169)	(131,250)	0	(3,598,419)
<i>Total Accumulated Depreciation</i>	<u>(8,638,305)</u>	<u>(498,117)</u>	<u>12,363</u>	<u>(9,124,059)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>8,245,882</u>	<u>(371,554)</u>	<u>(1,768)</u>	<u>7,872,560</u>
<i>Total Business-Type Activities Capital Assets, Net</i>	<u>\$ 10,272,696</u>	<u>\$ 1,430,241</u>	<u>\$ (1,768)</u>	<u>\$ 11,701,169</u>

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 12: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2005, the City contracted with several companies for various types of commercial insurance as follows:

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

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

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs to provide coverage to employees for job related injuries.

NOTE 13: DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 13: DEFINED BENEFIT PENSION PLANS (Continued)

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The employer contribution rate for pension benefits for 2005 was 9.55 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, 2005, 2004 and 2003 were \$172,483, \$178,129 and \$151,127, respectively; 92 percent has been contributed for 2005 and 100 percent for 2004 and 2003.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer public employee deferred benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary, while the City is required to contribute 19.5 percent for police officers and 24 percent for firefighters. The City's contributions to OP&F for police and firefighters were \$76,579 and \$74,927 for the year ended December 31, 2005, \$74,243 and \$76,961 for 2004, \$70,387 and \$73,556 for 2003; 72.9 percent and 71.8 percent, respectively, has been contributed for 2005. The full amount has been contributed for 2004 and 2003.

NOTE 14: POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System of Ohio (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 14: POSTEMPLOYMENT BENEFITS (Continued)

Benefits are advanced-funded using the age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent and 6 percent annually for the next eight years and 4 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109. The City's actual contributions for 2005 which were used to fund postemployment benefits were \$72,244. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2005, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 14: POSTEMPLOYMENT BENEFITS (Continued)

deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment benefits were \$50,509 for police and \$35,735 for firefighters. The OP&F's total health care expenses for the year ended December 31, 2004 (the latest information available) were \$102,173,796 which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004 was 13,812 for police and 10,528 for firefighters.

NOTE 15: COMPENSATED ABSENCES

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

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

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

As of December 31, 2005, the accrued liability for unpaid compensated absences was \$320,865.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 16: CAPITALIZED LEASES – LESSEE DISCLOSURE

In 2004, the City entered into a capitalized lease for a fax machine. In 2001, the City entered into capitalized leases for the acquisition of mowers and a garbage truck. All leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The assets acquired by the leases have been capitalized in the governmental activities and business-type activities in the amounts of \$142,044 and \$103,414, respectively, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability is recorded and is reduced for each required principal payment.

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, 2005:

<u>Year</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
2006	\$ 1,356	\$ 18,025	\$ 19,381
2007	1,356	0	1,356
2008	1,243	0	1,243
Total Minimum Lease Payments	3,955	18,025	21,980
Less: Amount Representing Interest	(570)	(382)	(952)
Present Value of Net Minimum Lease Payments	<u>\$ 3,385</u>	<u>\$ 17,643</u>	<u>\$ 21,028</u>

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 17: LONG-TERM OBLIGATIONS

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
Governmental Activities			
N. End Sewer Project Special Assessment Bonds - 1993	5.25%	\$ 127,000	December 1, 2013
East High Street OPWC Loan - 1993	0.00%	267,660	July 1, 2014
Pool Improvement General Obligation Bonds - 1994	5.80%	310,000	June 1, 2019
Business-Type Activities			
Sewer Improvements OWDA Loan - 1976	5.50%	414,779	July 1, 2005
Sewer Improvements OWDA Loan - 1988	7.65%	5,157,855	January 1, 2013
Sewer Improvements OWDA Loan - 1988	7.86%	600,831	January 1, 2013
Water Improvements OWDA Loan - 2001	4.14%	1,610,687	July 1, 2021
Sewer Improvements OWDA Loan - 2004	1.00%	1,553,591	July 1, 2010
Sewer Improvements OWDA Loan - 2005	1.00%	1,711,877	January 1, 2025

Changes in the long-term obligations of the City during 2005 were as follows:

	Amount Outstanding 12/31/04	Additions	(Reductions)	Amount Outstanding 12/31/05	Amounts Due Within One Year
Governmental Activities:					
Special Assessment Bonds	\$ 61,000	\$ 0	\$ (6,000)	\$ 55,000	\$ 6,000
OPWC Loan	133,830	0	(13,383)	120,447	13,383
General Obligation Bonds	135,000	0	(25,000)	110,000	25,000
Capital Leases	12,262	0	(8,877)	3,385	1,044
Compensated Absences	194,573	50,710	(33,988)	211,295	39,920
Police and Fire Pension Payable	67,060	0	(916)	66,144	1,159
Total Governmental Activities	<u>\$ 603,725</u>	<u>\$ 50,710</u>	<u>\$ (88,164)</u>	<u>\$ 566,271</u>	<u>\$ 86,506</u>
Business-Type Activities:					
OWDA Loans:					
Sewer Improvements	\$ 13,682	\$ 0	\$ (13,682)	\$ 0	\$ 0
Sewer Improvements	2,730,310	0	(259,950)	2,470,360	279,836
Sewer Improvements	321,299	0	(30,360)	290,939	32,746
Water Improvements	1,415,018	0	(61,256)	1,353,762	63,818
Sewer Improvements	253,118	0	(253,118)	0	0
Sewer Improvements	300,123	1,221,493	0	1,521,616	0
Sewer Improvements	0	1,419,726	0	1,419,726	0
Total OWDA Loans	<u>5,033,550</u>	<u>2,641,219</u>	<u>(618,366)</u>	<u>7,056,403</u>	<u>376,400</u>
Capital Lease	39,670	0	(22,027)	17,643	17,643
Compensated Absences	80,158	29,412	0	109,570	27,943
Total Business-Type Activities	<u>\$ 5,153,378</u>	<u>\$ 2,670,631</u>	<u>\$ (640,393)</u>	<u>\$ 7,183,616</u>	<u>\$ 421,986</u>

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 17: LONG-TERM OBLIGATIONS (Continued)

The Ohio Public Works Commission (OPWC) loan and the Pool Improvement Bonds will be paid from debt service funds with funds transferred from the Capital Improvement Fund. The special assessment bond will be paid from the proceeds of special assessments levied against benefited property owners. The Ohio Water Development Authority (OWDA) loans will be paid from charges for services revenue in the water, sewer and sanitation funds. Compensated absences reported in the “compensated absences payable” account and pension contributed reported in the “intergovernmental payable” account will both be paid from general operating revenues of the fund from which the employees’ salaries are paid. Capital leases are paid from revenues of the general fund. The police and fire pension liability will be paid from taxes received in the police and fire pension special revenue fund.

In 1976 through 1988 the City entered into agreements with the Ohio Water Development Authority (OWDA) for several sewer upgrade projects. The total amount authorized for these loans were \$6,173,465, and as of December 31, 2005 the City had drawn down the entire amount.

In 2001 the City was awarded a loan from the OWDA in the amount of \$1,610,687. The proceeds of this loan were used for a water plant expansion project. The loan is fully drawn down.

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. As of December 31, 2005, the City had drawn down \$1,521,616. 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.

In 2005 the City was awarded a new loan from the OWDA in the amount of \$1,711,877. The proceeds of this loan are being used for the Northeast Interceptor Project. As of December 31, 2005 the City had drawn down \$1,419,726. 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 City’s overall legal debt margin was \$16,689,535 at December 31, 2005.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 17: LONG-TERM OBLIGATIONS (Continued)

The annual requirements to retire the governmental activities long-term obligations outstanding at December 31, 2005 are as follows:

Year	Police and Fire Pension		General Obligation Bonds		Special Assessment Bonds		OPWC Loan	Total	
	Principal	Interest	Principal	Interest	Principal	Interest		Principal	Interest
2006	\$ 1,159	\$ 2,799	\$ 25,000	\$ 5,655	\$ 6,000	\$ 2,888	\$ 13,383	\$ 45,542	\$ 11,342
2007	1,209	2,749	25,000	4,205	7,000	2,572	13,383	46,592	9,526
2008	1,261	2,897	30,000	2,610	7,000	2,206	13,383	51,644	7,713
2009	1,315	2,643	30,000	870	7,000	1,838	13,383	51,698	5,351
2010	1,371	2,587	0	0	7,000	1,470	13,383	21,754	4,057
2011-2015	7,793	11,995	0	0	21,000	2,206	53,532	82,325	14,201
2016-2020	9,617	10,174	0	0	0	0	0	9,617	10,174
2021-2025	11,867	7,923	0	0	0	0	0	11,867	7,923
2026-2030	14,644	5,146	0	0	0	0	0	14,644	5,146
2031-2035	15,908	1,626	0	0	0	0	0	15,908	1,626
Total	\$ 66,144	\$ 50,539	\$ 110,000	\$ 13,340	\$ 55,000	\$ 13,180	\$ 120,447	\$ 351,591	\$ 77,059

The annual requirements to retire the business-type activities long-term obligations outstanding at December 31, 2005 are as follows:

Year	OWDA Loans	
	Principal	Interest
2006	\$ 376,400	\$ 267,242
2007	403,051	240,593
2008	431,652	211,990
2009	462,352	181,290
2010	495,306	148,336
2011-2015	1,365,268	279,648
2016-2020	522,634	73,416
2021-2025	58,398	1,209
Total	\$ 4,115,061	\$ 1,403,724

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 18: SHORT TERM NOTE PAYABLE

The following is a summary of bond anticipation note obligations for the year ended December 31, 2005:

	Balance 12/31/04	Principal Issued	Principal Retired	Balance 12/31/05
Bond Anticipation Note, 2.5%	\$ 783,800	\$ 0	\$ 783,800	\$ 0
Bond Anticipation Note, 4.5%	0	333,800	0	333,800
Total	\$ 783,800	\$ 333,800	\$ 783,800	\$ 333,800

These bond anticipation notes were issued to repair and replace East High Street plus two other items. All of the notes are backed by the full faith and credit of the City of London and mature within one year. The note liability is reflected in the fund which receives the proceeds.

NOTE 19: INTERFUND TRANSFERS AND BALANCES

<u>Transfer To</u>	<u>Transfer From</u>				
	General	Other Governmental	Sewer	Sanitation	Total
Capital Projects Garfield	\$ 0	\$ 190,000	\$ 0	\$ 0	\$ 190,000
Other Governmental	237,500	52,332	0	0	289,832
Water	0	0	66,000	66,000	132,000
Total	\$ 237,500	\$ 242,332	\$ 66,000	\$ 66,000	\$ 611,832

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, 2005

NOTE 19: INTERFUND TRANSFERS AND BALANCES (Continued)

As of December 31, 2005, 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 20: 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, 2005.

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.



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

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
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, Ohio, as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 16, 2006, in which we noted the City adopted GASB Statement No. 40 and GASB Technical Bulletin 2004-2. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements cause by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 noted certain matters that we reported to management of the City, in a separate letter dated June 16, 2006.

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
June 16, 2006

SCHEDULE OF FINDINGS

CITY OF LONDON, OHIO
DECEMBER 31, 2005

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

None

SCHEDULE OF PRIOR AUDIT FINDINGS

CITY OF LONDON, OHIO
DECEMBER 31, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2004-001	Compliance with fifteen day rule	Yes	N/A
2004-002	Compliance with Ohio Rev. Code 5705.39	No	Partially corrected.



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

CITY OF LONDON

MADISON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 15, 2006**