



Mary Taylor, CPA
Auditor of State

**CITY OF LONDON
UNION COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of London, Madison County, Ohio (the City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of London, Madison County, Ohio, as of December 31, 2009, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

October 1, 2010

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(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, 2009. 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 2009 are as follows:

- Governmental activities general revenues accounted for \$4.4 million in revenue or 62 percent of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$1.1 million or 15 percent of total revenues of \$7.1 million. Special item accounted for \$1.6 million or 23 percent of total revenue.
- Total program expenses were \$11.4 million, \$6.3 million in governmental activities and \$5.1 million in business-type activities.
- In total, net assets increased \$845,406. Net assets of governmental activities increased \$721,107, which represents a 4 percent increase from 2008. Net assets of business-type activities increased \$124,299 or 1 percent from 2008.
- Outstanding debt decreased from \$37.8 million to \$36.2 million as a result of the City beginning to make payments on debt issued in prior years for the construction of the water and sewer treatment plant.

Using this Annual Financial Report

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

The Statement of Net Assets and the Statement of Activities provide information from a summary perspective showing the effects of the operations for the year 2009 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 fund is the most significant governmental fund. 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, 2009
(Unaudited)

A question typically asked about the City's finances "How did we do financially during fiscal year 2009?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the City of London's Most Significant Funds

Fund Financial Statements

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

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund which is considered to be a major fund. 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, 2009
(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 2009 compared to 2008:

(Table 1)
Net Assets

	2009			2008 (Restated)		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Assets:						
Current and Other Assets	\$ 6,228,870	6,435,179	12,664,049	6,283,824	7,774,337	14,058,161
Capital Assets	<u>15,616,496</u>	<u>39,521,262</u>	<u>55,137,758</u>	<u>14,680,222</u>	<u>40,052,645</u>	<u>54,732,867</u>
Total Assets	<u>21,845,366</u>	<u>45,956,441</u>	<u>67,801,807</u>	<u>20,964,046</u>	<u>47,826,982</u>	<u>68,791,028</u>
Liabilities:						
Current and Other Liabilities	1,964,301	353,879	2,318,180	1,648,266	947,425	2,595,691
Long-term Liabilities	<u>1,597,913</u>	<u>35,146,727</u>	<u>36,744,640</u>	<u>1,753,735</u>	<u>36,548,021</u>	<u>38,301,756</u>
Total Liabilities	<u>3,562,214</u>	<u>35,500,606</u>	<u>39,062,820</u>	<u>3,402,001</u>	<u>37,495,446</u>	<u>40,897,447</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	14,425,971	4,516,943	18,942,914	13,296,754	5,391,056	18,687,810
Restricted	1,393,997	-	1,393,997	1,581,660	-	1,581,660
Unrestricted	<u>2,463,184</u>	<u>5,938,892</u>	<u>8,402,076</u>	<u>2,683,631</u>	<u>4,940,480</u>	<u>7,624,111</u>
Total Net Assets	<u>\$ 18,283,152</u>	<u>10,455,835</u>	<u>28,738,987</u>	<u>17,562,045</u>	<u>10,331,536</u>	<u>27,893,581</u>

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)

Total assets decreased by \$989,221 with governmental activities assets increasing \$881,320 and business-type assets decreasing \$1.9 million. An increase of \$404,891 in total capital assets reflects an increase in infrastructure. Total liabilities decreased by \$1.8 million with business-type activities decreasing \$2.0 million. The majority of this decrease was the result of payments on loans from OWDA for the waste water project in business-type activities.

Total net assets increased by \$1,254,772. This number reflects an increase of \$721,107 in governmental activities and an increase of \$124,299 in the net assets of the business-type activities for 2009. Table 2 shows the changes in net assets for fiscal years 2009 and 2008.

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2009	Restated 2008	2009	Restated 2008	2009	Restated 2008
REVENUES:						
Program Revenues:						
Charges for Services	\$ 393,769	464,429	4,556,952	4,379,710	4,950,721	4,844,139
Operating Grants and Contributions	664,934	927,314	-	-	664,934	927,314
Capital Grants and Contributions	5,000	631,566	426,630	870,024	431,630	1,501,590
General Revenues:						
Property Taxes	735,803	1,181,432	-	-	735,803	1,181,432
Payment in Lieu of Taxes	221,832	-	-	-	221,832	-
Income Taxes	2,891,613	3,145,486	-	-	2,891,613	3,145,486
Grants and Contributions not Restricted	388,476	449,616	-	-	388,476	449,616
Investment Income	38,906	167,244	50,273	17,897	89,179	185,141
Other Revenue	90,475	70,788	123,520	115,619	213,995	186,407
Total Revenue	<u>5,430,808</u>	<u>7,037,875</u>	<u>5,157,375</u>	<u>5,383,250</u>	<u>10,588,183</u>	<u>12,421,125</u>
EXPENSES:						
General Government	1,340,244	1,346,407	-	-	1,340,244	1,346,407
Security of Persons and Property	3,152,085	3,400,262	-	-	3,152,085	3,400,262
Public Health Services	750	800	-	-	750	800
Transportation	1,178,089	1,226,241	-	-	1,178,089	1,226,241
Community and Economic Development	409,050	419,094	-	-	409,050	419,094
Leisure Time Activities	192,893	347,952	-	-	192,893	347,952
Water	-	-	1,294,205	1,374,121	1,294,205	1,374,121
Sewer	-	-	2,962,150	2,584,695	2,962,150	2,584,695
Sanitation	-	-	825,019	820,463	825,019	820,463
Interest Expense	25,419	31,791	-	-	25,419	31,791
Total Expenses	<u>6,298,530</u>	<u>6,772,547</u>	<u>5,081,374</u>	<u>4,779,279</u>	<u>11,379,904</u>	<u>11,551,826</u>
Change in Net Assets Before Transfers and Special Item	(867,722)	265,328	76,001	603,971	(791,721)	869,299
Transfers	(48,298)	(244,003)	48,298	244,003	-	-
Special Item	1,637,127	-	-	-	1,637,127	-
Change in Net Assets	721,107	21,325	124,299	847,974	845,406	869,299
Net Assets, Beginning of Year	<u>17,562,045</u>	<u>17,540,720</u>	<u>10,331,536</u>	<u>9,483,562</u>	<u>27,893,581</u>	<u>27,024,282</u>
Net Assets, End of Year	<u>\$ 18,283,152</u>	<u>17,562,045</u>	<u>10,455,835</u>	<u>10,331,536</u>	<u>28,738,987</u>	<u>27,893,581</u>

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)

Governmental Activities

Revenues totaled \$5.4 million in 2009, a decrease of approximately \$1.6 million from the prior year. The cause for the decrease was a combination of a decrease in program revenues of approximately \$960,000 and a decrease in income and property tax revenue of approximately \$500,000 due to a weakened economy and grant that were received in 2008 and not in 2009.

Total expenses decreased \$474,017 from 2008. The functions of leisure time activities and security of persons and property represent the largest decrease in governmental activities expenses. The decrease in leisure time activities and security of persons and property of approximately \$400,000 is primarily due to budget cuts made by the City due to declining revenues.

Business-Type Activities

Business-type activities increased the City's net assets by \$124,299 in 2009 which was approximately \$720,000 less than the increase recorded in 2008. This increase is due primarily to the City maintaining expenditures within current revenues.

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

Table 3
Total and Net Cost of Services

	<u>2009</u>		<u>2008 (Restated)</u>	
	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 1,340,244	(1,272,870)	1,346,407	(1,054,423)
Security of Persons and Property	3,152,085	(2,861,211)	3,400,262	(2,629,295)
Public Health Services	750	8,897	800	(613)
Transportation	1,178,089	(141,727)	1,226,241	(1,080,460)
Community and Economic Development	409,050	(264,131)	419,094	324,366
Leisure Time Activities	192,893	(678,366)	347,952	(277,022)
Interest Expense	<u>25,419</u>	<u>(25,419)</u>	<u>31,791</u>	<u>(31,791)</u>
Total Expenses	\$ <u>6,298,530</u>	<u>(5,234,827)</u>	<u>6,772,547</u>	<u>(4,749,238)</u>
BUSINESS-TYPE ACTIVITIES:				
Water	\$ 1,294,205	295,109	1,374,121	(23,633)
Sewer	2,962,150	(471,033)	2,584,695	41,403
Sanitation	<u>825,019</u>	<u>78,132</u>	<u>820,463</u>	<u>452,685</u>
Total Expenses	\$ <u>5,081,374</u>	<u>(97,792)</u>	<u>4,779,279</u>	<u>470,455</u>

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)

The City's Funds

Governmental Funds

The focus of the City's governmental funds is to provide information on near term inflows, outflows, and balances of expendable resources. As of December 31, 2009 the City's governmental funds reported revenues of \$5.6 million and expenditures of \$5.8 million, with combined fund balances of \$3.0 million. Of the \$3.0 million fund balance, \$2.4 million constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate purchase orders of the prior period and other non-current assets.

The General Fund is the chief operating fund of the City. At December 31, 2009, unreserved fund balance of the General Fund was \$1.1 million. Unreserved fund balance represents 34 percent of total General Fund expenditures.

Proprietary Funds

The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail. Unrestricted net assets at the end of the year amounted to \$1.2 million, \$3.7 million and \$1.0 million for the water, sewer and sanitation funds, respectively. The change in net assets was an increase of \$343,457 in the water fund, a decrease of \$324,331 in the sewer fund and an increase of \$105,173 in the sanitation fund. Total operating expenses for all proprietary funds were \$4.6 million which was slightly more than operating revenues of \$4.5 million, by \$43,277 or less than 1 percent of operating revenues.

General Fund Budgeting Highlights

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

During the course of 2009, 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 \$66,472, over the final budget estimates of \$4.0 million. Of this excess, most was attributable to increased charges for services for a new fire protection contract with Somerford Township.

Final appropriations of \$4.2 million were \$452,079 less than the original budget.

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of year 2009, the City had \$55.1 million invested in land, buildings, equipment, infrastructure and vehicles net of accumulated depreciation. A total of \$15.6 million of this was for governmental activities with the remainder attributable to business-type activities. Table 4 shows fiscal year 2009 balances compared with 2008.

(Table 4)
Capital Assets at December 31

	2009			2008 (Restated)		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 808,996	275,926	1,084,922	505,598	275,926	781,524
Land Improvements	640,432	17,639	658,071	654,929	17,639	672,568
Buildings	2,349,612	4,916,178	7,265,790	999,827	4,741,786	5,741,613
Improvements Other than Buildings	-	20,038,405	20,038,405	-	19,723,248	19,723,248
Equipment	865,349	4,287,489	5,152,838	874,372	4,215,073	5,089,445
Vehicles	1,990,051	885,477	2,875,528	2,040,049	885,477	2,925,526
Construction in Progress	192,471	95,434	287,905	33,326	274,002	307,328
Infrastructure	17,283,602	-	17,283,602	17,283,602	-	17,283,602
Water and Sewer Lines	-	18,271,140	18,271,140	-	17,445,194	17,445,194
Less: Accumulated Depreciation	(8,514,017)	(9,266,426)	(17,780,443)	(7,711,481)	(7,525,699)	(15,237,180)
Totals	\$ 15,616,496	39,521,262	55,137,758	14,680,222	40,052,646	54,732,868

The slight increase in capital assets was attributable primarily due to water and sewer line additions and additions of contributed land and buildings from the London City School district, which was offset by increased accumulated depreciation due to the completion of the waste water project. Note 10 to the basic financial statements provides capital asset activity during the 2009 year.

Debt

The outstanding debt for the City of London as of December 31, 2009 was \$36.2 million with \$744,097 due within one year. Table 5 summarizes outstanding debt.

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
General Obligation Bonds	\$ 387,500	\$ 519,200	\$ -	\$ -	\$ 387,500	\$ 519,200
Special Assessment Bonds	28,000	35,000	-	-	28,000	35,000
OPWC Loans	775,025	829,268	-	-	775,025	829,268
OWDA Loans	-	-	34,936,521	36,321,659	34,936,521	36,321,659
Police and Fire Pension	61,526	62,848	-	-	61,526	62,848
Total	\$ 1,252,051	\$ 1,446,316	\$ 34,936,521	\$ 36,321,659	\$ 36,188,572	\$ 37,767,975

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)

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

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

The OPWC loans were issued for the reconstruction of Garfield Avenue which was completed during fiscal year 2008.

The OWDA loans were issued for improvements to the waste water treatment plant and Oak Run Interceptor. These projects were completed in 2008 with final contract payments made in 2009.

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

Contacting the City's Finance Department

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

City of London
Statement of Net Assets
December 31, 2009

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 2,406,204	\$ 5,785,188	\$ 8,191,392
Cash and Cash Equivalents in Segregated Accounts	48,513	-	48,513
Interest Receivable	5,991	-	5,991
Taxes Receivable	2,400,582	-	2,400,582
Accounts Receivable	27,500	466,069	493,569
Intergovernmental Receivable	350,755	-	350,755
Special Assessments Receivable	116,360	2,422	118,782
Internal Balances	40,000	(40,000)	-
Prepaid Items	34,877	14,767	49,644
Materials and Supplies Inventory	25,279	77,174	102,453
Notes Receivable	772,809	-	772,809
Restricted Cash and Cash Equivalents	-	129,559	129,559
Non-Depreciable Capital Assets	1,001,467	371,360	1,372,827
Depreciable Capital Assets, net	14,615,029	39,149,902	53,764,931
<i>Total Assets</i>	<u>21,845,366</u>	<u>45,956,441</u>	<u>67,801,807</u>
Liabilities			
Accounts Payable	105,903	42,538	148,441
Accrued Wages	201,867	75,130	276,997
Contracts Payable	53,048	52,337	105,385
Retainage Payable	-	2,743	2,743
Intergovernmental Payable	210,166	51,572	261,738
Customer Deposits Payable	-	129,559	129,559
Accrued Interest Payable	1,670	-	1,670
Unearned Revenue	1,391,647	-	1,391,647
Long-Term Liabilities:			
Due Within One Year	212,314	626,048	838,362
Due in More Than One Year	1,385,599	34,520,679	35,906,278
<i>Total Liabilities</i>	<u>3,562,214</u>	<u>35,500,606</u>	<u>39,062,820</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	14,425,971	4,516,943	18,942,914
Restricted for Debt Service	16,748	-	16,748
Restricted for Security of Persons and Property	66,944	-	66,944
Restricted for Transportation	261,687	-	261,687
Restricted for Community Development	667,370	-	667,370
Restricted for Other Purposes	381,248	-	381,248
Unrestricted	2,463,184	5,938,892	8,402,076
<i>Total Net Assets</i>	<u>\$ 18,283,152</u>	<u>\$ 10,455,835</u>	<u>\$ 28,738,987</u>

See accompanying notes to the basic financial statements.

City of London
Statement of Activities
For the Year Ended December 31, 2009

	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	\$ 1,340,244	\$ -	\$ 67,374	\$ -	\$ (1,272,870)	\$ -	\$ (1,272,870)
Security of Persons and Property	3,152,085	193,037	97,837	-	(2,861,211)	-	(2,861,211)
Public Health Services	750	9,647	-	-	8,897	-	8,897
Leisure Time Activities	192,893	51,166	-	-	(141,727)	-	(141,727)
Community and Economic Development	409,050	139,919	-	5,000	(264,131)	-	(264,131)
Transportation	1,178,089	-	499,723	-	(678,366)	-	(678,366)
Interest and Fiscal Charges	25,419	-	-	-	(25,419)	-	(25,419)
<i>Total Governmental Activities</i>	<u>6,298,530</u>	<u>393,769</u>	<u>664,934</u>	<u>5,000</u>	<u>(5,234,827)</u>	<u>-</u>	<u>(5,234,827)</u>
Business-Type Activities:							
Water	1,294,205	1,362,784	-	226,530	-	295,109	295,109
Sewer	2,962,150	2,291,017	-	200,100	-	(471,033)	(471,033)
Sanitation	825,019	903,151	-	-	-	78,132	78,132
<i>Total Business-Type Activities</i>	<u>5,081,374</u>	<u>4,556,952</u>	<u>-</u>	<u>426,630</u>	<u>-</u>	<u>(97,792)</u>	<u>(97,792)</u>
<i>Total - Primary Government</i>	<u>11,379,904</u>	<u>4,950,721</u>	<u>664,934</u>	<u>431,630</u>	<u>(5,234,827)</u>	<u>(97,792)</u>	<u>(5,332,619)</u>
General Revenues:							
Property Taxes Levied for:							
General Purposes					583,224	-	583,224
Other Purposes					152,579	-	152,579
Payments in Lieu of Taxes					221,832		221,832
Income Taxes Levied for:							
General Purposes					2,612,013	-	2,612,013
Other Purposes					279,600	-	279,600
Grants and Entitlements not Restricted to Specific Programs					388,476	-	388,476
Investment Earnings					38,906	50,273	89,179
Miscellaneous					90,475	123,520	213,995
<i>Total General Revenues</i>					<u>4,367,105</u>	<u>173,793</u>	<u>4,540,898</u>
Transfers					(48,298)	48,298	-
Special Item					1,637,127	-	1,637,127
<i>Total General Revenues, Transfers and Special Item</i>					<u>5,955,934</u>	<u>222,091</u>	<u>6,178,025</u>
<i>Change in Net Assets</i>					<u>721,107</u>	<u>124,299</u>	<u>845,406</u>
<i>Net Assets Beginning of Year, restated</i>					<u>17,562,045</u>	<u>10,331,536</u>	<u>27,893,581</u>
<i>Net Assets End of Year</i>					<u>\$ 18,283,152</u>	<u>\$ 10,455,835</u>	<u>\$ 28,738,987</u>

See accompanying notes to the basic financial statements.

City of London
Balance Sheet
Governmental Funds
December 31, 2009

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 1,217,353	\$ 1,188,851	\$ 2,406,204
Cash and Cash Equivalents in Segregated Accounts	-	48,513	48,513
Interest Receivable	5,991	-	5,991
Taxes Receivable	1,468,120	932,462	2,400,582
Accounts Receivable	27,400	100	27,500
Intergovernmental Receivable	98,202	252,553	350,755
Special Assessments Receivable	48,805	67,555	116,360
Prepaid Items	22,063	12,814	34,877
Materials and Supplies Inventory	1,020	24,259	25,279
Interfund Receivable	-	277,000	277,000
Notes Receivable	-	772,809	772,809
<i>Total Assets</i>	<u>\$ 2,888,954</u>	<u>\$ 3,576,916</u>	<u>\$ 6,465,870</u>
Liabilities			
Accounts Payable	20,601	85,302	105,903
Accrued Wages	167,193	34,674	201,867
Contracts Payable	-	53,048	53,048
Intergovernmental Payable	113,977	96,189	210,166
Interfund Payable	-	237,000	237,000
Deferred Revenue	1,398,232	1,216,813	2,615,045
<i>Total Liabilities</i>	<u>1,700,003</u>	<u>1,723,026</u>	<u>3,423,029</u>
Fund Balances			
Reserved for Encumbrances	25,222	64,526	89,748
Reserved for Materials and Supplies Inventory	1,020	24,259	25,279
Reserved for Prepaid Items	22,063	12,814	34,877
Reserved for Notes Receivable	-	500,000	500,000
Unreserved, Undesignated, Reported in:			
General Fund	1,140,646		1,140,646
Special Revenue Funds	-	1,458,361	1,458,361
Debt Service Funds	-	(206,070)	(206,070)
<i>Total Fund Balances</i>	<u>1,188,951</u>	<u>1,853,890</u>	<u>3,042,841</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 2,888,954</u>	<u>\$ 3,576,916</u>	<u>\$ 6,465,870</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, 2009*

Total Governmental Fund Balances	\$	3,042,841
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*Amounts reported for governmental activities in the
 statement of net assets are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		15,616,496
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Intergovernmental	294,877		
Income Taxes	587,603		
Notes Receivable	260,482		
Property Taxes	80,436		
Total			1,223,398

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(1,670)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	\$ (387,500)		
Special Assessment Bonds	(28,000)		
Loans Payable	(775,025)		
Compensated Absences	(345,862)		
Police and Fire Pension Liability	(61,526)		
Total			(1,597,913)

<i>Net Assets of Governmental Activities</i>	\$	<u>18,283,152</u>
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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, 2009

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 3,223,419	\$ 823,172	\$ 4,046,591
Special Assessments	-	8,085	8,085
Charges for Services	311,717	-	311,717
Fines, Licenses and Permits	22,932	49,235	72,167
Intergovernmental	406,618	669,934	1,076,552
Interest	38,906	-	38,906
Other	27,075	39,921	66,996
<i>Total Revenues</i>	<u>4,030,667</u>	<u>1,590,347</u>	<u>5,621,014</u>
Expenditures			
Current:			
General Government	755,728	456,577	1,212,305
Security of Persons and Property	2,452,601	584,981	3,037,582
Public Health Services	750	-	750
Leisure Time Activities	142,776	8,445	151,221
Community and Economic Development	1,571	407,928	409,499
Transportation	-	540,372	540,372
Capital Outlay	-	239,206	239,206
Debt Service:			
Principal Retirement	1,322	192,943	194,265
Interest and Fiscal Charges	-	25,991	25,991
<i>Total Expenditures</i>	<u>3,354,748</u>	<u>2,456,443</u>	<u>5,811,191</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>675,919</u>	<u>(866,096)</u>	<u>(190,177)</u>
Other Financing Sources (Uses)			
Transfers In	-	494,567	494,567
Proceeds from Sale of Capital Assets	9,990	-	9,990
Transfers Out	(489,736)	(4,831)	(494,567)
<i>Total Other Financing Sources (Uses)</i>	<u>(479,746)</u>	<u>489,736</u>	<u>9,990</u>
<i>Net Change in Fund Balance</i>	196,173	(376,360)	(180,187)
<i>Fund Balances Beginning of Year</i>	<u>992,778</u>	<u>2,230,250</u>	<u>3,223,028</u>
<i>Fund Balances End of Year</i>	<u>\$ 1,188,951</u>	<u>\$ 1,853,890</u>	<u>\$ 3,042,841</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, 2009*

Net Change in Fund Balances - Total Governmental Funds \$ (180,187)

*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.

Capital Asset Additions	\$	1,992,074
Current Year Depreciation		<u>(882,936)</u>

Total		1,109,138
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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. (172,864)

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

Special Assessments		(167,361)
Intergovernmental		(18,142)
Income Taxes		(28,182)
Notes Receivable		<u>22,311</u>

Total		(191,374)
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Repayment of bond principal, capital lease payments and loans
are an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the statement
of net assets. 194,265

In the statement of activities, interest accrued on outstanding bonds,
whereas in governmental funds the expenditure is reported when due. 572

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. (38,443)

Compensated Absences		<u> </u>
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<i>Change in Net Assets of Governmental Activities</i>	<u>\$</u>	<u>721,107</u>
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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, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Property Taxes	\$ 657,000	\$ 657,000	\$ 583,224	\$ (73,776)
Income Taxes	2,800,000	2,800,000	2,730,210	(69,790)
Charges for Services	105,300	105,300	310,411	205,111
Licenses and Permits	1,350	1,350	1,545	195
Fines and Forfeitures	17,500	17,500	21,722	4,222
Intergovernmental	379,300	379,300	410,881	31,581
Interest	50,000	50,000	16,222	(33,778)
Other	23,000	23,000	25,707	2,707
<i>Total Revenues</i>	<u>4,033,450</u>	<u>4,033,450</u>	<u>4,099,922</u>	<u>66,472</u>
Expenditures				
Current:				
General Government	839,619	825,079	769,338	55,741
Security of Persons and Property	2,906,267	2,646,887	2,455,996	190,891
Public Health Services	750	750	750	-
Leisure Time Activities	228,825	210,975	141,974	69,001
Community and Economic Development	5,661	5,661	1,571	4,090
<i>Total Expenditures</i>	<u>3,981,122</u>	<u>3,689,352</u>	<u>3,369,629</u>	<u>319,723</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>52,328</u>	<u>344,098</u>	<u>730,293</u>	<u>386,195</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	-	-	9,990	9,990
Transfers Out	(669,120)	(515,811)	(534,757)	(18,946)
<i>Total Other Financing Sources (Uses)</i>	<u>(669,120)</u>	<u>(515,811)</u>	<u>(524,767)</u>	<u>(8,956)</u>
<i>Net Change in Fund Balance</i>	(616,792)	(171,713)	205,526	377,239
<i>Fund Balance Beginning of Year</i>	758,825	758,825	758,825	-
Prior Year Encumbrances Appropriated	33,501	33,501	33,501	-
<i>Fund Balance End of Year</i>	<u>\$ 175,534</u>	<u>\$ 620,613</u>	<u>\$ 997,852</u>	<u>\$ 377,239</u>

See accompanying notes to the basic financial statements.

City of London
Statement of Fund Net Assets
Proprietary Funds
December 31, 2009

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
Assets				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$ 1,234,388	\$ 3,544,596	\$ 1,006,204	\$ 5,785,188
Accounts Receivable	183,515	272,570	9,984	466,069
Prepaid Items	6,760	5,574	2,433	14,767
Special Assessments Receivable	-	2,422	-	2,422
Materials and Supplies Inventory	5,660	3,387	68,127	77,174
<i>Total Current Assets</i>	<u>1,430,323</u>	<u>3,828,549</u>	<u>1,086,748</u>	<u>6,345,620</u>
<i>Non-Current Assets:</i>				
Restricted Cash and Cash Equivalents	129,559	-	-	129,559
Non-Depreciable Capital Assets	204,632	66,768	99,960	371,360
Depreciable Capital Assets, Net	3,512,003	35,060,030	577,869	39,149,902
<i>Total Non-Current Assets</i>	<u>3,846,194</u>	<u>35,126,798</u>	<u>677,829</u>	<u>39,650,821</u>
<i>Total Assets</i>	<u>5,276,517</u>	<u>38,955,347</u>	<u>1,764,577</u>	<u>45,996,441</u>
Liabilities				
<i>Current Liabilities</i>				
Accounts Payable	12,103	4,708	25,727	42,538
Accrued Wages	38,789	16,909	19,432	75,130
Contracts Payable	46,500	5,837	-	52,337
Retainage Payable	-	2,743	-	2,743
Intergovernmental Payable	27,142	12,126	12,304	51,572
Customer Deposits Payable	129,559	-	-	129,559
Interfund Payable	-	40,000	-	40,000
Compensated Absences Payable	18,085	8,281	1,058	27,424
Capital Lease Payable	-	-	22,929	22,929
OWDA Loans Payable	75,185	500,510	-	575,695
<i>Total Current Liabilities</i>	<u>347,363</u>	<u>591,114</u>	<u>81,450</u>	<u>1,019,927</u>
<i>Long-Term Liabilities</i>				
Compensated Absences Payable - net of current portion	72,340	33,123	9,521	114,984
Capital Leases Payable - net of current portion	-	-	44,869	44,869
OWDA Loans Payable - net of current portion	1,043,447	33,317,379	-	34,360,826
<i>Total Long-Term Liabilities</i>	<u>1,115,787</u>	<u>33,350,502</u>	<u>54,390</u>	<u>34,520,679</u>
<i>Total Liabilities</i>	<u>1,463,150</u>	<u>33,941,616</u>	<u>135,840</u>	<u>35,540,606</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,598,003	1,308,909	610,031	4,516,943
Unrestricted	1,215,364	3,704,822	1,018,706	5,938,892
<i>Total Net Assets</i>	<u>\$ 3,813,367</u>	<u>\$ 5,013,731</u>	<u>\$ 1,628,737</u>	<u>\$ 10,455,835</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, 2009

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
Operating Revenue				
Charges for Services	\$ 1,362,784	\$ 2,291,017	\$ 903,151	\$ 4,556,952
<i>Total Operating Revenues</i>	<u>1,362,784</u>	<u>2,291,017</u>	<u>903,151</u>	<u>4,556,952</u>
Operating Expenses				
Salaries and Wages	490,107	367,165	362,054	1,219,326
Contractual Services	362,949	197,033	387,854	947,836
Materials and Supplies	221,141	412,021	16,503	649,665
Depreciation	154,008	1,574,454	54,940	1,783,402
<i>Total Operating Expenses</i>	<u>1,228,205</u>	<u>2,550,673</u>	<u>821,351</u>	<u>4,600,229</u>
<i>Operating Income</i>	<u>134,579</u>	<u>(259,656)</u>	<u>81,800</u>	<u>(43,277)</u>
Non-Operating Revenues (Expenses)				
Interest	50	50,039	184	50,273
Other Non-Operating Revenues	-	96,663	26,857	123,520
Loss on Sale of Assets	(3,627)	(9,239)	-	(12,866)
Interest and Fiscal Charges	(50,008)	(402,238)	(3,668)	(455,914)
Other Non-Operating Expenses	(12,365)	-	-	(12,365)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(65,950)</u>	<u>(264,775)</u>	<u>23,373</u>	<u>(307,352)</u>
<i>Income (Loss) Before Capital Contributions</i>	68,629	(524,431)	105,173	(350,629)
Capital Contributions	274,828	200,100	-	474,928
<i>Change in Net Assets</i>	343,457	(324,331)	105,173	124,299
<i>Net Assets Beginning of Year, restated</i>	<u>3,469,910</u>	<u>5,338,062</u>	<u>1,523,564</u>	<u>10,331,536</u>
<i>Net Assets End of Year</i>	<u>\$ 3,813,367</u>	<u>\$ 5,013,731</u>	<u>\$ 1,628,737</u>	<u>\$ 10,455,835</u>

See accompanying notes to the basic financial statements.

City of London
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2009

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
Increase in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash Received from Customers	\$ 1,351,817	\$ 2,270,011	\$ 899,134	\$ 4,520,962
Cash Payments to Suppliers for Goods and Services	(578,530)	(620,460)	(440,731)	(1,639,721)
Cash Payments to Employees	(486,652)	(356,304)	(354,086)	(1,197,042)
<i>Net Cash Provided by Operating Activities</i>	<u>286,635</u>	<u>1,293,247</u>	<u>104,317</u>	<u>1,684,199</u>
Cash Flows from Noncapital Financing Activities				
Other Non-Operating Receipts	-	669	26,857	27,526
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>-</u>	<u>669</u>	<u>26,857</u>	<u>27,526</u>
Cash Flows from Capital and Related Financing Activities				
Proceeds from Loans	46,500	658,177	-	704,677
Acquisition of Capital Assets	(141,687)	(1,198,265)	(14,000)	(1,353,952)
Principal Payments on Debt	(83,803)	(1,925,100)	(21,900)	(2,030,803)
Interest Payments	(48,262)	(388,233)	(3,668)	(440,163)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(227,252)</u>	<u>(2,853,421)</u>	<u>(39,568)</u>	<u>(3,120,241)</u>
Cash Flows from Investing Activities				
Interest	50	637	184	871
<i>Net Cash Provided by Investing Activities</i>	<u>50</u>	<u>637</u>	<u>184</u>	<u>871</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	59,433	(1,558,868)	91,790	(1,407,645)
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>1,304,514</u>	<u>5,103,464</u>	<u>914,414</u>	<u>7,322,392</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 1,363,947</u>	<u>\$ 3,544,596</u>	<u>\$ 1,006,204</u>	<u>\$ 5,914,747</u>

(continued)

City of London
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2009
(Continued)

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income (Loss)	\$ 134,579	\$ (259,656)	\$ 81,800	\$ (43,277)
Adjustments:				
Depreciation	154,008	1,574,454	54,940	1,783,402
(Increase) Decrease in Assets:				
Accounts Receivable	(10,967)	(21,006)	(4,017)	(35,990)
Materials and Supplies Inventory	3,747	282	(42,364)	(38,335)
Prepaid Items	1,516	3,267	386	5,169
Increase (Decrease) in Liabilities:				
Accounts Payable	(1,042)	(14,955)	5,604	(10,393)
Accrued Wages	3,529	1,637	4,663	9,829
Compensated Absences Payable	(2,460)	6,905	1,299	5,744
Intergovernmental Payable	3,725	2,319	2,006	8,050
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 286,635</u>	<u>\$ 1,293,247</u>	<u>\$ 104,317</u>	<u>\$ 1,684,199</u>

Noncash Capital Financing Activities:

During 2009, the City received contributed capital in the form of building additions from developers in the amount of \$426,630 and assets from the Governmental Activities in the form of contributed capital in the amount of \$48,298

See accompanying notes to the basic financial statements.

City of London
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
December 31, 2009

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 155,417</u>
<i>Total Assets</i>	<u><u>155,417</u></u>
Liabilities	
Undistributed Monies	<u>155,417</u>
<i>Total Liabilities</i>	<u><u>\$ 155,417</u></u>

See accompanying notes to the basic financial statements.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1: REPORTING ENTITY

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

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

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

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

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

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

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, 2009

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, 2009

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.

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, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

D. Basis of Accounting

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

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

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Property taxes and payments in lieu of taxes for which there is no enforceable claim as of as of December 31, 2009, but which were levied to finance fiscal year 2010 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statement, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

E. Pooled Cash and Cash Equivalents

To improve cash management, all cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents."

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

During 2009, investments were limited to negotiable certificates of deposit and STAROhio.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2009.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2009 amounted to \$38,906, which includes \$20,854 assigned from other City funds.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2009 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the payment and an expenditure/expense is reported in the year in which services are consumed.

G. Materials and Supplies Inventory

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

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

Inventory consists of expendable supplies.

H. Restricted Assets

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets

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

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

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

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

Interest costs incurred that relate to the acquisition or construction of property and equipment acquired with debt proceeds of the business type activities is capitalized. The amount of interest to be capitalized is the amount of interest incurred from the date of the borrowing until completion of the project. Interest capitalized in the water fund and sewer fund for fiscal year 2009 was \$2,435 and \$2,632, respectively.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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.

L. Compensated Absences

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

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

M. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences and special termination benefits, 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.

N. Net Assets

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

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Fund Balance Reserves

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

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 notes receivable.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the city, these revenues are charges for services for water 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.

Q. Interfund Activity

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

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. The City did not have any extraordinary items, however; the City incurred a special item as a result of capital asset transactions (Note 10).

S. Estimates

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

T. Budgetary Data

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

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

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

NOTE 3: BUDGETARY BASIS OF ACCOUNTING

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

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

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 3: BUDGETARY BASIS OF ACCOUNTING (Continued)

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

Net Change in Fund Balance	
	<u>General</u>
GAAP Basis	196,173
Revenue Accruals	69,255
Expenditure Accruals	(22,348)
Encumbrances	(25,241)
Transfers	(12,313)
Budget Basis	<u>205,526</u>

NOTE 4: ACCOUNTABILITY AND COMPLIANCE

A. *Accountability*

Fund balances at December 31, 2009 included the following individual fund deficits:

	<u>Deficit</u>
Police Pension	(27,059)
Fire Pension	(10,416)
Debt Service – N. End Sewer	(10,624)
Debt Service – Kenny Blvd.	(159,145)

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

NOTE 5: DEPOSITS AND INVESTMENTS

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

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

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and any other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio).
7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in any amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the City's name. During 2009, the City and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

At year-end, the carrying amount of the City's deposits was \$7,624,667. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2009, \$262,950 of the City's bank balance of \$7,724,439 was collateralized with securities held by pledging financial institutions trust department or agent, but not in the City's name, \$4,673,348 was collateralized with securities held by the pledging financial institutions trust department in the City's name and \$2,788,141 was covered by Federal Deposit Insurance Corporation.

Investments

As of December 31, 2009, the City had the following investment and maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>
Negotiable Certificates of Deposit	500,180	<1 500,180
STAR Ohio	400,034	400,034
	<u>900,214</u>	<u>900,214</u>

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

Credit Risk The City's investments in negotiable certificates of deposit are not rated. The City's investment in STAROhio has a credit rating of AAAM. The City does not have a formal investment policy regarding exposure to credit risk.

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

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

<u>Investment Type</u>	<u>Percent of Total</u>
Negotiable Certificates of Deposit	55.56%
STAR Ohio	44.44%

NOTE 6: NOTES RECEIVABLE

On August 2, 1994, the City received a \$500,000 promissory note from London Limited Partnership (the Partnership), an Ohio limited partnership formed to construct low income housing with Federal Financial Assistance granted to the City of London as well as funds, which the Partnership borrowed from a private lender. The note receivable began to accrue interest at a rate of 3 percent per annum on December 1, 1995 when the Partnership reached the permanent loan closing with the private lender who financed the remainder of the project. Interest will be deferred and will be due and payable only after payment of all the Partnership's operating expenses and all sums due to the private lender. The entire principal balance, \$500,000 at December 31, 2009, and all unpaid interest, \$260,482 will be due and payable on January 1, 2011. The note is secured by the related property. The principal balance of the note receivable is equally offset by a reservation of fund balance.

In January 2003, the City loaned \$15,000 to Old Londontown Ltd, an Ohio Limited Liability Company formed to purchase, rehabilitate, hold, rent, or lease historic real estate for historic preservation. Proceeds from the note will be used to revitalize buildings in the City of London downtown area. The note's interest rate is 4.25 percent. The note is secured by a mortgage held by the City against the property at 105 South Main Street, London, Ohio. The balance on the note at December 31, 2009 is \$12,327. The Ohio Limited Liability Company has not paid on this note since 2007. The City is working with the company for repayment and has not written this loan off as bad debt.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 7: PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2009 for real and public utility property taxes represents collections of the 2008 taxes. Property tax payments received during 2009 for tangible personal property (other than public utility property) are for 2008 taxes.

2009 real property taxes are levied after October 1, 2009, on the assessed value as of January 1, 2009, the lien date. Assessed values are established by the State law at 35 percent of appraised market value. 2009 real property taxes are collected in and intended to finance 2010.

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. 2009 public utility property taxes which became a lien on December 31, 2008, are levied after October 1, 2009, and are collected in 2010 with real property taxes.

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

The full tax rate for all City operations for the year ended December 31, 2009, was \$5.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2009 property tax receipts were based are as follows:

Real Property	\$	168,414,420
Tangible Personal Property		5,227,570
Public Utility Property		<u>4,992,260</u>
Total	\$	<u><u>178,634,250</u></u>

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

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 7: PROPERTY TAXES (Continued)

The County Treasurer collects property tax on behalf of all taxing districts in the County, including the City of London. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real and tangible personal property, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2009 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 2009 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

NOTE 8: INCOME TAXES

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

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

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

NOTE 9: RECEIVABLES

Receivables at December 31, 2009 consisted of taxes, accounts (billed and unbilled user charged services), special assessments, notes, and intergovernmental receivables arising from grants, entitlements and shared revenues. Taxes, accounts, special assessments, notes and intergovernmental receivables are deemed collectible in full.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 10: CAPITAL ASSETS

A summary of changes in governmental capital assets during 2009 follows:

	(Restated)			Balance
	Balance	Additions	Deletions	12/31/2009
	12/31/2008			12/31/2009
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 505,598	\$ 467,440	\$ (164,042)	\$ 808,996
Construction in Progress	33,326	159,145	-	192,471
<i>Total Capital Assets Not Being Depreciated</i>	<u>538,924</u>	<u>626,585</u>	<u>(164,042)</u>	<u>1,001,467</u>
 <i>Capital Assets, Being Depreciated:</i>				
Land Improvements	654,929	-	(14,497)	640,432
Buildings	999,827	1,349,785	-	2,349,612
Equipment and Machinery	874,372	15,704	(24,727)	865,349
Vehicles	2,040,049	-	(49,998)	1,990,051
Infrastructure	17,283,602	-	-	17,283,602
<i>Total Capital Assets, Being Depreciated</i>	<u>21,852,779</u>	<u>1,365,489</u>	<u>(89,222)</u>	<u>23,129,046</u>
 <i>Less Accumulated Depreciation:</i>				
Land Improvements	(305,768)	(24,655)	5,675	(324,748)
Buildings	(408,898)	(50,163)	-	(459,061)
Equipment and Machinery	(545,407)	(85,505)	24,727	(606,185)
Vehicles	(1,483,471)	(116,480)	49,998	(1,549,953)
Infrastructure	(4,967,937)	(606,133)	-	(5,574,070)
<i>Total Accumulated Depreciation</i>	<u>(7,711,481)</u>	<u>(882,936)</u>	<u>80,400</u>	<u>(8,514,017)</u>
 Total Capital Assets Being Depreciated, Net	 <u>14,141,298</u>	 <u>482,553</u>	 <u>(8,822)</u>	 <u>14,615,029</u>
 Total Governmental Activities Capital Assets, Net	 <u>\$ 14,680,222</u>	 <u>\$ 1,109,138</u>	 <u>\$ (172,864)</u>	 <u>\$ 15,616,496</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 119,002
Security of Persons and Property	88,761
Community and Economic Development	2,250
Transportation	631,251
Leisure Time Activities	41,672
	<u>\$ 882,936</u>

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 10: CAPITAL ASSETS (Continued)

	(Restated) Balance 12/31/2008	Additions	Deletions	Balance 12/31/2009
Business-Type Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 275,926			\$ 275,926
Construction in progress	274,002	95,434	(274,002)	95,434
<i>Total Capital Assets Not Being Depreciated</i>	<u>549,928</u>	<u>95,434</u>	<u>(274,002)</u>	<u>371,360</u>
<i>Capital Assets, Being Depreciated:</i>				
Land Improvements	17,639	-	-	17,639
Buildings	4,741,786	174,392	-	4,916,178
Improvements Other Than Buildings	19,723,248	315,157	-	20,038,405
Equipment and Machinery	4,215,073	109,005	(36,589)	4,287,489
Vehicles	885,477	-	-	885,477
Water and Sewer Lines	17,445,194	844,898	(18,952)	18,271,140
<i>Total Capital Assets, Being Depreciated</i>	<u>47,028,417</u>	<u>1,443,452</u>	<u>(55,541)</u>	<u>48,416,328</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(10,687)	(884)	-	(11,571)
Buildings	(458,468)	(150,369)	-	(608,837)
Improvements Other Than Buildings	(1,925,447)	(762,354)	-	(2,687,801)
Equipment and Machinery	(858,585)	(437,233)	32,962	(1,262,856)
Vehicles	(544,222)	(79,398)	-	(623,620)
Water and Sewer Lines	(3,728,290)	(353,164)	9,713	(4,071,741)
<i>Total Accumulated Depreciation</i>	<u>(7,525,699)</u>	<u>(1,783,402)</u>	<u>42,675</u>	<u>(9,266,426)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>39,502,718</u>	<u>(339,950)</u>	<u>(12,866)</u>	<u>39,149,902</u>
<i>Total Business-Type Activities Capital Assets, Net</i>	<u>\$ 40,052,646</u>	<u>\$ (244,516)</u>	<u>\$ (286,868)</u>	<u>\$ 39,521,262</u>

During 2009 the City entered into an agreement with the London City School District to exchange 63 acres of land held by the City at a book value of \$164,041 for land and other property owned by the School District with a market value of \$1,801,168. The difference between the book value of the property transferred to the School District and the market value of the property received has been recorded as a special item on the City's government wide statement of activities.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 11: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2009, the City was insured through Wichert Insurance. During 2009 the City had the following types of insurance:

<u>Coverage</u>	<u>Limit</u>
Real Property Legal Liability	\$ 1,000,000
Boiler and Machinery	\$ 10,000,000
Automobile Liability	\$ 1,000,000
Building and Property	\$ 44,660,507

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

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

NOTE 12: DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 12: DEFINED BENEFIT PENSION PLANS (Continued)

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

For the year ended December 31, 2009, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 10.0 percent of their annual covered salaries. The employer contribution rate for 2009 was 14.00 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2009, 2008 and 2007 were \$306,594, \$318,788 and \$293,937 respectively; 86 percent has been contributed for 2009 and 100 percent for 2008 and 2007.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary, while the City is required to contribute 19.5 percent for police officers and 24 percent for firefighters. The City's required contributions to OP&F for police and firefighters were \$320,262, for the year ended December 31, 2009, \$347,800 for 2008 and \$310,468 for 2007; 67 percent has been contributed for 2009. The full amount has been contributed for 2008 and 2007.

NOTE 13: POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System of Ohio (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post employment Benefit (OPEB) as described in *GASB Statement No. 45*. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2009 local government employer contribution rate was 14.0 percent of covered payroll. The portion of employer contributions allocated to health care was 7.00 percent from January 1 through March 31, 2009 and 5.5 percent of covered payroll from April 1 through December 31, 2009.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 13: POSTEMPLOYMENT BENEFITS (Continued)

The City's actual contributions for 2009, 2008 and 2007, which were used to fund post employment benefits were \$128,276, \$157,577 and \$116,693 respectively. The actual contribution and the actuarially required contribution amounts are the same.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

B. *Ohio Police and Fire Pension Fund*

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

The health care coverage provided by the retirement system is considered an Other Post employment Benefit (OPEB) as described in GASB Statement No. 45. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 6.75 percent of covered payroll was applied to the post employment health care program during 2009.

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

The City's actual contributions for 2009, 2008 and 2007 that were used to fund post employment benefits were \$100,402, \$109,035 and \$97,332 for police and firefighters, respectively.

NOTE 14: COMPENSATED ABSENCES

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 14: COMPENSATED ABSENCES (Continued)

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

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

As of December 31, 2009, the accrued liability for unpaid compensated absences was \$488,270.

NOTE 15: CAPITALIZED LEASES – LESSEE DISCLOSURE

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

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

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2009:

Year	Business-Type Activities
2010	25,568
2011	25,568
2012	23,473
Total Minimum Lease Payments	74,609
Less Amount Representing Interest	(6,811)
Present Value of Minimum Lease Payments	<u>\$ 67,798</u>

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 16: LONG-TERM OBLIGATIONS

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
Governmental Activities			
N. End Sewer Project Special Assessment Bonds - 1993	5.25%	\$ 127,000	December 1, 2013
East High Street OPWC Loan - 1993	0.00%	267,660	July 1, 2014
Various Purpose Bonds - 2006	4.95%	303,800	December 1, 2016
Fire Truck Acquisition Bonds - 2006	4.57%	375,000	December 1, 2011
Garfield Ave. Rehab Phase I - OPWC 2006	0.00%	273,756	January 1, 2026
Garfield Ave. Rehab Phase II - OPWC 2006	0.00%	580,087	January 2, 2027
Business-Type Activities			
Sewer Improvements OWDA Loan - 1988	7.65%	5,157,855	January 1, 2013
Sewer Improvements OWDA Loan - 1988	7.86%	600,831	January 1, 2013
Water Improvements OWDA Loan - 2001	4.14%	1,610,687	July 1, 2021
Sewer Improvements OWDA Loan - 2005	1.00%	1,711,877	January 1, 2025
Sewer Improvement OWDA Loan - 2006	0.80%	33,218,664	January 1, 2029
Water Planning OWDA Loan - 2009	2.00%	121,749	July 1, 2014

Changes in the long-term obligations of the City during 2009 were as follows:

	Amount Outstanding 12/31/2008	Additions	(Reductions)	Amount Outstanding 12/31/2009	Amounts Due Within One Year
Governmental Activities:					
Special Assessment Bonds	\$ 35,000	\$ -	\$ (7,000)	\$ 28,000	\$ 7,000
OPWC Loan - 1993	80,298	-	(13,383)	66,915	13,383
OPWC Loan - 2006 Phase I	232,692	-	(13,688)	219,004	13,688
OPWC Loan - 2006 Phase II	516,278	-	(27,172)	489,106	27,172
General Obligation Bonds:					
Pool Improvement	30,000	-	(30,000)	-	-
Various Purpose	254,200	-	(26,700)	227,500	28,000
Fire Truck Acquisition	235,000	-	(75,000)	160,000	78,000
Compensated Absences	307,419	78,363	(39,920)	345,862	43,912
Police and Fire Pension Payable	62,848	-	(1,322)	61,526	1,159
Total Governmental Activities	\$ 1,753,735	\$ 78,363	\$ (234,185)	\$ 1,597,913	\$ 212,314

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 16: LONG-TERM OBLIGATIONS (Continued)

	Amount Outstanding 12/31/2008	Additions	(Reductions)	Amount Outstanding 12/31/2009	Amounts Due Within One Year
Business-Type Activities:					
OWDA Loans:					
Sewer Improvements 1988	\$ 1,564,991	\$ -	\$ (349,097)	\$ 1,215,894	\$ 375,803
Sewer Improvements 1988	184,777	-	(41,090)	143,687	44,320
Water Improvements 2001	1,154,189	-	(72,166)	1,082,023	75,185
Sewer Improvements 2005	1,420,364	-	(79,589)	1,340,775	80,387
Sewer Improvements 2006	31,997,338	658,177	(1,537,982)	31,117,533	-
Water Planning 2009	-	48,246	(11,637)	36,609	-
Total OWDA Loans	<u>36,321,659</u>	<u>706,423</u>	<u>(2,091,561)</u>	<u>34,936,521</u>	<u>575,695</u>
Capital Lease	89,698	-	(21,900)	67,798	22,929
Compensated Absences	<u>136,664</u>	<u>33,687</u>	<u>(27,943)</u>	<u>142,408</u>	<u>27,424</u>
Total Business-Type Activities	<u>\$ 36,548,021</u>	<u>\$ 740,110</u>	<u>\$(2,141,404)</u>	<u>\$ 35,146,727</u>	<u>\$ 626,048</u>

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The Ohio Public Works Commission (OPWC) loans and the Pool Improvement Bonds will be paid from the Capital Improvement Fund. The special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. The Ohio Water Development Authority (OWDA) loans will be paid from charges for services revenue in the water, sewer and sanitation funds. Compensated absences reported in the "compensated absences payable" account and pension contribution reported in the "intergovernmental payable" account will both be paid from general operating revenues of the fund from which the employees' salaries are paid. Capital leases are paid from operating revenue of the Sanitation fund. The police and fire pension liability will be paid from taxes revenue of the Police and Fire Pension fund.

In 2004 the City was awarded a loan from the OWDA in the amount of \$253,118. The proceeds of this loan were used for upgrade planning for the waste water treatment plant. During 2005 this loan was rolled into a new loan from the OWDA with a new loan total of \$1,553,591. In 2006 this design loan was rolled into a loan for the waste water treatment plant expansion and Oak Run Interceptor Project in the amount of \$33,218,664. As of December 31, 2009, the City had drawn down \$32,655,515. 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 2009 the City was awarded a loan from the OWDA in the amount of \$121,749 for the purpose of upgrading the City's drinking water system. As of December 31, 2009 the City had drawn down \$48,246. Until the loan is fully drawn and the project is closed, 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.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 16: LONG-TERM OBLIGATIONS (Continued)

The annual requirements to retire the governmental activities long-term obligations outstanding at December 31, 2009 are as follows:

Year	Principal	Interest
2010	\$ 167,243	\$ 20,043
2011	172,543	14,725
2012	92,143	9,160
2013	93,543	7,263
2014	88,243	5,297
2015-2019	277,301	5,465
2020-2024	204,301	-
2025-2027	<u>95,208</u>	<u>-</u>
Total	<u>\$ 1,190,525</u>	<u>\$ 61,953</u>

The annual requirements to retire the business-type activities long-term obligations outstanding at December 31, 2009 are as follows:

Year	Principal	Interest
2010	\$ 575,694	\$ 161,543
2011	611,877	125,359
2012	650,714	86,522
2013	167,848	44,956
2014	172,235	40,570
2015-2019	932,696	131,326
2020-2024	624,750	22,037
2025	<u>46,565</u>	<u>233</u>
Total	<u>\$ 3,782,379</u>	<u>\$ 612,546</u>

NOTE 17: INTERFUND TRANSFERS AND BALANCES

<u>Transfer To</u>	<u>Transfer From</u>	
	<u>General</u>	<u>Other Governmental</u>
Other Governmental	\$ 489,736	\$ 4,831

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 17: INTERFUND TRANSFERS AND BALANCES (Continued)

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. The transfer out from other governmental is to transfer the residual balance from the Capital Project fund (for a completed project) to the applicable debt service fund.

As of December 31, 2009, interfund balances were as follows:

<u>Advances To</u>	<u>Advances From</u>			<u>Total</u>
	<u>Capital Improvement</u>	<u>Municipal Permissive</u>	<u>TIF Settlement</u>	
Kenny Blvd Extension	\$ -	\$ 210,000	\$ 27,000	\$ 237,000
Sewer	40,000	-	-	40,000
Total	\$ 40,000	\$ 210,000	\$ 27,000	\$ 277,000

The advance from the capital improvements fund to the sewer fund was made to begin funding a storm water assessment project. When the City begins charging for storm water these monies will be repaid. The advances to the Kenny Boulevard Extension were made to provide funding for the road project until other financing could be secured by the City.

NOTE 18: CONTINGENCIES

A. *Grants*

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City at December 31, 2009.

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.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 19: CONTRACTUAL COMMITMENTS

As of December 31, 2009, the City had the following contractual commitments due to the construction and repair of the City's waste water treatment facility.

Contractor	Balance 12/31/2009
CH2MHILL	\$ 73,500
DLZ Ohio Inc	117,496
	\$ 190,996

NOTE 20: RESTATEMENT OF NET ASSETS

During an examination of new developments in the City it was noted that some infrastructure items donated by developers had not been properly reported by the City. Additionally, Net Assets are restated due to prior year capitalized interest that was not recorded. The addition of the infrastructure donated by developers and capitalized interest in prior years effected net assets as follows:

	Governmental Activities	Business-Type Activities	Water	Sewer
Net Assets, December 31, 2008	16,973,343	9,425,638	3,404,388	4,497,686
Buildings	-	45,184	-	45,184
Improvements	-	221,811	-	221,811
Equipment and Machinery	-	39,162	-	39,162
Infrastructure	588,702	-	-	-
Water and Sewer Lines	-	599,741	65,522	534,219
Restated Net Assets, December 31, 2008	17,562,045	10,331,536	3,469,910	5,338,062

NOTE 21: SUBSEQUENT EVENT

On May 21, 2010, the City issued a bond anticipation note in the amount of \$2.8 million to finance the construction of the Kenny Boulevard Extension.

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of London
Madison County
102 South Main Street
London, Ohio 43140

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of London, Madison County, Ohio (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2009-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated October 1, 2010.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

October 1, 2010

**CITY OF LONDON
MADISON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2009**

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

FINDING NUMBER 2009-001

Financial Reporting - Material Weakness

Sound financial reporting is the responsibility of the City's Fiscal Officer and Village Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following audit adjustments were made to the financial statements and, where applicable, to the City's accounting records:

1. An adjustment in the amount of \$72,000 to reduce depreciation expense and accumulated depreciation from the Water Fund that should have been posted to the Sewer Fund. As a result, an adjustment was made to increase invested in capital assets, net of related debt in the Water Fund and reduce invested in capital assets, net of related debt in the Sewer Fund for \$72,000.
2. A reclassification in the amount of \$1,215,894 was made to reduce invested in capital assets, net of related debt and increase unrestricted net assets in the Sewer fund due to a debt issuance not included in the invested in capital assets, net of related debt calculation.
3. Adjustments in the amounts of \$2,435 and \$2,632 were made to the Water and Sewer funds, respectively to properly capitalize interest paid on the water plant study and waste water treatment plant improvements during 2009. Additionally, an adjustment was made in the amount of \$417,724 to properly record 2008 capitalized interest paid on the waste water treatment plant that was not properly capitalized in the Sewer fund. Related depreciation expense to this interest capitalization in the amount of \$25,551 was also recorded to the Sewer fund.
4. A reclassification of \$221,832 to separately identify the Payments in Lieu of Taxes on the Statement of Net Assets.
5. Adjustments to revenues of \$536,048 were made to Governmental Type Activities to reclass the Statement of Activities program revenues to the correct type based on revenue levied.

The following audit adjustments were not material to the City's financial statements and were not made to the City's accounting records:

1. An adjustment in the amount of \$9,789 to increase taxes receivable and deferred revenue in the Highway Street Lighting Fund to properly record an unrecorded tax receivable.
2. A reclassification in the amount of \$91,676 to record cable franchise fees as fines, licenses and permits instead of charges for services in the General Fund.
3. A reclassification in the amount of \$32,708 to reduce general government expense and increase transfers out on the General Fund Budgetary Statement.
4. A reclassification in the amount of \$61,526 to record the Police and Fire Pension liability as an Intergovernmental Payable on the Statement of Net Assets and record it as a current liability to the General Fund Balance Sheet.

**CITY OF LONDON
MADISON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2009
(Continued)**

<p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</p>

FINDING NUMBER 2009-001(Continued)

Financial Reporting - Material Weakness (Continued)

Lack or failure of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

We recommend the City develop policies and procedures to enhance its controls over recording of financial transactions and financial reporting to help ensure the information accurately reflects the activity of the City and thereby increasing the reliability of the financial data throughout the year. We also recommend the City implement additional procedures over the completeness and accuracy of financial information reported within the City's annual report. Such procedures may include review of the financial statements and related components by a member of management with analytical comparisons of the current year annual report to the prior year reports for obvious errors or omissions.

We did not receive a response from Officials to this finding.

**CITY OF LONDON
MADISON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Financial Reporting	No	Not Corrected. Reissued as Finding 2009-001
2008-002	Utilities Revenue	Yes	
2008-003	Segregation of Duties	No	Partially Corrected. Reissued in the Management Letter
2008-004	Monitoring Control System	No	Partially Corrected. Reissued in the Management Letter

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Mary Taylor, CPA
Auditor of State

CITY OF LONDON

MADISON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 9, 2010**