

CITY OF LONDON, OHIO

Basic Financial Statements

December 31, 2004

with

Independent Auditors' Report



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the City of London, Madison County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

November 14, 2005

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CITY OF LONDON, OHIO

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements:	
Management's Discussion and Analysis	3-9
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – Capital Improvements Fund	17
Statement of Fund Net Assets – Proprietary Funds	18
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	19
Statement of Cash Flows – Proprietary Funds	20-21
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds	22
Notes to the Basic Financial Statements	23-53
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	54-55
Schedule of Findings and Questioned Costs	56-57
Schedule of Prior Audit Findings and Questioned Costs	58

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
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Independent Auditors' Report

To the City Council
City of London, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of London (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Special Projects special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the basic financial statements, in fiscal year 2004, the City of London adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government's*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government's: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
August 15, 2005

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(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, 2004. 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 2004 are as follows:

- General revenues accounted for \$4,906,531 in revenue or 43.6% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$6,355,507 or 56.4% of total revenues of \$11,262,038.
- Total program expenses were \$8,143,072, \$5,222,022 in governmental activities and \$2,921,050 in business-type activities.
- In total, net assets increased \$3,118,966. Net assets of governmental activities increased \$1,571,541, which represents a 10.5% increase from 2003. Net assets of business-type activities increased \$1,547,425 or 21.1% from 2003.
- Outstanding debt increased from \$5,238,038 to \$5,430,440 through the issuance of new debt.

Using this Annual Financial Report

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

The Statement of Net Assets and the Statement of Changes in Net Assets provide information from a summary perspective showing the effects of the operations for the year 2004 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, special projects, and capital projects—Keny funds are the most significant governmental funds. The water, sewer and sanitation funds are the significant enterprise funds.

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

A question typically asked about the City's finances "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the City of London's Most Significant Funds

Fund Financial Statements

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

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

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

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(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 2004 compared to 2003:

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current and Other Assets	\$ 5,852,298	\$ 5,187,786	\$ 2,824,000	\$ 2,656,693	\$ 8,676,298	\$ 7,844,479
Capital Assets	13,497,721	12,546,067	12,619,376	10,255,134	26,117,097	22,801,201
Total Assets	19,350,019	17,733,853	15,443,376	12,911,827	34,793,395	30,645,680
Liabilities						
Long-Term Liabilities	603,725	655,174	5,153,378	5,181,711	5,757,103	5,836,885
Other Liabilities	2,237,831	2,141,757	1,392,752	380,295	3,630,583	2,522,052
Total Liabilities	2,841,556	2,796,931	6,546,130	5,562,006	9,387,686	8,358,937
Net Assets						
Invested in Capital Assets Net of Debt	12,372,629	12,156,410	7,546,156	10,255,134	19,918,785	22,411,544
Restricted	2,780,874	1,710,086	0	0	2,780,874	1,710,086
Unrestricted (Deficit)	1,354,960	1,070,426	1,351,090	(2,905,313)	2,706,050	(1,834,887)
Total Net Assets	\$ 16,508,463	\$ 14,936,922	\$ 8,897,246	\$ 7,349,821	\$ 25,405,709	\$ 22,286,743

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

Total assets increased by \$4,147,715 with governmental assets increasing \$1,616,166 and business-type assets increasing \$2,531,549. An increase of \$3,315,896 in total capital assets reflects new construction in progress and an increase in infrastructure and was the majority of the increase in governmental assets. Total liabilities increased by \$1,028,749 with business-type activities increasing \$984,124. The majority of this increase was the result of loans proceeds from OWDA for the waste water project in business-type activities.

Total net assets increased by \$3,118,966. This number reflects an increase of \$1,571,541 in governmental activities and an increase of \$1,547,425 in the net assets of the business-type activities. Table 2 shows the changes in net assets for fiscal year 2004. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the City's financial status and possibly project future problems.

(Table 2)
Changes in Net Assets

	Governmental Activities	Business-Type Activities	Total
	2004	2004	2004
Revenues			
<i>Program Revenues:</i>			
Charges for Services	\$ 230,882	\$ 3,444,289	\$ 3,675,171
Operating Grants	1,083,185	0	1,083,185
Capital Grants	593,708	1,003,443	1,597,151
<i>General Revenue:</i>			
Property Taxes	880,745	0	880,745
Income Taxes	2,919,528	0	2,919,528
Grants and Entitlements	1,013,461	0	1,013,461
Investment Earnings	57,050	3,250	60,300
Other	12,024	20,473	32,497
Total Revenues	6,790,583	4,471,455	11,262,038
Program Expenses			
General Government	921,755	0	921,755
Security of Persons and Property	2,332,414	0	2,332,414
Transportation	1,083,153	0	1,083,153
Public Health Services	1,632	0	1,632
Community and Economic Development	604,251	0	604,251
Leisure Time Activities	224,273	0	224,273
Interest and Fiscal Charges	54,544	0	54,544
<i>Enterprise Operations:</i>			
Water	0	1,129,422	1,129,422
Sewer	0	1,336,211	1,336,211
Sanitation	0	455,417	455,417
Total Program Expenses	5,222,022	2,921,050	8,143,072
Increase in Net Assets Before Transfers	1,568,561	1,550,405	3,118,966
Transfers and Contributions	2,980	(2,980)	0
Increase in Net Assets	\$ 1,571,541	\$ 1,547,425	\$ 3,118,966

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

Governmental Activities

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

The City's income tax is at a rate of 1%. Both residents of the City and non-residents who work inside the City are subject to the income tax. However if residents work in a locality that has a municipal income tax, the City provides 100% credit up to 1% for those who pay income tax to another city. City Council could by Ordinance, choose to vary that income tax credit and create additional revenues for the City.

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

Police and fire represent the largest expense of the Governmental Activities. This expense of \$2,332,414 represents 44.7 % of the total expenses. These two departments operate out of the general fund.

Business-Type Activities

Business-type activities include water, sewer and sanitation operations. The revenues are generated primarily from charges for services. In 2004, charges for services of \$3,444,289 accounted for 77.0% of the business-type revenues. The total expenses for the utilities were \$2,921,050. The City had an increase in net assets of \$1,547,425 for the business-type activities.

The City's Funds

Information about the City's governmental funds begins on page 12. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$7,111,524 and expenditures of \$6,456,320. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

Information about the proprietary funds starts on page 18. These funds are accounted for on an accrual basis. All business type funds had operating expenses of \$2,618,178 which were less than operating revenues of \$3,444,289, by \$826,111 or 24.0% of operating revenues.

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

General Fund Budgeting Highlights

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

During the course of 2004, 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 \$2,991,496, over the original budget estimates of \$2,685,475. Of this \$306,021 excess, most was attributable to increased property and income tax collections and increased intergovernmental revenue.

Final appropriations of \$2,836,813 were \$163,724 lower than the \$3,000,537 in the original budget.

Capital Assets and Debt Administration

Capital Assets

At the end of year 2004, the City had \$26,117,097 invested in land, buildings, equipment, infrastructure and vehicles. A total of \$13,497,721 of this was for governmental activities with the remainder attributable to business-type activities. Table 3 shows fiscal year 2004 balances compared with 2003.

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

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 1,173,234	\$ 1,150,934	\$ 140,782	\$ 140,782	\$ 1,314,016	\$ 1,291,716
Land Improvements	78,440	85,707	52,957	60,648	131,397	146,355
Buildings	270,757	261,182	4,143,975	4,314,219	4,414,732	4,575,401
Improvements Other Than Buildings	0	0	37,064	46,366	37,064	46,366
Machinery and Equipment	207,129	239,840	348,919	384,647	556,048	624,487
Furniture and Fixtures	16,188	18,092	0	0	16,188	18,092
Vehicles	239,436	273,186	152,320	169,819	391,756	443,005
Construction in Progress	839,596	4,817,148	1,750,888	7,800	2,590,484	4,824,948
Infrastructure	10,672,941	5,699,978	0	0	10,672,941	5,699,978
Water Lines	0	0	2,108,671	1,708,176	2,108,671	1,708,176
Sewer Lines	0	0	3,883,800	3,422,677	3,883,800	3,422,677
Totals	\$ 13,497,721	\$ 12,546,067	\$ 12,619,376	\$ 10,255,134	\$ 26,117,097	\$ 22,801,201

The \$3,315,896 increase in capital assets was attributable to additional purchases exceeding depreciation expense. Note 11 provides capital asset activity during the 2004 year.

City of London
Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Unaudited)

Debt

The outstanding debt for the City of London as of December 31, 2004 was \$5,430,440 with \$410,642 due within one year. Table 4 summarizes outstanding debt.

(Table 4)
Outstanding Debt, at December 31

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	\$ 135,000	\$ 160,000	\$ 0	\$ 0	\$ 135,000	\$ 160,000
Special Assessment Bonds	61,000	67,000	0	0	61,000	67,000
OPWC Loan	133,830	147,213	0	0	133,830	147,213
OWDA Loans	0	0	5,033,550	4,840,699	5,033,550	4,840,699
Police and Fire Pension	67,060	68,126	0	0	67,060	68,126
<i>Total</i>	\$ 396,890	\$ 442,339	\$ 5,033,550	\$ 4,840,699	\$ 5,430,440	\$ 5,283,038

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

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

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

Current Financial Issues

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

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

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

Contacting the City's Finance Department

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

City of London
Statement of Net Assets
December 31, 2004

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 1,744,176	\$ 2,351,630	\$ 4,095,806
Cash and Cash Equivalents with Fiscal Agents	11,872	0	11,872
Investments	414,661	0	414,661
Taxes Receivable	1,767,535	0	1,767,535
Accounts Receivable	20,381	373,378	393,759
Intergovernmental Receivable	998,216	0	998,216
Special Assessments Receivable	97,646	4,152	101,798
Internal Balances	40,000	(40,000)	0
Prepaid Items	56,668	21,197	77,865
Materials and Supplies Inventory	32,290	11,183	43,473
Notes Receivable	668,853	0	668,853
Restricted Cash and Cash Equivalents	0	102,460	102,460
Non-Depreciable Capital Assets	2,012,830	1,891,670	3,904,500
Depreciable Capital Assets, net	11,484,891	10,727,706	22,212,597
<i>Total Assets</i>	<u>19,350,019</u>	<u>15,443,376</u>	<u>34,793,395</u>
Liabilities			
Accounts Payable	174,970	75,513	250,483
Accrued Wages	119,631	48,834	168,465
Contracts Payable	107,299	1,076,070	1,183,369
Intergovernmental Payable	173,241	89,875	263,116
Customer Deposits Payable	0	102,460	102,460
Accrued Interest Payable	20,515	0	20,515
Deferred Revenue	858,375	0	858,375
Notes Payable	783,800	0	783,800
Long-Term Liabilities:			
Due Within One Year	62,051	388,251	450,302
Due in More Than One Year	541,674	4,765,127	5,306,801
<i>Total Liabilities</i>	<u>2,841,556</u>	<u>6,546,130</u>	<u>9,387,686</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	12,371,829	7,546,156	19,917,985
Restricted for Debt Service	84,538	0	84,538
Restricted for Capital Outlay	222,294	0	222,294
Restricted for Other Purposes	2,474,042	0	2,474,042
Unrestricted	1,355,760	1,351,090	2,706,850
<i>Total Net Assets</i>	<u>\$ 16,508,463</u>	<u>\$ 8,897,246</u>	<u>\$ 25,405,709</u>

See accompanying notes to the basic financial statements.

City of London
Statement of Activities
For the Year Ended December 31, 2004

	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	\$ 921,755	\$ 81,040	\$ 0	\$ 0	\$ (840,715)	\$ 0	\$ (840,715)
Security of Persons and Property	2,332,414	19,976	271,217	0	(2,041,221)	0	(2,041,221)
Public Health Services	1,632	0	0	0	(1,632)	0	(1,632)
Leisure Time Activities	224,273	43,166	13,986	6,700	(160,421)	0	(160,421)
Community and Economic Development	604,251	86,700	666,926	587,008	736,383	0	736,383
Transportation	1,083,153	0	131,056	0	(952,097)	0	(952,097)
Interest and Fiscal Charges	54,544	0	0	0	(54,544)	0	(54,544)
<i>Total Governmental Activities</i>	<u>5,222,022</u>	<u>230,882</u>	<u>1,083,185</u>	<u>593,708</u>	<u>(3,314,247)</u>	<u>0</u>	<u>(3,314,247)</u>
Business-Type Activities:							
Water	1,129,422	1,074,648	0	447,285	0	392,511	392,511
Sewer	1,336,211	1,549,582	0	556,158	0	769,529	769,529
Sanitation	455,417	820,059	0	0	0	364,642	364,642
<i>Total Business-Type Activities</i>	<u>2,921,050</u>	<u>3,444,289</u>	<u>0</u>	<u>1,003,443</u>	<u>0</u>	<u>1,526,682</u>	<u>1,526,682</u>
<i>Total</i>	<u>\$ 8,143,072</u>	<u>\$ 3,675,171</u>	<u>\$ 1,083,185</u>	<u>\$ 1,597,151</u>	<u>(3,314,247)</u>	<u>1,526,682</u>	<u>(1,787,565)</u>
General Revenues:							
Property Taxes Levied for:							
General Purposes					562,104	0	562,104
Other Purposes					318,641	0	318,641
Income Taxes Levied for:							
General Purposes					1,879,734	0	1,879,734
Other Purposes					1,039,794	0	1,039,794
Grants and Entitlements not Restricted to Specific Programs					1,013,461	0	1,013,461
Investment Earnings					57,050	3,250	60,300
Miscellaneous					8,134	20,473	28,607
Gain on Sale of Capital Assets					3,890	0	3,890
<i>Total General Revenues</i>					<u>4,882,808</u>	<u>23,723</u>	<u>4,906,531</u>
Transfers					2,980	(2,980)	0
<i>Total General Revenues and Transfers</i>					<u>4,885,788</u>	<u>20,743</u>	<u>4,906,531</u>
<i>Change in Net Assets</i>					<u>1,571,541</u>	<u>1,547,425</u>	<u>3,118,966</u>
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>					<u>14,936,922</u>	<u>7,349,821</u>	<u>22,286,743</u>
<i>Net Assets End of Year</i>					<u>\$ 16,508,463</u>	<u>\$ 8,897,246</u>	<u>\$ 25,405,709</u>

See accompanying notes to the basic financial statements.

City of London
Balance Sheet
Governmental Funds
December 31, 2004

	General	Special Projects	Capital Projects Keny	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 286,217	\$ 643,087	\$ 429	\$ 814,443	\$ 1,744,176
Cash and Cash Equivalents with Fiscal Agents	0	0	0	11,872	11,872
Investments	414,661	0	0	0	414,661
Taxes Receivable	1,133,143	244,922	0	389,470	1,767,535
Accounts Receivable	19,831	0	0	550	20,381
Intergovernmental Receivable	127,232	87,187	450,922	332,875	998,216
Special Assessments Receivable	0	0	0	97,646	97,646
Interfund Receivable	0	40,000	0	0	40,000
Prepaid Items	35,172	0	0	21,496	56,668
Materials and Supplies Inventory	1,086	0	0	31,204	32,290
Notes Receivable	0	0	0	668,853	668,853
<i>Total Assets</i>	<u>\$ 2,017,342</u>	<u>\$ 1,015,196</u>	<u>\$ 451,351</u>	<u>\$ 2,368,409</u>	<u>\$ 5,852,298</u>
Liabilities					
Accounts Payable	21,669	19,945	0	133,356	174,970
Accrued Wages	97,487	0	0	22,144	119,631
Contracts Payable	0	60,726	0	46,573	107,299
Intergovernmental Payable	70,538	0	0	19,540	90,078
Accrued Interest Payable	0	0	19,595	0	19,595
Deferred Revenue	1,031,270	157,271	0	712,265	1,900,806
Notes Payable	0	0	783,800	0	783,800
<i>Total Liabilities</i>	<u>1,220,964</u>	<u>237,942</u>	<u>803,395</u>	<u>933,878</u>	<u>3,196,179</u>
Fund Balances					
Reserved for Encumbrances	33,457	352,739	0	352,215	738,411
Reserved for Inventory	1,086	0	0	31,204	32,290
Reserved for Prepaid Items	35,172	0	0	21,496	56,668
Reserved for Notes Receivable	0	0	0	668,853	668,853
Unreserved, Undesignated, Reported in:					
General Fund	726,663	0	0	0	726,663
Special Revenue Funds	0	424,515	0	341,504	766,019
Debt Service Funds	0	0	0	19,259	19,259
Capital Projects Funds	0	0	(352,044)	0	(352,044)
<i>Total Fund Balances</i>	<u>796,378</u>	<u>777,254</u>	<u>(352,044)</u>	<u>1,434,531</u>	<u>2,656,119</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 2,017,342</u>	<u>\$ 1,015,196</u>	<u>\$ 451,351</u>	<u>\$ 2,368,409</u>	<u>\$ 5,852,298</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, 2004*

Total Governmental Fund Balances \$ 2,656,119

*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. 13,497,721

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

Special Assessments	97,646
Intergovernmental	327,218
Income Taxes	557,697
Interest	19,225
Property Taxes	40,645

Total 1,042,431

Intergovernmental payable includes contractually required
 pension contributions not expected to be paid with
 expendable available financial resources and therefore
 not reported in the funds. (83,163)

In the statement of activities, interest is accrued on outstanding bonds,
 whereas in governmental funds, an interest expenditure is
 reported when due. (920)

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

General Obligation Bonds	\$ (268,830)
Special Assessment Bonds	(61,000)
Capital Leases	(12,262)
Compensated Absences	(194,573)
Police and Fire Pension Liability	(67,060)

Total (603,725)

Net Assets of Governmental Activities \$ 16,508,463

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, 2004

	General	Special Projects	Capital Projects Keny	All Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$ 536,715	\$ 0	\$ 0	\$ 303,145	\$ 839,860
Income Taxes	1,990,929	866,151	0	182,301	3,039,381
Special Assessments	0	0	0	43,512	43,512
Charges for Services	43,166	0	0	0	43,166
Licenses and Permits	71,544	0	0	55,273	126,817
Fines and Forfeitures	15,861	0	0	4,115	19,976
Intergovernmental	364,936	87,187	450,922	1,785,318	2,688,363
Interest	37,231	0	0	594	37,825
Rent	9,496	0	0	0	9,496
Contributions and Donations	0	0	0	6,700	6,700
Other	2,048	0	4,606	1,480	8,134
<i>Total Revenues</i>	<u>3,071,926</u>	<u>953,338</u>	<u>455,528</u>	<u>2,382,438</u>	<u>6,863,230</u>
Expenditures					
Current:					
General Government	723,032	0	0	173,150	896,182
Security of Persons and Property	1,686,261	30,817	0	492,081	2,209,159
Public Health Services	1,632	0	0	0	1,632
Leisure Time Activities	202,257	9,131	0	60	211,448
Community and Economic Development	1,773	0	0	439,292	441,065
Transportation	10,676	167,827	0	531,079	709,582
Capital Outlay	0	855,896	0	787,677	1,643,573
Debt Service:					
Principal Retirement	0	7,506	0	45,523	53,029
Interest and Fiscal Charges	0	888	37,731	15,005	53,624
<i>Total Expenditures</i>	<u>2,625,631</u>	<u>1,072,065</u>	<u>37,731</u>	<u>2,483,867</u>	<u>6,219,294</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>446,295</u>	<u>(118,727)</u>	<u>417,797</u>	<u>(101,429)</u>	<u>643,936</u>
Other Financing Sources (Uses)					
Transfers In	0	0	5,000	235,006	240,006
Proceeds from Sale of Capital Assets	3,890	0	0	0	3,890
Inception of Capital Lease	0	0	0	4,398	4,398
Transfers Out	(190,003)	(47,023)	0	0	(237,026)
<i>Total Other Financing Sources (Uses)</i>	<u>(186,113)</u>	<u>(47,023)</u>	<u>5,000</u>	<u>239,404</u>	<u>11,268</u>
<i>Net Change in Fund Balance</i>	260,182	(165,750)	422,797	137,975	655,204
<i>Fund Balances (Deficit) Beginning of Year - Restated (see Note 3)</i>	535,609	943,004	(774,841)	1,288,684	1,992,456
Increase in Reserve for Inventory	587	0	0	7,872	8,459
<i>Fund Balances (Deficit) End of Year</i>	<u>\$ 796,378</u>	<u>\$ 777,254</u>	<u>\$ (352,044)</u>	<u>\$ 1,434,531</u>	<u>\$ 2,656,119</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, 2004*

Net Change in Fund Balances - Total Governmental Funds	\$	655,204
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*Amounts reported for governmental activities in the
statement of activities are different because*

Governmental funds report capital outlays as expenditures.

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

Capital Asset Additions	\$	1,484,979
Current Year Depreciation		<u>(520,218)</u>

Total		964,761
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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.

(13,107)

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

Special Assessments		(12,085)
Intergovernmental		(4,469)
Income Taxes		(119,853)
Interest		19,225
Delinquent Property Taxes		<u>40,645</u>

Total		(76,537)
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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.

53,029

Inception of capital lease in the governmental funds that increase long-term liabilities in the statement of net assets is not reported as revenues in the statement of activities

(4,398)

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

(920)

Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences		2,818
Intergovernmental		(17,768)
Change in Inventory		<u>8,459</u>

Total		<u>(6,491)</u>
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<i>Change in Net Assets of Governmental Activities</i>	<u>\$</u>	<u>1,571,541</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, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$ 495,000	\$ 547,066	\$ 536,715	\$ (10,351)
Income Taxes	1,767,500	1,953,948	1,921,986	(31,962)
Charges for Services	44,500	48,736	43,666	(5,070)
Licenses and Permits	46,000	54,130	53,346	(784)
Fines and Forfeitures	17,500	20,721	33,201	12,480
Intergovernmental	257,300	291,704	354,653	62,949
Interest	50,000	33,310	32,485	(825)
Rent	6,575	7,496	9,496	2,000
Other	1,100	1,419	2,058	639
<i>Total Revenues</i>	<u>2,685,475</u>	<u>2,958,530</u>	<u>2,987,606</u>	<u>29,076</u>
Expenditures				
Current:				
General Government	796,490	763,194	778,778	(15,584)
Security of Persons and Property	1,740,432	1,660,682	1,658,946	1,736
Public Health Services	3,500	1,702	1,702	0
Leisure Time Activities	214,100	203,606	203,606	0
Community and Economic Development	3,015	1,725	1,724	1
Transportation	10,000	10,677	10,676	1
<i>Total Expenditures</i>	<u>2,767,537</u>	<u>2,641,586</u>	<u>2,655,432</u>	<u>(13,846)</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(82,062)</u>	<u>316,944</u>	<u>332,174</u>	<u>15,230</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	0	0	3,890	3,890
Transfers Out	(233,000)	(195,227)	(190,003)	5,224
<i>Total Other Financing Sources (Uses)</i>	<u>(233,000)</u>	<u>(195,227)</u>	<u>(186,113)</u>	<u>9,114</u>
<i>Net Change in Fund Balance</i>	(315,062)	121,717	146,061	24,344
<i>Fund Balance Beginning of Year</i>	485,514	485,514	485,514	0
Prior Year Encumbrances Appropriated	52,886	52,886	52,886	0
<i>Fund Balance End of Year</i>	<u>\$ 223,338</u>	<u>\$ 660,117</u>	<u>\$ 684,461</u>	<u>\$ 24,344</u>

See accompanying notes to the basic financial statements.

City of London
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Special Projects Fund
For the Year Ended December 31, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Income Taxes	\$ 757,500	\$ 810,738	\$ 823,708	\$ 12,970
<i>Total Revenues</i>	<u>757,500</u>	<u>810,738</u>	<u>823,708</u>	<u>12,970</u>
Expenditures				
Current:				
Security of Persons and Property	40,221	33,586	49,671	(16,085)
Leisure Time Activities	11,917	9,951	9,131	820
Transportation	198,511	165,763	152,098	13,665
Capital Outlay	1,073,851	896,700	1,069,647	(172,947)
Debt Service:				
Principal Retirements	0	0	7,506	0
Interest and Fiscal Charges	0	0	888	0
<i>Total Expenditures</i>	<u>1,324,500</u>	<u>1,106,000</u>	<u>1,288,941</u>	<u>(174,547)</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(567,000)</u>	<u>(295,262)</u>	<u>(465,233)</u>	<u>(169,971)</u>
Other Financing Sources (Uses)				
Transfers Out	(61,372)	(51,248)	(47,023)	4,225
<i>Total Other Financing Sources (Uses)</i>	<u>(61,372)</u>	<u>(51,248)</u>	<u>(47,023)</u>	<u>4,225</u>
<i>Net Change in Fund Balance</i>	(628,372)	(346,510)	(512,256)	(165,746)
<i>Fund Balance Beginning of Year</i>	214,127	214,127	214,127	0
Prior Year Encumbrances Appropriated	332,250	332,250	332,250	0
<i>Fund Balance (Deficit) End of Year</i>	<u>\$ (81,995)</u>	<u>\$ 199,867</u>	<u>\$ 34,121</u>	<u>\$ (165,746)</u>

See accompanying notes to the basic financial statements.

City of London
Statement of Fund Net Assets
Proprietary Funds
December 31, 2004

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
Assets				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$ 463,720	\$ 1,376,859	\$ 511,051	\$ 2,351,630
Accounts Receivable	142,518	200,133	30,727	373,378
Prepaid Items	9,997	6,368	4,832	21,197
Special Assessments Receivable	0	4,152	0	4,152
Materials and Supplies Inventory	9,944	1,239	0	11,183
<i>Total Current Assets</i>	<u>626,179</u>	<u>1,588,751</u>	<u>546,610</u>	<u>2,761,540</u>
<i>Non-Current Assets:</i>				
Restricted Cash and Cash Equivalents	102,460	0	0	102,460
Non-Depreciable Capital Assets	31,898	1,759,812	99,960	1,891,670
Depreciable Capital Assets, Net	3,702,430	6,901,495	123,781	10,727,706
<i>Total Non-Current Assets</i>	<u>3,836,788</u>	<u>8,661,307</u>	<u>223,741</u>	<u>12,721,836</u>
<i>Total Assets</i>	<u>4,462,967</u>	<u>10,250,058</u>	<u>770,351</u>	<u>15,483,376</u>
Liabilities				
<i>Current Liabilities</i>				
Accounts Payable	12,362	36,658	26,493	75,513
Accrued Wages	23,608	12,295	12,931	48,834
Contracts Payable	0	1,076,070	0	1,076,070
Intergovernmental Payable	43,373	22,104	24,398	89,875
Customer Deposits Payable	102,460	0	0	102,460
Interfund Payable	0	40,000	0	40,000
Compensated Absences Payable	976	0	0	976
Capital Lease Payable	0	0	22,027	22,027
OWDA Loans Payable	61,256	303,992	0	365,248
<i>Total Current Liabilities</i>	<u>244,035</u>	<u>1,491,119</u>	<u>85,849</u>	<u>1,821,003</u>
<i>Long-Term Liabilities</i>				
Compensated Absences Payable - net of current portion	47,182	8,740	23,260	79,182
Capital Leases Payable - net of current portion	0	0	17,643	17,643
OWDA Loans Payable - net of current portion	1,353,765	3,314,537	0	4,668,302
<i>Total Long-Term Liabilities</i>	<u>1,400,947</u>	<u>3,323,277</u>	<u>40,903</u>	<u>4,765,127</u>
<i>Total Liabilities</i>	<u>1,644,982</u>	<u>4,814,396</u>	<u>126,752</u>	<u>6,586,130</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,319,307	5,042,778	184,071	7,546,156
Unrestricted	498,678	392,884	459,528	1,351,090
<i>Total Net Assets</i>	<u>\$ 2,817,985</u>	<u>\$ 5,435,662</u>	<u>\$ 643,599</u>	<u>\$ 8,897,246</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, 2004

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
Operating Revenue				
Charges for Services	\$ 1,074,648	\$ 1,549,582	\$ 820,059	\$ 3,444,289
Operating Expenses				
Salaries and Wages	576,325	295,936	324,754	1,197,015
Fringe Benefits	43,373	22,104	24,399	89,876
Contractual Services	86,706	345,443	36,579	468,728
Materials and Supplies	215,518	190,477	45,091	451,086
Depreciation	147,086	242,813	21,574	411,473
<i>Total Operating Expenses</i>	1,069,008	1,096,773	452,397	2,618,178
<i>Operating Income</i>	5,640	452,809	367,662	826,111
Non-Operating Revenues (Expenses)				
Interest	1,670	1,580	0	3,250
Other Non-Operating Revenues	0	4,152	16,321	20,473
Interest and Fiscal Charges	(60,414)	(239,438)	(3,020)	(302,872)
<i>Total Non-Operating Revenues (Expenses)</i>	(58,744)	(233,706)	13,301	(279,149)
<i>Income (Loss) Before Capital Contributions and Transfers</i>	(53,104)	219,103	380,963	546,962
Capital Contributions	447,285	556,158	0	1,003,443
Transfers In	60,000	0	0	60,000
Transfers Out	(1,517)	(26,388)	(35,075)	(62,980)
<i>Total Capital Contributions and Transfers</i>	505,768	529,770	(35,075)	1,000,463
<i>Change in Net Assets</i>	452,664	748,873	345,888	1,547,425
<i>Net Assets Beginning of Year-Restated (See Note 3)</i>	2,365,324	4,686,786	297,711	7,349,821
<i>Net Assets End of Year</i>	\$ 2,817,988	\$ 5,435,659	\$ 643,599	\$ 8,897,246

See accompanying notes to the basic financial statements.

City of London
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash Received from Customers	\$ 1,064,012	\$ 1,512,619	\$ 790,775	\$ 3,367,406
Cash Payments to Suppliers for Goods and Services	(216,434)	(190,351)	(45,222)	(452,007)
Cash Payments to Employees	(578,050)	(312,590)	(327,948)	(1,218,588)
Cash Payments for Contractual Services	(106,635)	(337,844)	(320,843)	(765,322)
<i>Net Cash Provided by Operating Activities</i>	<u>162,893</u>	<u>671,834</u>	<u>96,762</u>	<u>931,489</u>
Cash Flows from Noncapital Financing Activities				
Other Non-Operating Receipts	0	0	16,321	16,321
Transfers In	60,000	0	0	60,000
Transfers Out	(1,517)	(26,388)	(35,075)	(62,980)
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>58,483</u>	<u>(26,388)</u>	<u>(18,754)</u>	<u>13,341</u>
Cash Flows from Capital and Related Financing Activities				
Proceeds from Loans	0	553,241	0	553,241
Acquisition of Capital Assets	(18,404)	(677,798)	0	(696,202)
Principal Payments on Debt	(58,796)	(301,594)	(20,553)	(380,943)
Interest Payments	(60,414)	(239,438)	(3,020)	(302,872)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(137,614)</u>	<u>(665,589)</u>	<u>(23,573)</u>	<u>(826,776)</u>
Cash Flows from Investing Activities				
Interest	1,670	1,580	0	3,250
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	85,432	(18,563)	54,435	121,304
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>480,748</u>	<u>1,395,422</u>	<u>456,616</u>	<u>2,332,786</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u>\$ 566,180</u>	<u>\$ 1,376,859</u>	<u>\$ 511,051</u>	<u>\$ 2,454,090</u>

(continued)

City of London
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004

	Enterprise Funds			
	Water	Sewer	Sanitation	Totals
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating Income	\$ 5,640	\$ 452,809	\$ 367,662	\$ 826,111
Adjustments:				
Depreciation	147,086	242,813	21,574	411,473
(Increase) Decrease in Assets:				
Accounts Receivable	(26,971)	(36,963)	(29,284)	(93,218)
Materials and Supplies Inventory	(2,528)	(929)	0	(3,457)
Prepaid Items	8,535	1,495	(190)	9,840
Increase (Decrease) in Liabilities:				
Accounts Payable	(26,852)	7,159	(3,416)	(23,109)
Accrued Wages	4,564	3,631	2,050	10,245
Compensated Absences Payable	6,603	(13,706)	2,407	(4,696)
Customer Deposits Payable	16,335	0	0	16,335
Landfill Closure and Postclosure Costs Payable	0	0	(280,789)	(280,789)
Intergovernmental Payable	30,481	15,525	16,748	62,754
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 162,893</u>	<u>\$ 671,834</u>	<u>\$ 96,762</u>	<u>\$ 931,489</u>

Noncash Capital Financing Activities:

During 2004, capital assets were donated by developers to the water and sewer enterprise funds in the amount of \$447,285 and \$556,158, respectively.

During 2004, noncash activity occurred in the sewer enterprise fund for contracts payable related to sewer projects in the amount of \$1,076,070.

See accompanying notes to the basic financial statements.

City of London
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
December 31, 2004

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ <u>86,075</u>
Liabilities	
Accounts Payable	\$ 3,667
Undistributed Monies	<u>82,408</u>
<i>Total Liabilities</i>	<u>\$ 86,075</u>

See accompanying notes to the basic financial statements.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1: REPORTING ENTITY

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

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, 2004

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.

Special Projects Special Revenue Fund – This fund is used to account for financial resources to be used for the acquisition or construction of major capital projects.

Capital Projects – Keny Capital Projects Fund – This fund is used to account for financial resources to be used for various road projects.

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, 2004

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

D. *Basis of Accounting*

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

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 8.) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Property taxes for which there is no enforceable claim as of as of December 31, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Pooled Cash and Cash Equivalents

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

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

During 2004, investments were limited to certificates of deposit, overnight repurchase agreements, STAROhio and federal government securities.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2004.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2004 amounted to \$37,231 which includes \$31,963 assigned from other City funds.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments. See Note 6, Deposits and Investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004 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. Inventory consists of expendable supplies.

H. Restricted Assets

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

I. Capital Assets

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

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.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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	15-20 Years	15-20 Years
Buildings	20-40 Years	20-40 Years
Improvements other than Buildings	5-20 Years	N/A
Equipment and Machinery	5-20 Years	5-20 Years
Furniture and Fixtures	5-15 Years	N/A
Vehicles	8 Years	8 Years
Infrastructure	15 Years	N/A
Water Lines	N/A	50 Years
Sewer Lines	N/A	50 Years

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

J. Interfund Balances

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

K. Compensated Absences

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

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.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Net Assets

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

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

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

N. Fund Balance Reserves

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

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Operating Revenues and Expenses

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

P. Interfund Activity

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

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

Q. Extraordinary and Special Items

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

R. Estimates

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

S. Budgetary Data

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE/NET ASSETS

Change in Accounting Principles For 2004, the City has implemented GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments,” GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus,” GASB Statement No. 38, “Certain Financial Statement Note Disclosures,” and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.” At December 31, 2004, there was no effect on fund balance as a result of implementing GASB Statements No. 37 or No. 38.

GASB Statement No. 34 creates new basic financial statements for reporting on the City’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City’s programs for governmental activities and business-type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at January 1, 2004, caused by the conversion to the accrual basis of accounting and the reclassification of funds based on the guidance provided in GASB Statement No. 34.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in the areas where differences have arisen, or potentially could arise, in the interpretation and practice.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE/NET ASSETS (Continued)

Restatement of Fund Balance/Net Assets For 2004, the City increased its capitalization threshold to \$5,000 and contracted with a professional outside party to perform a complete asset valuation. As a result, the cost of capital assets in governmental activities increased by \$4,758,977. The City also restated the capital asset balance at January 1, 2004 to include accumulated depreciation of \$1,911,617, along with the infrastructure in the amount of \$8,359,679 less accumulated depreciation of \$2,659,701, which is required by GASB Statement No. 34. In addition, intergovernmental payables were understated by \$69,111 in the prior year.

Restatement of Fund Balance The restatements for GASB Statement No. 34 and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General Fund	Special Projects	Capital Projects Keny	All Other Governmental Funds	Total Governmental Funds
Fund Balances, 12/31/03	\$ 592,595	\$ 943,004	\$ (774,841)	\$ 1,300,809	\$ 2,061,567
Correction of Error	(56,986)	0	0	(12,125)	(69,111)
Fund Balances, 01/01/04	535,609	943,004	(774,841)	1,288,684	1,992,456
Capital Assets, 12/31/03					3,998,729
Change in Value of Capital Assets: Cost					4,758,977
GASB 34 Adjustments:					
Change in Value of Capital Assets:					
Infrastructure					8,359,679
Accumulated Depreciation					(4,571,318)
<i>Adjusted Capital Assets, 01/01/04</i>					12,546,067
Compensated Absences					(197,391)
Long-Term (Deferred) Assets					1,118,968
Long-term Liabilities					(523,178)
Governmental Activities Net Assets, 01/01/04					\$ 14,936,922

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE/NET ASSETS (Continued)

In 2004, the City's business-type capital assets were revalued by a professional appraisal company. As a result, the cost of capital assets in business-type funds increased by \$837,247 and the accumulated depreciation decreased by \$3,229,257. In addition, intergovernmental payables were understated by \$27,121 in the prior year.

	Previously Stated Balance <u>12/31/2003</u>	<u>Adjustments</u>	Restated Balance <u>1/1/2004</u>
Water	\$ 5,569,849	\$ (3,204,525)	\$ 2,365,324
Sewer	(2,374,776)	7,061,562	4,686,786
Sanitation	<u>115,365</u>	<u>182,346</u>	<u>297,711</u>
Total Business-Type Activities	<u>\$ 3,310,438</u>	<u>\$ 4,039,383</u>	<u>\$ 7,349,821</u>

NOTE 4: BUDGETARY BASIS OF ACCOUNTING

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

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

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 4: BUDGETARY BASIS OF ACCOUNTING (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general and capital improvements funds.

	Net Change in Fund Balance	
	<u>General</u>	<u>Special Projects</u>
GAAP Basis	\$ 260,182	\$ (165,750)
Revenue accruals	(84,320)	(129,630)
Expenditure accruals	11,629	140,079
Encumbrances	<u>(41,430)</u>	<u>(356,955)</u>
 Budget Basis	 <u>\$ 146,061</u>	 <u>\$ (512,256)</u>

NOTE 5: ACCOUNTABILITY AND COMPLIANCE

A. Accountability

Fund balances at December 31, 2004 included the following individual fund deficits:

	<u>Deficit</u>
Capital Projects – Keny	\$ (352,044)
Non-major fund:	
Co-Insurance Fund	(1,107)

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

B. Compliance

The City had appropriations in excess of estimated resources in the Special Projects and Parks and Playgrounds special revenue funds and the Garfield Avenue Rehabilitation and Staples Widening capital projects funds. These same funds also had expenditures in excess of appropriations.

NOTE 6: DEPOSITS AND INVESTMENTS

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

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

Inactive deposits are public deposits that Council has identified as not required for use within the current two-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 or depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies 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.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may 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 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 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and 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 instruments in securities described in this division are made only through eligible institutions, and;
6. The State Treasurer's investment pool (STAROhio).

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

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

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

Deposits At year-end, the carrying amount of the City's deposits was \$1,665,073 and the bank balance was \$2,145,127. Of the bank balance:

1. \$116,000 was covered by federal depository insurance.
2. \$2,029,127 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions' trust departments in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirement could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

Investments GASB Statement No. 3, "Deposits with Financial Institutions (including Repurchase Agreements), and Revenue Repurchase Agreements," requires the City to categorize investments to give an indication of the level of custodial credit risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 1	Carrying Value	Fair Value
Repurchase Agreement	\$ 1,645,507	\$ 1,645,507	\$ 1,645,507
FHLMC	398,661	398,661	398,661
STAROhio	0	1,001,633	1,001,633
 Total Investments	 \$ 2,044,168	 \$ 3,045,801	 \$ 3,045,801

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Cash equivalents are defined as investments with original maturities of three months or less.

A reconciliation between the classification of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash <u>Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 4,296,213	\$ 414,661
Certificate of Deposit with maturity of greater than three months	16,000	(16,000)
Investments which are part of a cash management pool:		
Repurchase Agreement	(1,645,507)	1,645,507
STAROhio	<u>(1,001,633)</u>	<u>1,001,633</u>
 GASB Statement No. 3	 <u>\$ 1,665,073</u>	 <u>\$ 3,045,801</u>

NOTE 7: NOTES RECEIVABLE

On August 2, 1994, the City received a \$500,000 promissory note from London Limited Partnership (the Partnership), an Ohio limited partnership formed to construct low income housing with Federal Financial Assistance granted to the City of London as well as funds, which the Partnership borrowed from a private lender. The note receivable began to accrue interest at a rate of 3% 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, 2004, and all unpaid interest, \$155,282 will be due and payable on January 1, 2011. The note is secured by the related property. The note receivable is equally offset by a reservation of fund balance.

In January 2003, the City loaned \$15,000 to Old Londontown Ltd, an Ohio Limited Liability Company formed to purchase, rehabilitate, hold, rent, or lease historic real estate for historic preservation. Proceeds from the note will be used to revitalize buildings in the city of London downtown area. The note's interest rate is 4.25%. The note is secured by a mortgage held by the City against the property at 105 South Main Street, London, Ohio. During 2004, the City received \$760 of principal payments and \$594 of interest payments. The balance on the note at December 31, 2004 is \$13,571. The note receivable is equally offset by a reservation of fund balance.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 8: PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2004 for real and public utility property taxes represents collections of the 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) are for 2004 taxes.

2004 real property taxes are levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by the State law at 35% of appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2004 public utility property taxes which became a lien on December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003, on the values as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25% of true value for capital assets and 23% for inventory.

The full tax rate for all City operations for the year ended December 31, 2004, was \$5.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property	\$ 126,822,510
Tangible Personal Property	28,433,370
Public Utility Property	<u>6,203,200</u>
Total	<u>\$ 161,459,080</u>

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

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

The County Treasurer collects property tax on behalf of all taxing districts in the County, including the City of London. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real and tangible personal property, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2004 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 2004 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.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 9: INCOME TAXES

The City levies a municipal income tax of 1.0% 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 10: RECEIVABLES

Receivables at December 31, 2004 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, 2004

NOTE 11: CAPITAL ASSETS

A summary of changes in governmental capital assets during 2004 follows:

	Restated Balance 12/31/03	Additions	Deletions	Balance 12/31/2004
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 1,150,934	\$ 22,300	\$ 0	\$ 1,173,234
Construction in Progress	4,817,148	985,186	(4,962,738)	839,596
<i>Total Capital Assets Not Being Depreciated</i>	5,968,082	1,007,486	(4,962,738)	2,012,830
<i>Capital Assets, Being Depreciated:</i>				
Land Improvements	188,125	0	0	188,125
Buildings	613,066	23,893	0	636,959
Equipment and Machinery	504,141	9,210	0	513,351
Furniture and Fixtures	54,541	0	0	54,541
Vehicles	1,429,751	83,402	(19,065)	1,494,088
Infrastructure	8,359,679	5,323,726	0	13,683,405
<i>Total Capital Assets, Being Depreciated</i>	11,149,303	5,440,231	(19,065)	16,570,469
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(102,418)	(7,267)	0	(109,685)
Buildings	(351,884)	(14,318)	0	(366,202)
Equipment and Machinery	(264,301)	(41,921)	0	(306,222)
Furniture and Fixtures	(36,449)	(1,904)	0	(38,353)
Vehicles	(1,156,565)	(104,045)	5,958	(1,254,652)
Infrastructure	(2,659,701)	(350,763)	0	(3,010,464)
<i>Total Accumulated Depreciation</i>	(4,571,318)	(520,218)	5,958	(5,085,578)
Total Capital Assets Being Depreciated, Net	6,577,985	4,920,013	(13,107)	11,484,891
Total Governmental Activities Capital Assets, Net	\$ 12,546,067	\$ 5,927,499	\$ (4,975,845)	\$ 13,497,721

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 25,748
Security of Persons and Property	98,890
Leisure Time Activities	13,579
Community and Economic Development	1,187
Transportation	380,814
Total	\$ 520,218

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 11: CAPITAL ASSETS (Continued)

	Restated Balance 12/31/03	Additions	Deletions	Balance 12/31/2004
Business-Type Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 140,782	\$ 0	\$ 0	\$ 140,782
Construction in progress	7,800	1,743,088	0	1,750,888
<i>Total Capital Assets Not Being Depreciated</i>	<u>148,582</u>	<u>1,743,088</u>	<u>0</u>	<u>1,891,670</u>
<i>Capital Assets, Being Depreciated:</i>				
Land Improvements	\$ 208,144	\$ 0	\$ 0	\$ 208,144
Buildings	6,674,883	8,405	0	6,683,288
Improvements Other Than Buildings	291,486	0	0	291,486
Equipment and Machinery	1,577,943	0	0	1,577,943
Vehicles	440,648	20,779	(22,010)	439,417
Water Lines	2,115,860	447,285	0	2,563,145
Sewer Lines	4,473,659	556,158	0	5,029,817
<i>Total Capital Assets, Being Depreciated</i>	<u>15,782,623</u>	<u>1,032,627</u>	<u>(22,010)</u>	<u>16,793,240</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(147,496)	(7,691)	0	(155,187)
Buildings	(2,360,664)	(178,649)	0	(2,539,313)
Improvements Other Than Buildings	(245,120)	(9,302)	0	(254,422)
Equipment and Machinery	(1,193,296)	(35,728)	0	(1,229,024)
Vehicles	(270,829)	(38,278)	22,010	(287,097)
Water Lines	(407,684)	(46,790)	0	(454,474)
Sewer Lines	(1,050,982)	(95,035)	0	(1,146,017)
<i>Total Accumulated Depreciation</i>	<u>(5,676,071)</u>	<u>(411,473)</u>	<u>22,010</u>	<u>(6,065,534)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>10,106,552</u>	<u>621,154</u>	<u>0</u>	<u>10,727,706</u>
<i>Total Business-Type Activities Capital Assets, Net</i>	<u>\$ 10,255,134</u>	<u>\$ 2,364,242</u>	<u>\$ 0</u>	<u>\$ 12,619,376</u>

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 12: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2004, the City contracted with several companies for various types of commercial insurance as follows:

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

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

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

NOTE 13: DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 13: DEFINED BENEFIT PENSION PLANS (Continued)

For the year ended December 31, 2004, the members of all three plans were required to contribute 8.5% of their annual covered salaries. The City's contribution rate for pension benefits for 2004 was 9.55%. 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, 2004, 2003 and 2002 were \$178,129, \$151,127 and \$147,541 respectively; 92% has been contributed for 2004 and 100% for 2003 and 2002.

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 retirement system administered by the OP&F's Board of Trustees. 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. 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% of their annual covered salary to fund pension obligations while the City is required to contribute 11.75% for police officers and 16.25% for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters were \$74,243 and \$76,961 for the year ended December 31, 2004, \$70,387 and \$73,556 for 2003, and \$69,082 and \$72,192 for 2002. The full amount has been contributed for 2003 and 2002. 72.2% and 71.68% has been contributed for 2004.

NOTE 14: POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System of Ohio (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55% of covered payroll (16.7% for public safety and law enforcement); 4.00% of covered payroll was the portion that was used to fund health care.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 14: POSTEMPLOYMENT BENEFITS (Continued)

Benefits are advanced-funded using the age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase between 1.00% and 6.00% annually for the next eight years and 4% annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 369,885. The City's actual contributions for 2004 which were used to fund postemployment benefits were \$74,609. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 14: POSTEMPLOYMENT BENEFITS (Continued)

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$48,969 for police and \$36,705 for firefighters. The OP&F's total health care expenses for the year ended December 31, 2003 (the latest information available) were \$150,853,148 which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003 was 13,662 for police and 10,474 for firefighters.

NOTE 15: COMPENSATED ABSENCES

In accordance with GASB 16, the City accrues unpaid vacation, as it is earned and certain portions of sick leave pay as payment becomes probable.

Vacation is accumulated based upon length of service as follows:

<u>Employee Service</u>	<u>40 Hr/Wk Employee Hours Earned / Year</u>
1 thru 7	80
8 thru 14	120
15 thru 24	160
Over 24 years	200

No more than the amount of vacation accrued in the previous thirty-six month period can be carried forward into the next calendar year without written consent of the Mayor. Without this approval, any excess is eliminated from the employee's leave balance. In the case of death, termination, or retirement, an employee (or his estate) is paid for the unused vacation up to a maximum of the three year accrual.

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

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

As of December 31, 2004, the accrued liability for unpaid compensated absences was \$274,731.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 16: CAPITALIZED LEASES – LESSEE DISCLOSURE

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

The assets acquired by the leases have been capitalized in the governmental activities and business-type activities in the amounts of \$42,044 and \$103,414, respectively, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability is recorded and is reduced for each required principal payment.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2004:

<u>Year</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
2005	\$ 9,751	\$ 23,573	\$ 33,324
2006	1,356	17,679	19,035
2007	1,356	0	1,356
2008	1,243	0	1,243
Total Minimum Lease Payments	13,706	41,252	54,958
Less: Amount Representing Interest	<u>(1,444)</u>	<u>(1,582)</u>	<u>(3,026)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 12,262</u>	<u>\$ 39,670</u>	<u>\$ 51,932</u>

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 17: LONG-TERM OBLIGATIONS

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
Governmental Activities			
N. End Sewer Project Special Assessment Bonds - 1993	5.25%	\$ 127,000	December 1, 2013
East High Street OPWC Loan - 1993	0.00%	267,660	July 1, 2014
Pool Improvement General Obligation Bonds - 1994	5.80%	310,000	June 1, 2019
Business-Type Activities			
Sewer Improvements OWDA Loan - 1976	5.50%	414,779	July 1, 2005
Sewer Improvements OWDA Loan - 1976	5.50%	85,868	January 1, 2004
Sewer Improvements OWDA Loan - 1988	7.65%	5,157,855	January 1, 2013
Sewer Improvements OWDA Loan - 1988	7.86%	600,831	January 1, 2013
Water Improvements OWDA Loan - 2001	4.14%	1,610,687	July 1, 2021
Sewer Improvements OWDA Loan - 2004	1.00%	253,118	January 1, 2010
Sewer Improvements OWDA Loan - 2004	1.00%	1,552,123	January 1, 2010

Changes in the long-term obligations of the City during 2004 were as follows:

	Amount Outstanding 12/31/2003	Additions	(Reductions)	Amount Outstanding 12/31/2004	Amounts Due Within One Year
Governmental Activities					
Special Assessment Bonds	\$ 67,000	\$ 0	\$ 6,000	\$ 61,000	\$ 6,000
OPWC Loan	147,213	0	13,383	133,830	13,383
General Obligation Bonds	160,000	0	25,000	135,000	25,000
Capital Leases	15,444	4,398	7,580	12,262	8,877
Compensated Absences	197,391	0	2,818	194,573	7,780
Police and Fire Pension Payable	68,126	0	1,066	67,060	1,011
Total Governmental Activities	<u>\$ 655,174</u>	<u>\$ 4,398</u>	<u>\$ 55,847</u>	<u>\$ 603,725</u>	<u>\$ 62,051</u>
Business-Type Activities					
<u>OWDA Loans</u>					
Sewer Improvements	\$ 40,020	\$ 0	\$ 26,338	\$ 13,682	\$ 13,682
Sewer Improvements	5,632	0	5,632	0	0
Sewer Improvements	2,971,787	0	241,477	2,730,310	259,950
Sewer Improvements	349,446	0	28,147	321,299	30,360
Water Improvements	1,473,814	0	58,796	1,415,018	61,256
Sewer Improvements	0	253,118	0	253,118	0
Sewer Improvements	0	300,123	0	300,123	0
Total OWDA Loans	<u>4,840,699</u>	<u>553,241</u>	<u>360,390</u>	<u>5,033,550</u>	<u>365,248</u>
Capital Lease	60,223	0	20,553	39,670	22,027
Compensated Absences	0	80,158	0	80,158	976
Landfill Postclosure Costs	280,789	0	280,789	0	0
Total Business-Type Activities	<u>\$ 5,181,711</u>	<u>\$ 633,399</u>	<u>\$ 661,732</u>	<u>\$ 5,153,378</u>	<u>\$ 388,251</u>

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 17: LONG-TERM OBLIGATIONS (Continued)

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

In 1976 through 1988 the City entered into agreements with the Ohio Water Development Authority (OWDA) for several sewer upgrade projects. The total amount authorized for these loans were \$6,259,333, and as of December 31, 2004 the City had drawn down the entire amount.

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

The City was awarded a new loan from the OWDA in the amount of \$253,118. The proceeds of this loan are being used for upgrades planning for the waste water treatment plan. As of December 31, 2004 the City had drawn down \$253,118. A final amortization schedule is not available.

The City was awarded a new loan from the OWDA in the amount of \$1,552,000. The proceeds of this loan are being used for the design of the waste water treatment plant. As of December 31, 2004 the City had drawn down \$300,123. Until the loan is fully drawn down, a final amortization schedule is not available.

The City was awarded a new loan from the OWDA in the amount of \$1,714,894 for the Northeast Interceptor Construction project. The City has not drawn down any of this loan.

The City's overall legal debt margin was \$16,680,680 at December 31, 2004.

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 17: LONG-TERM OBLIGATIONS (Continued)

The annual requirements to retire the governmental activities long-term obligations outstanding at December 31, 2004 are as follows:

Year	Police and Fire Pension		General Obligation Bonds		Special Assessment Bonds		OPWC	Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Loan	Principal	Interest
2005	\$ 1,011	\$ 2,947	\$ 25,000	\$ 7,105	\$ 6,000	\$ 3,203	\$ 13,383	\$ 45,394	\$ 13,255
2006	1,159	2,799	25,000	5,655	6,000	2,887	13,383	45,542	11,341
2007	1,208	2,749	25,000	4,205	7,000	2,573	13,383	46,591	9,527
2008	1,261	2,697	30,000	2,610	7,000	2,205	13,383	51,644	7,512
2009	1,315	2,643	30,000	870	7,000	1,837	13,383	51,698	5,350
2010-2014	7,472	12,318	0	0	28,000	3,675	66,915	102,387	15,993
2015-2019	9,220	10,570	0	0	0	0	0	9,220	10,570
2020-2024	11,378	8,412	0	0	0	0	0	11,378	8,412
2025-2029	14,041	5,749	0	0	0	0	0	14,041	5,749
2030-2034	17,233	2,463	0	0	0	0	0	17,233	2,463
2035	1,762	37	0	0	0	0	0	1,762	37
Total	<u>\$ 67,060</u>	<u>\$ 53,384</u>	<u>\$ 135,000</u>	<u>\$ 20,445</u>	<u>\$ 61,000</u>	<u>\$ 16,380</u>	<u>\$ 133,830</u>	<u>\$ 396,890</u>	<u>\$ 90,209</u>

The annual requirements to retire the business-type activities long-term obligations outstanding at December 31, 2004 are as follows:

Year	OWDA Loans	
	Principal	Interest
2005	\$ 365,248	\$ 292,663
2006	376,400	267,242
2007	403,051	240,592
2008	431,653	211,989
2009	462,353	181,289
2010-2014	1,768,294	401,054
2015-2019	501,650	94,401
2020-2023	724,901	7,155
Total	<u>\$ 5,033,550</u>	<u>\$ 1,696,385</u>

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 18: LANDFILL POSTCLOSURE CARE COSTS

The City of London landfill voluntarily closed in June 1989. The City utilized 45 acres for landfill purposes situated on a 280 acre city-owned farm. The 45 acres was a landfill from 1966 to 1989. The Ohio EPA approved the City's final closure plan in June 1990. The City had incurred closure costs of \$347,556 of which \$19,092 was incurred in 2004. The final closure plan required twelve groundwater-monitoring wells. The required number of tests per year has been decreasing since 1990. The City had been required to test five down-gradient groundwater-monitoring wells, one up-gradient groundwater monitoring well and three surface sampling points semi-annually. In accordance with GASB Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs, the City had recognized a liability of \$261,697 at December 31, 2004 for the estimated future postclosure costs to be incurred. The EPA has given permission to discontinue ground water monitoring. As a result, a liability for the post-closure care costs is no longer required and the liability was removed.

NOTE 19: SHORT TERM NOTE PAYABLE

The following is a summary of bond anticipation note obligations for the year ended December 31, 2004:

	Balance <u>12/31/2003</u>	Principal <u>Issued</u>	Principal <u>Retired</u>	Balance <u>12/31/2004</u>
Bond Anticipation Note, 3.75%	\$ 783,800	\$ 0	\$ 783,800	\$ 0
Bond Anticipation Note, 2.5%	<u>0</u>	<u>783,800</u>	<u>0</u>	<u>783,800</u>
Total	<u>\$ 783,800</u>	<u>\$ 783,800</u>	<u>\$ 783,800</u>	<u>\$ 783,800</u>

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

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 20: INTERFUND TRANSFERS AND BALANCES

<u>Transfer To</u>	<u>Transfer From</u>					<u>Total</u>
	<u>General</u>	<u>Capital Improvement</u>	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	
Major Funds						
Capital Projects Keny	\$ 5,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,000
Water	0	0	0	25,000	35,000	60,000
Nonmajor Funds						
Pool Improvement Debt	0	33,640	0	0	0	33,640
East High St. Debt	0	13,383	0	0	0	13,383
Street	45,000	0	0	0	0	45,000
State Highway	10,000	0	0	0	0	10,000
Permissive	33,000	0	0	0	0	33,000
Police Pension	52,745	0	0	0	0	52,745
Fire Pension	39,366	0	0	0	0	39,366
Co-Insurance	4,892	0	1,517	1,388	75	7,872
Total	<u>\$ 190,003</u>	<u>\$ 47,023</u>	<u>\$ 1,517</u>	<u>\$ 26,388</u>	<u>\$ 35,075</u>	<u>\$ 300,006</u>

The general fund transfers to the major and nonmajor funds were made to provide additional resources for current operations. The transfers from the Special Projects fund to the pool improvement debt and East High St. debt funds were made for the payment of debt. The transfers from the water, sewer and sanitation funds to the co-insurance fund were to provide resources for current operations. The transfers from the sewer and sanitation funds were made for the payment of debt.

As of December 31, 2004, interfund balances were as follows:

	<u>Interfund</u>	
	<u>Receivable</u>	<u>Payable</u>
Capital Improvements	\$ 40,000	\$ 0
Sewer	0	40,000
Total	<u>\$ 40,000</u>	<u>\$ 40,000</u>

CITY OF LONDON, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 21: CONTINGENCIES

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City at December 31, 2004.

B. Litigation

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

NOTE 22: BUDGETARY COMPLIANCE

At December 31, 2004, the City had appropriations in excess of estimated resources in the Garfield Avenue Rehabilitation and Staples Widening capital projects funds. These same funds also had expenditures in excess of appropriations. Throughout the year, the City had several funds that had appropriations in excess of estimated resources and expenditures in excess of appropriations.



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
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Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the City Council
London, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of London, Ohio, as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 15, 2005, in which we noted the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government's*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government's: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-001 and 2004-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2004-001 and 2004-002.

We also noted certain additional matters that we reported to management of the City, in a separate letter dated August 15, 2005.

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

Clark, Schaefer, Hachett & Co.

Springfield, Ohio
August 15, 2005

SCHEDULE OF FINDINGS

CITY OF LONDON, OHIO
DECEMBER 31, 2004

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

Finding Number	2004-001
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During the fiscal year the City received \$703,926 through the Small Cities Community Development Block Grant, which is administered by the Ohio Department of Development Office of Housing and Community Partnerships (OHCP). The OHCP has published financial management requirements that apply to any grantee who receives OHCP-awarded grants. One of the requirements, under the heading of cash management, states the grantee must develop a cash management system to ensure compliance with the Fifteen Day Rule. This rule states that funds drawn down should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within fifteen days of receipt of any funds.

Through out the year the City requested several draws that were not expended in accordance with the fifteen day rule. At December 31, 2004 the City had a cash balance of \$387,352 in the Home Grant fund and State Grant Rehab fund, funds used to account for transactions involving the Small Cities Community Development Block Grant. All drawdown requests with the exception of one in the amount of \$140,175 were received a minimum of 15 days prior to the end of the fiscal year. The balance of \$247,177 should have been depleted to less than \$5,000 prior to the end of the fiscal year.

We recommend the City develop and implement procedures to monitor the cash balance in the grant funds and maintain comparisons of grant budgets to actual expenditures incurred or encumbered in order to better manage cash flow.

Finding Number	2004-002
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Ohio Rev. Code section 5705.39 states total appropriations from each fund shall not exceed the total of the estimated revenue available and no appropriation measure shall become effective until the county auditor files with the appropriating authority a certificate that the total appropriations from each fund do not exceed such official estimate or amended official estimate.

During testing of budgetary compliance several instances of noncompliance were noted. The most significant areas of noncompliance are as follows:

- The original appropriation resolution approved by City Council exceeded estimated resources, therefore, was not certified by the County Auditor. The City did not approve any budgetary amendments to correct the budget, therefore, the City did not operate with a legal budget throughout the year and all expenditures were not appropriated in accordance with the Ohio Rev. Code.
- City Council approved budgetary amendments that were not submitted to the County Auditor. Based on the Ohio Rev. Code sections cited above, those amendments were not effective and could not be used by the City in monitoring budgetary compliance.
- City accounting records were not updated for budgetary amendments approved by Council and submitted to the County Auditor

We recommend the City design and implement procedures to ensure they are in compliance with budgetary requirements outlined in the Ohio Rev. Code. The City should also implement review procedures to ensure accounting records are accurately and timely updated for budgetary amendments. Also, if the County Auditor does not certify the appropriation resolution and/or amendments, the City should take action to resolve the violation and submit a corrected budget.

SCHEDULE OF PRIOR AUDIT FINDINGS

CITY OF LONDON, OHIO
DECEMBER 31, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	City should use a comprehensive Capital Asset management system	Yes	N/A
2003-002	Fraud in the Law Director's Office	Yes	N/A



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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 29, 2005**