



Dave Yost • Auditor of State

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**CITY OF LONDON, OHIO  
MADISON COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Kathleen Hensel, Auditor  
City of London  
102 South Main Street  
London, Ohio 43140

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of London, Madison County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of London, Madison County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 20, during the year ended December 31, 2011, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

**Dave Yost**  
Auditor of State

July 11, 2012

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)**

This discussion and analysis of the City of London's (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2011. 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 2011 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by approximately \$27.5 million (net assets). Of this amount, approximately \$6.5 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets decreased by \$866,210 in 2011. This decrease is the result of a \$468,199 decrease in governmental net assets and \$398,011 decrease in business-type net assets.
- For governmental activities, general revenues accounted for approximately \$5.0 million, or 77 percent of total revenues, and program specific revenues accounted for the remaining 23 percent, or approximately \$1.5 million.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$3.8 million, a \$91,192 decrease in comparison with the prior year. Of this amount, \$864,113 is available for spending at the City's discretion (unassigned fund balance).
- At the close of the current fiscal year, unassigned fund balance for the General Fund was \$892,045, or 22 percent of general fund expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

**CITY OF LONDON, OHIO  
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**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)**

The *Statement of Activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned by unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, leisure time activities, community and economic development, and transportation. The business-type activities of the City include water treatment and distribution, sewage collection, and sanitation.

The government-wide financial statements can be found on pages 11-13 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 32 individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and Keny Boulevard Extension Debt Service Fund, each of which are considered to be major funds. Data from the other 30 governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 14-18 of this report.



**CITY OF LONDON, OHIO  
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)**

**Proprietary Funds.** The City utilizes only one type of proprietary fund: enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water treatment and distribution, sewage collection, and sanitation.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each enterprise fund, each of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 19-22 of this report.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. 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 fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 23 of this report.

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-52 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The table below provides a summary of the City's net assets for 2011 compared to 2010:

	Governmental Activities		Business-Type Activities		Total	
	Restated 2010	2011	2010	2011	Restated 2010	2011
Current and Other Assets	\$ 6,930,315	\$ 6,764,930	\$ 5,905,259	\$ 5,287,163	\$ 12,835,574	\$ 12,052,093
Capital Assets, Net	17,416,633	16,859,821	37,779,801	35,971,406	55,196,434	52,831,227
Total Assets	24,346,948	23,624,751	43,685,060	41,258,569	68,032,008	64,883,320
Current and Other Liabilities	2,112,256	1,888,540	267,726	286,025	2,379,982	2,174,565
Long-Term Liabilities	5,446,975	5,416,693	31,813,459	29,766,680	37,260,434	35,183,373
Total Liabilities	7,559,231	7,305,233	32,081,185	30,052,705	39,640,416	37,357,938
Net Assets:						
Invested in capital assets, net of related debt	13,865,141	13,158,935	6,110,837	6,344,763	19,975,978	19,503,698
Restricted	1,349,092	1,502,761	-	-	1,349,092	1,502,761
Unrestricted	1,573,484	1,657,822	5,493,038	4,861,101	7,066,522	6,518,923
Total Net Assets	\$ 16,787,717	\$ 16,319,518	\$ 11,603,875	\$ 11,205,864	\$ 28,391,592	\$ 27,525,382

**CITY OF LONDON, OHIO  
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**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)**

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by approximately \$27.5 million at the close of the most recent fiscal year.

*Governmental Activities* - The significant decrease in capital assets, net, is the result of depreciation and net disposals of \$898,216 offset by \$341,404 in additions. The significant increase in current liabilities is mainly due to the decrease in contracts payable relating to the timing of payments on projects.

*Business-Type Activities* - The significant decrease in capital assets, net, is the result of current year depreciation of approximately \$2.0 million. The significant decrease in long-term liabilities is the result of principal payments made during the year totaling approximately \$2.1 million.

By far the largest portion of the City's net assets (71 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (approximately \$6.5 million) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)**

The table below shows the changes in net assets for fiscal years 2011 and 2010.

	Governmental Activities		Business-type Activities		Total	
	2010	2011	2010	2011	2010	2011
<b>Program Revenues:</b>						
Charges for Service	\$ 539,948	\$ 524,144	\$ 4,748,604	\$ 4,913,533	\$ 5,288,552	\$ 5,437,677
Operating Grants	999,428	851,982	-	-	999,428	851,982
Capital Grants	200,103	100,000	31,371	14,143	231,474	114,143
<b>General Revenues:</b>						
Property Taxes	828,291	938,672	-	-	828,291	938,672
Payment in Lieu of Taxes	459,661	481,681	-	-	459,661	481,681
Income Taxes	3,085,013	3,227,114	-	-	3,085,013	3,227,114
Unrestricted Grants	543,273	339,326	-	-	543,273	339,326
Investment Income	29,457	17,415	-	-	29,457	17,415
Other Revenue	51,560	31,134	-	-	51,560	31,134
<b>Total Revenues</b>	<b>6,736,734</b>	<b>6,511,468</b>	<b>4,779,975</b>	<b>4,927,676</b>	<b>11,516,709</b>	<b>11,439,144</b>
<b>Expenses:</b>						
General Government	1,321,576	1,400,633	-	-	1,321,576	1,400,633
Security of Persons and Property	3,004,870	3,273,592	-	-	3,004,870	3,273,592
Public Health Services	300	-	-	-	300	-
Transportation	1,152,863	1,443,740	-	-	1,152,863	1,443,740
Economic Development	1,181,013	496,100	-	-	1,181,013	496,100
Leisure Time Activities	170,126	204,975	-	-	170,126	204,975
Interest on Long-Term Debt	60,646	160,627	-	-	60,646	160,627
Water	-	-	1,270,300	1,309,923	1,270,300	1,309,923
Sewer	-	-	2,776,659	3,104,681	2,776,659	3,104,681
Sanitation	-	-	879,494	911,083	879,494	911,083
<b>Total Expenses</b>	<b>6,891,394</b>	<b>6,979,667</b>	<b>4,926,453</b>	<b>5,325,687</b>	<b>11,817,847</b>	<b>12,305,354</b>
<b>Change in Net Assets</b>	<b>(154,660)</b>	<b>(468,199)</b>	<b>(146,478)</b>	<b>(398,011)</b>	<b>(301,138)</b>	<b>(866,210)</b>
Net assets, Beginning	16,942,377	16,787,717	11,750,353	11,603,875	28,692,730	28,391,592
Net assets, Ending	<u>\$ 16,787,717</u>	<u>\$ 16,319,518</u>	<u>\$ 11,603,875</u>	<u>\$ 11,205,864</u>	<u>\$ 28,391,592</u>	<u>\$ 27,525,382</u>

*Governmental Activities* – The significant decrease in capital grants and contributions is primarily the result of the winding down of the Keny Boulevard extension project during the year. The significant decrease in community and economic development expense is primarily the result of the \$760,482 write-off of the uncollectible London Apartments note receivable from the prior year.

*Business-Type Activities* – The significant increase in expenses is mainly due to the increase of spending for sewer operations during the year.

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)**

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

Functions/Programs	Total Cost of Services		Net Cost of Services	
	2010	2011	2010	2011
<b>Governmental Activities:</b>				
General Government	\$ (1,321,576)	\$ (1,400,633)	\$ (1,116,675)	\$ (1,250,416)
Security of Persons and Property	(3,004,870)	(3,273,592)	(2,707,116)	(2,967,362)
Public Health Services	(300)	-	(300)	-
Transportation	(1,152,863)	(1,443,740)	(579,477)	(807,309)
Economic Development	(1,181,013)	(496,100)	(575,538)	(167,236)
Leisure Time Activities	(170,126)	(204,975)	(112,163)	(150,591)
Interest Expense	(60,646)	(160,627)	(60,646)	(160,627)
<b>Total Governmental Activities</b>	<b>(6,891,394)</b>	<b>(6,979,667)</b>	<b>(5,151,915)</b>	<b>(5,503,541)</b>
<b>Business-Type Activities:</b>				
Water	(1,270,300)	(1,309,923)	86,216	42,785
Sewer	(2,776,659)	(3,104,681)	(268,376)	(437,751)
Sanitation	(879,494)	(911,083)	35,682	(3,045)
<b>Total Business-Type Activities</b>	<b>(4,926,453)</b>	<b>(5,325,687)</b>	<b>(146,478)</b>	<b>(398,011)</b>
<b>Grand Total</b>	<b>\$ (11,817,847)</b>	<b>\$ (12,305,354)</b>	<b>\$ (5,298,393)</b>	<b>\$ (5,901,552)</b>

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$3.8 million, a decrease of \$91,192 from the previous year.

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)**

The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2011 and 2010.

	<b>Restated Fund Balance 12/31/2010</b>	<b>Fund Balance 12/31/2011</b>	<b>Increase (Decrease)</b>
General Fund	\$ 1,718,460	\$ 1,846,150	\$ 127,690
Keny Boulevard Extension Debt Service Fund	(30,193)	119,269	149,462
Other Governmental	2,199,131	1,830,787	(368,344)
Total	<u>\$ 3,887,398</u>	<u>\$ 3,796,206</u>	<u>\$ (91,192)</u>

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$892,045, 48% of the total fund balance. The fund balance of the City's General Fund increased \$127,690 during the current fiscal year, or 7%, from the previous year. General Fund expenditures increased \$565,137, or 16% in comparison with the prior year, primarily as a result of increased spending on fire and police.

The Keny Boulevard Extension Debt Service Fund accounts for the debt payments of the Keny Boulevard Extension Project and revenues associated with the project. The fund balance increased \$149,462 due to revenues outpacing debt service payments.

**Proprietary Funds** - The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail. Unrestricted net assets at the end of the year amounted to \$1.5 million, \$2.4 million, and \$934,228 for the Water, Sewer and Sanitation funds, respectively. The change in net assets was an increase of \$42,785 in the Water Fund, a decrease of \$437,751 in the Sewer Fund, and a decrease of \$3,045 in the Sanitation Fund. The significant decrease in the Sewer Fund represents the amount in which operating and interest expenses exceeded operating revenues during the fiscal year. Total operating expenses for all proprietary funds were \$5.0 million which was slightly more than operating revenues of \$4.9 million.

**GENERAL FUND BUDGETARY 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 2011, 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 \$224,260, over the final budget estimates of \$4.0 million. Of this excess, most was attributable to increased property tax receipts.

**CITY OF LONDON, OHIO  
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**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)**

Final budgetary expenditures were \$366,873 less than final appropriations of \$4.5 million.

The revenue and expenditure variances between original and final budgets were insignificant.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2011, amounts to approximately \$52.8 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings, equipment, furniture, vehicles, and infrastructure. The City's net capital asset balance decreased \$2.4 million during the year. This decrease represents the amount by which current year depreciation of approximately \$2.9 million exceeded current year acquisitions, totaling approximately \$.5 million.

Detailed information regarding capital asset activity is included in the Note 10 to the basic financial statements.

**Debt**

At the end of the current fiscal year, the City had total debt outstanding of approximately \$34.6 million, a decrease of \$2.1 million in comparison with the prior year. This decrease represents the amount by which current year principal payments of approximately \$5.2 million, exceeded current year additions, totaling approximately \$3.1 million.

Detailed information regarding long-term debt is included in Note 16 to the basic financial statements.

**CONTACTING THE CITY'S FINANCE DEPARTMENT**

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

**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF NET ASSETS  
AS OF DECEMBER 31, 2011

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 3,465,973	\$ 4,588,312	\$ 8,054,285
Cash and Cash Equivalents in Segregated Accounts	51,361	-	51,361
Receivables:			
Taxes	2,526,526	-	2,526,526
Accounts	34,344	504,797	539,141
Intergovernmental	389,365	-	389,365
Interest	123	-	123
Special Assessments	71,501	28,133	99,634
Notes	12,327	-	12,327
Internal Balances	40,000	(40,000)	-
Prepaid Items	33,736	24,269	58,005
Materials and Supplies Inventory	77,147	46,993	124,140
Restricted Cash and Cash Equivalents	-	134,659	134,659
Deferred Bonds Cost	62,527	-	62,527
Capital Assets:			
Non-Depreciable	3,775,407	398,360	4,173,767
Depreciable, net	13,084,414	35,573,046	48,657,460
<b>Total Assets</b>	<b>23,624,751</b>	<b>41,258,569</b>	<b>64,883,320</b>
<b>Liabilities</b>			
Accounts Payable	45,675	56,677	102,352
Retainage Payable	84,961	-	84,961
Accrued Wages	117,163	40,593	157,756
Contracts Payable	4,272	-	4,272
Intergovernmental Payable	217,869	54,096	271,965
Customer Deposits Payable	-	134,659	134,659
Accrued Interest Payable	11,894	-	11,894
Unearned Revenue	1,406,706	-	1,406,706
Long-Term Liabilities:			
Due Within One Year	410,953	2,226,548	2,637,501
Due in More Than One Year	5,005,740	27,540,132	32,545,872
<b>Total Liabilities</b>	<b>7,305,233</b>	<b>30,052,705</b>	<b>37,357,938</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	13,158,935	6,344,763	19,503,698
Restricted for:			
Debt Service	380,127	-	380,127
Security of Persons and Property	74,541	-	74,541
Transportation	834,153	-	834,153
Community Development	136,842	-	136,842
Leisure Time Activities	77,098	-	77,098
Unrestricted	1,657,822	4,861,101	6,518,923
<b>Total Net Assets</b>	<b>\$ 16,319,518</b>	<b>\$ 11,205,864</b>	<b>\$ 27,525,382</b>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental Activities:</b>				
General Government	\$ 1,400,633	\$ 149,996	\$ 221	\$ -
Security of Persons and Property	3,273,592	238,059	68,171	-
Leisure Time Activities	204,975	54,384	-	-
Community and Economic Development	496,100	81,705	247,159	-
Transportation	1,443,740	-	536,431	100,000
Interest and Fiscal Charges	160,627	-	-	-
<b>Total Governmental Activities</b>	<b>6,979,667</b>	<b>524,144</b>	<b>851,982</b>	<b>100,000</b>
<b>Business-type Activities:</b>				
Water	1,309,923	1,352,708	-	-
Sewer	3,104,681	2,652,787	-	14,143
Sanitation	911,083	908,038	-	-
<b>Total Business-type Activities</b>	<b>5,325,687</b>	<b>4,913,533</b>	<b>-</b>	<b>14,143</b>
<b>Total Government</b>	<b>\$ 12,305,354</b>	<b>\$ 5,437,677</b>	<b>\$ 851,982</b>	<b>\$ 114,143</b>

**General Revenues:**

Property Taxes Levied for:

General Purposes

Other Purposes

Payments in Lieu of Taxes

Income Taxes Levied for:

General Purposes

Other Purposes

Unrestricted Grants and Entitlements

Investment Earnings

Miscellaneous

**Total General Revenues**

**Change in Net Assets**

Net Assets at Beginning of Year

Net Assets at End of Year

See accompanying notes to the basic financial statements



Net (Expense) Revenue and  
Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (1,250,416)	\$ -	\$ (1,250,416)
(2,967,362)	-	(2,967,362)
(150,591)	-	(150,591)
(167,236)	-	(167,236)
(807,309)	-	(807,309)
(160,627)	-	(160,627)
<u>(5,503,541)</u>	<u>-</u>	<u>(5,503,541)</u>
-	42,785	42,785
-	(437,751)	(437,751)
-	(3,045)	(3,045)
<u>-</u>	<u>(398,011)</u>	<u>(398,011)</u>
<u>\$ (5,503,541)</u>	<u>\$ (398,011)</u>	<u>\$ (5,901,552)</u>
579,370	-	579,370
359,302	-	359,302
481,681	-	481,681
2,906,623	-	2,906,623
320,491	-	320,491
339,326	-	339,326
17,415	-	17,415
31,134	-	31,134
<u>5,035,342</u>	<u>-</u>	<u>5,035,342</u>
(468,199)	(398,011)	(866,210)
16,787,717	11,603,875	28,391,592
<u>\$ 16,319,518</u>	<u>\$ 11,205,864</u>	<u>\$ 27,525,382</u>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF DECEMBER 31, 2011**

	General Fund	Keny Blvd. Extension Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 1,499,602	\$ 119,269	\$ 1,847,102	\$ 3,465,973
Cash and Cash Equivalents in Segregated Accounts	-	-	51,361	51,361
Receivables:				
Taxes	1,793,096	182,000	551,430	2,526,526
Accounts	34,344	-	-	34,344
Intergovernmental	120,856	-	268,509	389,365
Interest	123	-	-	123
Special Assessments	27,033	-	44,468	71,501
Notes	-	-	12,327	12,327
Prepaid Items	25,348	-	8,388	33,736
Materials and Supplies Inventory	941	-	76,206	77,147
Advance to Other Funds	-	-	40,000	40,000
Total Assets	<u>\$ 3,501,343</u>	<u>\$ 301,269</u>	<u>\$ 2,899,791</u>	<u>\$ 6,702,403</u>
<b>Liabilities:</b>				
Accounts Payable	\$ 38,555	\$ -	\$ 7,120	\$ 45,675
Retainage Payable	-	-	84,961	84,961
Accrued Wages	107,022	-	10,141	117,163
Contracts Payable	-	-	4,272	4,272
Intergovernmental Payable	110,663	-	107,206	217,869
Deferred Revenue	800,614	-	228,937	1,029,551
Unearned Revenue	598,339	182,000	626,367	1,406,706
Total Liabilities	<u>1,655,193</u>	<u>182,000</u>	<u>1,069,004</u>	<u>2,906,197</u>
<b>Fund Balances:</b>				
Nonspendable:				
Materials and Supplies Inventory	941	-	76,206	77,147
Prepaid Items	25,348	-	8,388	33,736
Restricted for:				
Debt Service	-	119,269	256,445	375,714
Capital Projects	-	-	164,918	164,918
Security of Persons and Property	-	-	53,116	53,116
Transportation	-	-	558,843	558,843
Community and Economic Development	-	-	136,842	136,842
Leisure Time Activities	-	-	77,098	77,098
Committed for:				
Community and Economic Development	-	-	191,667	191,667
Assigned for:				
Encumbrances	27,774	-	-	27,774
Future Appropriations	872,549	-	-	872,549
Debt Service	-	-	58	58
Capital Projects	-	-	335,138	335,138
Community and Economic Development	27,493	-	-	27,493
Unassigned	892,045	-	(27,932)	864,113
Total Fund Balances	<u>1,846,150</u>	<u>119,269</u>	<u>1,830,787</u>	<u>3,796,206</u>
Total Liabilities and Fund Balances	<u>\$ 3,501,343</u>	<u>\$ 301,269</u>	<u>\$ 2,899,791</u>	<u>\$ 6,702,403</u>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2011

**Total Governmental Fund Balances** \$ 3,796,206

*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. 16,859,821

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

Income Taxes Receivable	648,640
Property Taxes Receivable	30,246
Special Assessment Receivable	31,501
Intergovernmental Receivable	319,041
Interest Receivable	123

Governmental funds report the effect of bond issuance costs, premiums,  
discounts, and similar items when debt is first issued, whereas these  
amounts are deferred and amortized in the statement of net assets.

Unamortized Bond Issuance Costs	62,527
---------------------------------	--------

Long-Term liabilities, including bonds payable, are not due and payable  
in the current period and therefore are not reported in the funds:

Compensated absences payable	(319,359)
General Obligation Bonds Payable	(3,179,200)
Special Assessment Bonds Payable	(14,000)
Loans Payable	(1,845,735)
Police and Fire Pension Payable	(58,399)
Accrued Interest Payable	(11,894)

**Net Assets of Governmental Activities** \$ 16,319,518

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	General Fund	Keny Blvd. Extension Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 3,712,379	\$ 182,000	\$ 636,323	\$ 4,530,702
Special Assessments	9,816	-	51,525	61,341
Charges for Services	254,384	-	50,000	304,384
Fines, Licenses, and Permits	194,875	-	24,885	219,760
Intergovernmental	360,483	100,000	800,896	1,261,379
Interest	20,738	-	668	21,406
Other	25,471	-	6,512	31,983
Total Revenues	<u>4,578,146</u>	<u>282,000</u>	<u>1,570,809</u>	<u>6,430,955</u>
<b>Expenditures:</b>				
Current:				
General Government	1,193,932	-	100,706	1,294,638
Security of Persons and Property	2,517,669	-	618,170	3,135,839
Leisure Time Activities	160,407	-	-	160,407
Community and Economic Development	144,336	-	351,479	495,815
Transportation	-	-	550,782	550,782
Capital Outlay	-	-	610,319	610,319
Debt service:				
Principal Retirement	-	2,820,000	253,736	3,073,736
Interest and Fiscal Charges	-	138,321	27,073	165,394
Bond Issuance Costs	-	64,217	-	64,217
Total Expenditures	<u>4,016,344</u>	<u>3,022,538</u>	<u>2,512,265</u>	<u>9,551,147</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	561,802	(2,740,538)	(941,456)	(3,120,192)
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Bonds	-	2,890,000	139,000	3,029,000
Transfers In	-	-	434,112	434,112
Transfers Out	(434,112)	-	-	(434,112)
Total Other Financing Sources (Uses)	<u>(434,112)</u>	<u>2,890,000</u>	<u>573,112</u>	<u>3,029,000</u>
Net Change in Fund Balances	127,690	149,462	(368,344)	(91,192)
Fund Balance at Beginning of Year, As Restated	<u>1,718,460</u>	<u>(30,193)</u>	<u>2,199,131</u>	<u>3,887,398</u>
Fund Balance at End of Year	<u>\$ 1,846,150</u>	<u>\$ 119,269</u>	<u>\$ 1,830,787</u>	<u>\$ 3,796,206</u>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

**Net Change in Fund Balances - Total Governmental Funds** \$ (91,192)

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated  
over their estimated useful lives as depreciation expense.

Capital Outlays	341,404
Depreciation Expense	(896,654)

The effect of various miscellaneous transactions involving capital assets  
(i.e. sales, trade-ins, and disposals) is to decrease net assets. (1,562)

Revenues in the statement of activities that do not provide current financial  
resources are not reported as revenues in the funds. 80,513

Governmental funds report the effect of bond issuance costs, premiums,  
discounts, and similar items when debt is first issued, whereas these  
amounts are deferred and amortized in the statement of activities.

Bond issuance costs	64,217
Amortization of bond issuance costs	(1,690)

The issuance of long-term debt (e.g., bonds, leases) provides current financial  
resources to governmental funds, while the repayment of the principal of  
long-term debt consumes the current financial resources of governmental  
funds. Neither transaction, however, has any effect on net assets.

Issuance of Debt	(3,029,000)
Principal Payments on Debt	3,075,141

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	(15,859)
Accrued Interest	6,483

**Change in Net Assets of Governmental Activities** \$ (468,199)

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original Budget	Final Budget	Actual	Variance (Over)/Under
<b>Revenues</b>				
Taxes	\$ 3,330,000	\$ 3,330,000	\$ 3,459,569	\$ 129,569
Special Assessments	9,800	9,800	9,816	16
Charges for Services	250,000	250,000	254,384	4,384
Fines, Licenses, and Permits	107,400	107,400	111,359	3,959
Intergovernmental	302,000	302,000	364,076	62,076
Interest	6,000	6,000	20,738	14,738
Other	15,500	15,500	25,018	9,518
Total Revenues	<u>4,020,700</u>	<u>4,020,700</u>	<u>4,244,960</u>	<u>224,260</u>
<b>Expenditures</b>				
Current:				
General Government	979,455	1,007,956	931,440	76,516
Security of Persons and Property	2,778,192	2,785,192	2,511,242	273,950
Leisure Time Activities	176,626	176,626	160,219	16,407
Community and Economic Development	64,719	64,719	64,719	-
Total Expenditures	<u>3,998,992</u>	<u>4,034,493</u>	<u>3,667,620</u>	<u>366,873</u>
Excess of Revenues Over Expenditures	21,708	(13,793)	577,340	591,133
<b>Other Financing Uses</b>				
Transfers Out	(490,000)	(499,112)	(499,112)	-
Total Other Financing Uses	<u>(490,000)</u>	<u>(499,112)</u>	<u>(499,112)</u>	<u>-</u>
Net Change in Fund Balance	(468,292)	(512,905)	78,228	591,133
Fund Balances at Beginning of Year	1,302,039	1,302,039	1,302,039	-
Prior Year Encumbrances Appropriated	29,566	29,566	29,566	-
Fund Balances at End of Year	<u>\$ 863,313</u>	<u>\$ 818,700</u>	<u>\$ 1,409,833</u>	<u>\$ 591,133</u>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF FUND NET ASSETS  
PROPRIETARY FUNDS  
AS OF DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Sanitation	Total
<b>Assets</b>				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 1,469,251	\$ 2,154,234	\$ 964,827	\$ 4,588,312
Receivables:				
Accounts	170,210	320,580	14,007	504,797
Special Assessments	-	28,133	-	28,133
Prepaid Items	7,686	14,117	2,466	24,269
Materials and Supplies Inventory	22,502	2,789	21,702	46,993
Total Current Assets	<u>1,669,649</u>	<u>2,519,853</u>	<u>1,003,002</u>	<u>5,192,504</u>
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	134,659	-	-	134,659
Non-Depreciable Capital Assets	231,632	66,768	99,960	398,360
Depreciable Capital Assets , Net	3,181,193	31,790,061	601,792	35,573,046
Total Noncurrent Assets	<u>3,547,484</u>	<u>31,856,829</u>	<u>701,752</u>	<u>36,106,065</u>
Total Assets	<u>5,217,133</u>	<u>34,376,682</u>	<u>1,704,754</u>	<u>41,298,569</u>
<b>Liabilities</b>				
Current Liabilities:				
Accounts Payable	9,545	13,945	33,187	56,677
Accrued Wages	21,297	10,984	8,312	40,593
Intergovernmental Payable	28,376	15,135	10,585	54,096
Customer Deposits Payable	134,659	-	-	134,659
Compensated Absences Payable	18,070	10,674	8,386	37,130
Capital Lease Payable	-	-	20,863	20,863
OWDA Loans Payable	106,189	2,062,366	-	2,168,555
Total Current Liabilities	<u>318,136</u>	<u>2,113,104</u>	<u>81,333</u>	<u>2,512,573</u>
Noncurrent Liabilities:				
Advance from Other Funds	-	40,000	-	40,000
Compensated Absences Payable	71,920	22,683	8,304	102,907
OWDA Loans Payable	884,708	26,552,517	-	27,437,225
Total Noncurrent Liabilities	<u>956,628</u>	<u>26,615,200</u>	<u>8,304</u>	<u>27,580,132</u>
Total Liabilities	<u>1,274,764</u>	<u>28,728,304</u>	<u>89,637</u>	<u>30,092,705</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	2,421,928	3,241,946	680,889	6,344,763
Unrestricted	1,520,441	2,406,432	934,228	4,861,101
Total Net Assets	<u>\$ 3,942,369</u>	<u>\$ 5,648,378</u>	<u>\$ 1,615,117</u>	<u>\$ 11,205,864</u>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Sanitation	Total
<b>Operating Revenues</b>				
Charges for Services	\$ 1,352,708	\$ 2,652,787	\$ 908,038	\$ 4,913,533
Total Operating Revenues	<u>1,352,708</u>	<u>2,652,787</u>	<u>908,038</u>	<u>4,913,533</u>
<b>Operating Expenses</b>				
Personal Services	676,397	479,036	417,018	1,572,451
Contractual Services	341,459	501,115	359,164	1,201,738
Materials and Supplies	89,510	65,668	72,765	227,943
Depreciation	160,008	1,746,901	60,574	1,967,483
Total Operating Expenses	<u>1,267,374</u>	<u>2,792,720</u>	<u>909,521</u>	<u>4,969,615</u>
Operating Income (Loss)	<u>85,334</u>	<u>(139,933)</u>	<u>(1,483)</u>	<u>(56,082)</u>
<b>Nonoperating Revenues (Expenses)</b>				
Other Non-Operating Revenue	-	14,143	-	14,143
Interest Expense	(42,549)	(311,961)	(1,562)	(356,072)
Total Non-Operating Revenues (Expenses)	<u>(42,549)</u>	<u>(297,818)</u>	<u>(1,562)</u>	<u>(341,929)</u>
Change in Net Assets	<u>42,785</u>	<u>(437,751)</u>	<u>(3,045)</u>	<u>(398,011)</u>
Net Assets at Beginning of Year	3,899,584	6,086,129	1,618,162	11,603,875
Net Assets at End of Year	<u>\$ 3,942,369</u>	<u>\$ 5,648,378</u>	<u>\$ 1,615,117</u>	<u>\$ 11,205,864</u>

See accompanying notes to the basic financial statements



**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Sanitation	Total
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$ 1,376,610	\$ 2,631,016	\$ 905,520	\$ 4,913,146
Cash Payments to Suppliers for Goods and Services	(468,587)	(568,968)	(434,896)	(1,472,451)
Cash Payments for Salaries and Benefits	(672,380)	(478,620)	(413,729)	(1,564,729)
Net Cash Flows from Operating Activities	<u>235,643</u>	<u>1,583,428</u>	<u>56,895</u>	<u>1,875,966</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Cash Received from Other Non-operating Receipts	-	11,172	-	11,172
Net cash flows from noncapital financing activities	<u>-</u>	<u>11,172</u>	<u>-</u>	<u>11,172</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from Loans	-	98,600	-	98,600
Acquisition of Capital Assets	(5,700)	(23,000)	(130,388)	(159,088)
Principal Payments of Debt	(102,428)	(2,015,095)	(24,006)	(2,141,529)
Payment of Interest	(42,491)	(303,684)	(1,562)	(347,737)
Net Cash Flows from Capital and Related Financing Activities	<u>(150,619)</u>	<u>(2,243,179)</u>	<u>(155,956)</u>	<u>(2,549,754)</u>
Net Change in Cash	85,024	(648,579)	(99,061)	(662,616)
Cash and Cash Equivalents at Beginning of Year	1,518,886	2,802,813	1,063,888	5,385,587
Cash and Cash Equivalents at End of Year	<u>\$ 1,603,910</u>	<u>\$ 2,154,234</u>	<u>\$ 964,827</u>	<u>\$ 4,722,971</u>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Sanitation	Total
<b>Cash Flows from Operating Activities</b>				
<b>Reconciliation of Operating Income to Net</b>				
<b>Cash Flows from Operating Activities:</b>				
Operating Income	\$ 85,334	\$ (139,933)	\$ (1,483)	\$ (56,082)
Add Depreciation Expense	160,008	1,746,901	60,574	1,967,483
(Increase)/Decrease in Current Assets				
Accounts Receivable	(6,926)	(21,771)	(2,518)	(31,215)
Material and Supply Inventory	(8,833)	3,569	(9,769)	(15,033)
Prepaid Items	(2,062)	(787)	(179)	(3,028)
Increase/(Decrease) in Current Liabilities		-		
Accounts Payable	2,298	(4,967)	6,165	3,496
Accrued Wages	1,516	1,941	564	4,021
Compensated Absences	(1,566)	(5,724)	2,832	(4,458)
Intergovernmental Payable	4,967	4,199	709	9,875
Customers Deposits	907	-	-	907
Net Cash Flows from Operating Activities	<u>\$ 235,643</u>	<u>\$ 1,583,428</u>	<u>\$ 56,895</u>	<u>\$ 1,875,966</u>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
AS OF DECEMBER 31, 2011

	<u>Agency Funds</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 150,067
Total Assets	<u>150,067</u>
<b>Liabilities</b>	
Undistributed Monies	150,067
Total Liabilities	<u>\$ 150,067</u>

See accompanying notes to the basic financial statements

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**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

**NOTE 1 – REPORTING ENTITY**

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

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

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

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

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

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

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (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 BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(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 BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

**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.

**Keny Blvd. Extension Debt Service Fund** – The Keny Blvd. Extension Fund accounts for revenues and expenditures relating to the debt of Keny Blvd. Extension Project.

The other governmental funds of the City account for grants and other resources whose use is restricted, committed, or assigned 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, or 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 the 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 BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

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

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

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

**(d) *Basis of Accounting***

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

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

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



**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

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

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

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

Property taxes and payments in lieu of taxes for which there is an enforceable claim as of as of December 31, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**(e) Pooled Cash and Cash Equivalents**

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

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

During 2011, investments were limited to negotiable certificates of deposit and STAROhio.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2011.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund amounted to \$20,738, which includes \$18,568 assigned from other City funds.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

**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.

**(f)     *Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2011 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***

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

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

**(h)     *Restricted Assets***

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

**(i)     *Capital Assets***

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

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

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

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

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

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

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

**(j) Capitalization of Interest**

Interest costs incurred that relate to the acquisition or construction of property and equipment acquired with debt proceeds of the business type activities is capitalized. The amount of interest to be capitalized is the amount of interest incurred from the date of the borrowing until completion of the project. The City had no capitalized interest during 2011.

**(k) Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due to/from Other Funds." Those amounts not expected to be repaid within one year are classified as "Advances to/from Other Funds". These amounts are eliminated in the governmental columns of the Statement of Net Assets except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

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

**(l)      *Compensated Absences***

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

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

**(m)      *Accrued Liabilities and Long-Term Obligations***

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

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

**(n)      *Net Assets***

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

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

**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

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

**(o) Fund Balance Reserves**

GASB Statement No. 54, *Fund Balance Reporting* became effective for years beginning after June 15, 2010. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

In accordance with this guidance, the City classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The City may use the following categories:

Nonspendable - resources that are not in a spendable form (inventory, prepaids, and advances) or have legal or contractual requirements to maintain the balance intact.

Restricted - resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed - resources that can be used only for specific purposes pursuant to constraints imposed by formal action (resolution) of the City's highest level of decision-making authority (City Council).

Assigned - resources that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. This includes the residual balance of all governmental funds other than the General Fund that were not classified elsewhere above.

Unassigned - residual fund balance within the General Fund not classified elsewhere above and all other governmental fund balances which have a negative fund balance.

The City applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted fund balance/net assets are available. The City considers committed, assigned and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

**(p) Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water, sewer and sanitation 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 nonoperating.

**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

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

**(q) *Interfund Activity***

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

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

**(r) *Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. The City had no extraordinary or special items during the year.

**(s) *Estimates***

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

**(t) *Budgetary Data***

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

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

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

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

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

**NOTE 3 – BUDGETARY BASIS OF ACCOUNTING**

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

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditure/expenses (budget) rather than as a reservation of fund balance (GAAP).
4. Due to the implementation of GASB 54, some funds were reclassified to the General Fund. These funds are not required to be included in the General Fund Budgetary Statement. Therefore, the activity from these funds is excluded with an adjustment for their change in fund balance.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance	
GAAP Basis	\$ 127,690
Building and Zoning Fund Change	(2,401)
Taxation Fund Change	(13,807)
Revenue Accruals	47,263
Expenditure Accruals	(52,678)
Encumbrances	(27,839)
Budget Basis	\$ 78,228

**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

**NOTE 4 – ACCOUNTABILITY AND COMPLIANCE**

Fund balances at December 31, 2011 included the following individual fund deficits:

	<u>Deficit</u>
Police Pension	\$ (10,178)
Fire Pension	(17,754)

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

**NOTE 5 – DEPOSITS AND INVESTMENTS**

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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;



**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

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

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 percent and be marked to market daily, and that the term of the agreement must not exceed thirty 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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).
7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in any amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the City's name. During 2011, the City and public depositories complied with the provisions of these statutes.

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

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

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

According to the City’s investment policy all funds received by a depository in excess of FDIC coverage shall be collateralized subject to Ohio Revised Code 135.37.

At year-end, the carrying amount of the City’s deposits was \$7,280,372. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2011, \$1,613,457 of the City’s bank balance of \$7,401,257 was covered by Federal Deposit Insurance Corporation.

Investments - As of December 31, 2011, the City had the following investment and maturity:

Investment Type	Fair Value	Investment Maturities (in Years) Less than 1
Negotiable Certificates of Deposit	\$ 710,000	\$ 710,000
STAR Ohio	400,000	400,000
	\$ 1,110,000	\$ 1,110,000

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

*Credit Risk*- The City’s investment in STAROhio has a credit rating of AAAm. The City does not have a formal investment policy regarding exposure to credit risk for investments.

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

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

Investment Type	Percent of Total
Negotiable Certificates of Deposit	63.96%
STAR Ohio	36.04%
	100.00%

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

**NOTE 6 – NOTES RECEIVABLE**

In January 2003, the City loaned \$15,000 to Old Londontown Ltd, an Ohio Limited Liability Company formed to purchase, rehabilitate, hold, rent, or lease historic real estate for historic preservation. Proceeds from the note will be used to revitalize buildings in the City of London downtown area. The note's interest rate is 4.25 percent. The note is secured by a mortgage held by the City against the property at 105 South Main Street, London, Ohio. The balance on the note at December 31, 2011 is \$12,327. The Ohio Limited Liability Company has not paid on this note since 2007. The City is working with the company for repayment and has not written this loan off as bad debt.

**NOTE 7 – PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2011 for real and public utility property taxes represents collections of the 2010 taxes. Property tax payments received during 2011 for tangible personal property (other than public utility property) are for 2010 taxes.

The 2011 real property taxes are levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by the State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes which became a lien on December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2011, was \$5.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

	Assesed Valuation
Real Property	\$ 165,821,600
Tangible Personal Property	130,040
Public Utility Property	4,959,890
Total	<u>\$ 170,911,530</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.

**CITY OF LONDON, OHIO**  
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**NOTE 7 – PROPERTY TAXES (Continued)**

The County Treasurer collects property tax on behalf of all taxing districts in the County, including the City of London. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2011 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 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

**NOTE 8 – INCOME TAXES**

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

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

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

**NOTE 9 – RECEIVABLES**

Receivables at December 31, 2011 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. A summary of the principal items of taxes receivables reported on the Statement of Net Assets follows:

Receivable	Amount
Property taxes	\$ 1,009,789
Income taxes	1,163,906
Payment in Lieu of Taxes	352,831
Total	\$ 2,526,526

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 10 – CAPITAL ASSETS**

A summary of changes in governmental capital assets during 2011 follows:

***Governmental Activities***

	Beginning Balance	Additions	Deductions	Ending Balance
Nondepreciable Capital Assets				
Land	\$ 808,996	\$ -	\$ -	\$ 808,996
Construction in Progress	2,882,857	83,554		2,966,411
Total Nondepreciable Assets	<u>3,691,853</u>	<u>83,554</u>	<u>-</u>	<u>3,775,407</u>
Depreciable Capital Assets				
Land Improvements	640,432	-	-	640,432
Buildings	2,346,112	-	-	2,346,112
Machinery and Equipment	865,349	190,888	-	1,056,237
Vehicles	1,990,051	66,962	(61,112)	1,995,901
Infrastructure	17,283,602	-	-	17,283,602
Total Depreciable Assets	<u>23,125,546</u>	<u>257,850</u>	<u>(61,112)</u>	<u>23,322,284</u>
Less accumulated depreciation				
Land Improvements	(349,404)	(24,655)	-	(374,059)
Buildings	(531,453)	(72,392)	-	(603,845)
Machinery and Equipment	(685,093)	(76,533)	-	(761,626)
Vehicles	(1,652,942)	(97,243)	59,550	(1,690,635)
Infrastructure	(6,181,874)	(625,831)	-	(6,807,705)
Total accumulated depreciation	<u>(9,400,766)</u>	<u>(896,654)</u>	<u>59,550</u>	<u>(10,237,870)</u>
Depreciable Capital Assets, Net of accumulated depreciation	<u>13,724,780</u>	<u>(638,804)</u>	<u>(1,562)</u>	<u>13,084,414</u>
Total Capital Assets, Net	<u>\$ 17,416,633</u>	<u>\$ (555,250)</u>	<u>\$ (1,562)</u>	<u>\$ 16,859,821</u>

Depreciation expense was charged to the governmental functions as follows:

General Government	\$ 83,088
Security of Persons and Property	83,089
Transportation	686,056
Leisure Activities	44,421
Total depreciation expense	<u>\$ 896,654</u>

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 10 – CAPITAL ASSETS (Continued)**

***Business-Type Activities***

	Beginning Balance	Additions	Deductions	Ending Balance
<b>Nondepreciable Capital Assets</b>				
Land	\$ 275,926	\$ -	\$ -	\$ 275,926
Construction in Progress	122,434	-	-	122,434
<b>Total Nondepreciable Assets</b>	<b>398,360</b>	<b>-</b>	<b>-</b>	<b>398,360</b>
<b>Depreciable Capital Assets</b>				
Land Improvements	17,639	-	-	17,639
Buildings	4,916,178	-	-	4,916,178
Improvements Other Than Buildings	20,038,405	-	-	20,038,405
Machinery and Equipment	4,287,489	5,700	-	4,293,189
Vehicles	885,477	153,388	-	1,038,865
Water and Sewer Lines	18,302,520	-	-	18,302,520
<b>Total Depreciable Assets</b>	<b>48,447,708</b>	<b>159,088</b>	<b>-</b>	<b>48,606,796</b>
<b>Less accumulated depreciation</b>				
Land Improvements	(13,333)	(882)	-	(14,215)
Buildings	(762,115)	(153,276)	-	(915,391)
Improvements Other Than Buildings	(3,453,839)	(928,692)	-	(4,382,531)
Machinery and Equipment	(1,705,817)	(438,094)	-	(2,143,911)
Vehicles	(695,343)	(82,079)	-	(777,422)
Water and Sewer Lines	(4,435,820)	(364,460)	-	(4,800,280)
<b>Total accumulated depreciation</b>	<b>(11,066,267)</b>	<b>(1,967,483)</b>	<b>-</b>	<b>(13,033,750)</b>
<b>Depreciable Capital Assets, Net of accumulated depreciation</b>	<b>37,381,441</b>	<b>(1,808,395)</b>	<b>-</b>	<b>35,573,046</b>
<b>Total Business-Type Capital Assets, Net</b>	<b>\$ 37,779,801</b>	<b>\$ (1,808,395)</b>	<b>\$ -</b>	<b>\$ 35,971,406</b>

**CITY OF LONDON, OHIO**  
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**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

**NOTE 11 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2011, the City was insured through Wichert Insurance. During 2011 the City had the following types of insurance:

<u>Coverage</u>	<u>Limit</u>
Real Property Leagal Liability	\$ 1,000,000
Bolier and Machinery	10,000,000
Automobile Liability	1,000,000
Building and Property	60,322,444

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

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

**NOTE 12 – PENSION BENEFITS**

**A. Ohio Public Employees Retirement System**

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

1. The Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan (MD) – 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 member and (vested) employer contributions plus any investment earnings thereon.
3. The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, 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 Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-PERS (7377).

**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

**NOTE 12 – PENSION BENEFITS (Continued)**

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Separate divisions for law enforcement and public safety exist only within the Traditional Plan. The 2011 member contribution rate for City employees was 10.00 percent of covered payroll. The 2011 employer contribution rate for the City was 14.00 percent of covered payroll. The City's required contributions to OPERS for the years ended December 31, 2011, 2010, and 2009 were \$332,896, \$310,742, and \$306,594 respectively. The full amount has been contributed for 2010 and 2009; 88.6 percent has been contributed for 2011 with the remainder being reported as a fund liability.

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

Plan members are required to contribute 10.00 percent of their annual covered salary, while employers are required to contribute 19.50 percent and 24 percent respectively for police officers and firefighters. The City's contributions to OP&F for the years ending December 31, 2011, 2010, and 2009 were \$339,827, \$324,742, and \$320,262, respectively. The full amount has been contributed for 2010 and 2009; 72.5 percent has been contributed for 2011 with the remainder being reported as a fund liability.

**NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS**

**A. Public Employees Retirement System**

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Plan (TP) – a cost-sharing multiple-employer defined benefit plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.



**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

**NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (Continued)**

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Funding Policy - The Ohio Revised Code provides statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 4.0 percent for 2011. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OPERS for post-employment benefits for the years ending December 31, 2011, 2010, and 2009 were \$95,108, \$113,204, and \$128,276, respectively. The full amount has been contributed for 2010 and 2009. 88.6 percent has been contributed for 2011 with the remainder being reported as a fund liability.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for employers increased on January 1 of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

**B. Ohio Police and Fire Pension Fund**

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multi-employer defined postemployment health care plan administered by OP&F. OP&F provide healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits are codified in Chapter 742 of the Ohio Revised Code.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (Continued)**

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.00 percent of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50 percent of covered payroll for police employer units and 24.00 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F for the years ending December 31, 2011, 2010, and 2009 were \$339,827, \$324,742, and \$320,262, respectively, of which \$106,867, \$102,108, and \$100,402, respectively, was allocated to the healthcare plan. The full amount has been contributed for 2010 and 2009. 72.5 percent has been contributed for police and firefighters for 2011.

**NOTE 14 – COMPENSATED ABSENCES**

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

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

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

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, 2011, the accrued liability for unpaid compensated absences was \$459,396.

**NOTE 15 – CAPITALIZED LEASES – LESSEE DISCLOSURE**

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

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

The asset has a present value of \$49,310 with accumulated depreciation of \$63,398 as of December 31, 2011.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2011:

<u>Year</u>	<u>Business-Type Activities</u>
2012	\$ 21,336
Total Minimum Lease Payments	<u>21,336</u>
Less Amount Representing Interest	(473)
Present Value of Minimum Lease Payments	<u><u>\$ 20,863</u></u>

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 16 – LONG TERM LIABILITIES**

	Interest Rate	Original Issue Amount	Date of Maturity
<b><i>Governmental Activities:</i></b>			
N. End Sewer Project Special Assessment Bonds- 1993	5.25%	\$ 127,000	December 1, 2013
East High Street OPWC Loan- 1993	0.00%	267,660	July 1, 2014
Variour Purpose Bonds- 2006	4.95%	303,800	December 1, 2016
Fire Truck Acquisition Bonds- 2006	4.57%	375,000	December 1, 2011
Garfield Ave. Rehab Phase I- OPWC 2006	0.00%	273,756	January 1, 2026
Garfield Ave. Rehab Phase II- OPWC 2006	0.00%	543,450	January 2, 2027
Sewer Improvements OWDA Loan- 2005	1.00%	1,692,756	January 1, 2025
Street Sweeper Bonds- 2011	2.50%	139,000	June 1, 2014
Keny Blvd Improvement Bonds- 2011	1.20-4.75%	2,890,000	December 1, 2030
<b><i>Business-Type Activities:</i></b>			
Sewer Improvements OWDA Loan- 1988	7.65%	5,157,855	January 1, 2013
Sewer Improvements OWDA Loan- 1988	7.86%	600,831	January 1, 2013
Water Improvements OWDA Loan- 2001	4.14%	1,610,687	July 1, 2021
Sewer Improvements OWDA Loan- 2006	0.80%	33,218,664	January 1, 2029
Water Planning OWDA Loans- 2009	2.00%	121,749	July 1, 2014

The following is a summary of changes in long-term liabilities of the governmental activities for the year ended December 31, 2011:

<b><i>Governmental Activities</i></b>	Beginning	Additions	Reductions	Ending	Due Within
	Balance			Balance	One Year
Special Assessment Bonds	\$ 21,000	-	(7,000)	14,000	7,000
OPWC Loan- 1993	53,532	-	(13,383)	40,149	13,383
OPWC Loan- 2006 Phase I	205,317	-	(13,688)	191,629	13,688
OPWC Loan- 2006 Phase II	461,934	-	(27,172)	434,762	27,172
OWDA Sewer Improvements 2005	1,260,362	-	(81,167)	1,179,195	82,007
<b>General Obligation Bonds:</b>					
Various Purpose	199,500	-	(29,300)	170,200	30,900
Fire Truck Acquisition	82,000	-	(82,000)	-	-
Street Sweeper Bonds	-	139,000	-	139,000	45,000
Keny Blvd Improvement Bonds	-	2,890,000	(20,000)	2,870,000	100,000
<b>Bond Anticipation Note:</b>					
Keny Blvd Extension BAN	2,800,000	-	(2,800,000)	-	-
<b>Total Governmental Debt</b>	<b>5,083,645</b>	<b>3,029,000</b>	<b>(3,073,710)</b>	<b>5,038,935</b>	<b>319,150</b>
Compensated Absences	303,500	127,582	(111,723)	319,359	90,303
Police & Fire Pension Payable	59,830	-	(1,431)	58,399	1,500
<b>Total Governmental Activities</b>	<b>\$ 5,446,975</b>	<b>\$ 3,156,582</b>	<b>\$(3,186,864)</b>	<b>\$ 5,416,693</b>	<b>\$ 410,953</b>

The Ohio Public Works Commission (OPWC) loans and the Pool Improvement Bonds will be paid from the Capital Improvement Fund. The special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

**NOTE 16 – LONG TERM LIABILITIES (Continued)**

The following is a summary of changes in long-term liabilities of the business-type activities for the year ended December 31, 2011:

<i>Business-Type Activities</i>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
OWDA Loans:					
Sewer Improvements 1988	\$ 839,838	-	(404,299)	435,539	435,539
Sewer Improvements 1988	99,337	-	(47,776)	51,561	51,561
Water Improvements 2001	1,006,782	-	(78,271)	928,511	81,606
Sewer Improvements 2006	29,591,653	98,600	(1,562,470)	28,127,783	1,575,266
Water Planning 2009	86,485	-	(24,099)	62,386	24,583
Total OWDA Loans	<u>31,624,095</u>	<u>98,600</u>	<u>(2,116,915)</u>	<u>29,605,780</u>	<u>2,168,555</u>
Capital Lease	44,869	-	(24,006)	20,863	20,863
Compensated Absences	144,495	67,465	(71,923)	140,037	37,130
Total Business-Type Activities	<u>\$ 31,813,459</u>	<u>\$ 166,065</u>	<u>\$ (2,212,844)</u>	<u>\$ 29,766,680</u>	<u>\$ 2,226,548</u>

The Ohio Water Development Authority (OWDA) loans will be paid from charges for services revenue in the Water and Sewer Funds and payments in lieu of taxes in TIF Fund. Compensated absences reported in the “compensated absences payable” account and pension contribution reported in the “intergovernmental payable” account will both be paid from general operating revenues of the fund from which the employees’ salaries are paid. Capital leases are paid from operating revenue of the Sanitation Fund. The police and fire pension liability will be paid from taxes revenue of the Police and Fire Pension Fund. North End Sewer Project Special Assessment bonds will be paid from special assessments from the North End Sewer Debt Service Fund. The City’s remaining government debt will be paid from general obligation resources from the City’s debt service funds.

In 2004 the City was awarded a loan from the OWDA in the amount of \$253,118. The proceeds of this loan were used for upgrade planning for the waste water treatment plant. During 2005 this loan was rolled into a new loan from the OWDA with a new loan total of \$1,553,591. In 2006 this design loan was rolled into a loan for the waste water treatment plant expansion and Oak Run Interceptor Project in the amount of \$33,218,664. As of December 31, 2011, the City had drawn down \$32,779,024.

In 2009 the City was awarded a loan from the OWDA in the amount of \$121,749 for the purpose of upgrading the City’s drinking water system. As of December 31, 2011 the City had drawn down the entire amount.

On May 21, 2010, the City issued a bond anticipation note for \$2,800,000 with an interest rate of 1.08 percent. Then on February 24, 2011, the City issued Series 2011 general obligation bonds totaling \$2,890,000 to pay off the bond anticipation notes. The general obligation term bonds have fixed interest rates ranging from 1.2% to 4.75% and have a final maturity of December 1, 2030.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

**NOTE 16 – LONG TERM LIABILITIES (Continued)**

The North End Sewer Project Special Assessment Bonds are payable from derived special assessments from the North End Sewer Debt Service Fund. These bonds additionally have City commitment to the extent sufficient resources are not payable from special assessments.

Pledged Revenues

In connection with the OWDA loans previously discussed, the City has pledged future customer revenues, net of specified operating expenses, to repay this debt, with the exception of the 2005 OWDA Sewer Improvements loan which has pledged payments in lieu of taxes. Pledged revenues of a given year may also include specified portions of cash balances carried over from the prior year. The OWDA loans are payable, through their final maturities, from net revenues applicable to the respective Water, Sewer, and TIF (Tax Incremental Financing) Funds. The OWDA loans include provisions giving the City the option of making payments from the City's general revenue, but are not general obligation liabilities of the City. The interest and principal remaining to be paid on these OWDA loans is \$35,620,500. Total customer revenues were \$1,352,708 and \$2,652,787 for the Water and Sewer Funds with payments in lieu of tax revenue for the TIF Fund of \$481,682.

Ohio Police and Fire Pension Liability

The City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police personnel in 1967. The outstanding liability at December 31, 2011, is \$58,399 with the principal payable semi-annually from the Police Pension and Fire Pension Special Revenue Funds. The liability will be fully retired in May 2035.

The annual requirements to retire the governmental activities long-term obligations outstanding at December 31, 2011 are as follows:

	<b>Business Type-Activities</b>					
	<b>Governmental Activities</b>		<b>Water</b>		<b>Sewer</b>	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	319,150	136,991	106,189	38,729	2,062,366	262,727
2013	323,372	131,959	110,096	34,822	1,587,893	212,769
2014	318,902	125,936	101,302	30,762	1,600,621	200,041
2015	265,958	120,190	92,281	26,930	1,613,452	187,210
2016	268,605	114,693	96,140	23,070	1,626,285	174,277
2017-2021	1,264,032	495,504	484,889	51,556	8,329,585	673,725
2022-2026	1,316,734	342,503	-	-	8,668,831	334,482
2027-2030	962,182	113,764	-	-	3,125,850	35,727
<b>Total</b>	<b>5,038,935</b>	<b>1,581,540</b>	<b>990,897</b>	<b>205,869</b>	<b>28,614,883</b>	<b>2,080,958</b>

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

**NOTE 17 – INTERFUND TRANSFERS AND BALANCES**

Interfund transfers during the fiscal year were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ (434,112)
Other Governmental	434,112	-
	<u>\$ 434,112</u>	<u>\$ (434,112)</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. Transfers from the General Fund are to finance various programs accounted for in other funds in accordance with budgetary authorization; to segregate money for anticipated capital projects and provide additional resources for current operations or debt service.

Interfund balances at December 31, 2011 consisted of the following:

<u>Fund</u>	<u>Beginning Balance</u>	<u>New Advances</u>	<u>Advance Repayments</u>	<u>Ending Balance</u>
Capital Improvement	40,000	-	-	40,000
Municipal Permissive	55,000	-	(55,000)	-
Kenny Blvd Extensions	(55,000)	-	55,000	-
Sewer	(40,000)	-	-	(40,000)

The advance from the Capital Improvements Fund to the Sewer Fund was made to begin funding a storm water assessment project. When the City begins charging for storm water these monies will be repaid. The advances to the Kenny Boulevard Extension Fund were made to provide funding for the road project until other financing could be secured by the City. Advances not expected to be repaid within one year will be recorded as advances to/from other funds. Those expected to be repaid within one year will be recorded as due to/from other funds.

**NOTE 18 – CONTINGENCIES**

**A. Grants**

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City at December 31, 2011.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

**NOTE 18 – CONTINGENCIES (Continued)**

***B. Litigation***

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

**NOTE 19 – CONTRACTUAL COMMITMENTS**

As of December 31, 2011, the City had the following contractual commitments due to the construction and extension of the City’s Keny Blvd.

<u>Contractor</u>	<u>Purchase Order Amount</u>	<u>Amount Spent To Date</u>	<u>Remaining Balance</u>
DLZ Ohio Inc	\$ 116,206	\$ (55,671)	\$ 60,535
Nicklolas Savko	296,073	(140,816)	155,257
	<u>\$ 412,279</u>	<u>\$ (196,487)</u>	<u>\$ 215,792</u>

**NOTE 20 – FUND RECLASSIFICATION – CHANGE IN ACCOUNTING PRINCIPLE**

Due to the implementation of GASB 54, the City’s Building and Zoning, and Taxation Funds were reclassified as part of the General Fund. These funds were classified as an Other Governmental Fund in the prior year. Also, the Keny Blvd Extension Fund did not meet the definition of a major fund during 2011. Therefore, the fund was reclassified as an Other Governmental Fund. The Keny Blvd Extension Debt Service Fund did meet the definition of a major fund and was reclassified from an Other Governmental Fund in the prior year.

The effect of this reclassification is presented below:

	<u>General Fund</u>	<u>Keny Blvd Extension Fund</u>	<u>Keny Blvd Extension Debt Service Fund</u>	<u>Other Governmental Funds</u>
Fund Balances, December 31, 2010	\$ 1,406,980	\$ 212,314	\$ -	\$ 2,268,104
GASB 54 Reclassifications:				
Building and Zoning Fund	28,095	-	-	(28,095)
Taxation Fund	283,385	-	-	(283,385)
Major Fund Reclassifications:				
Keny Blvd Extension Fund	-	(212,314)	-	212,314
Keny Blvd Extension Debt Service Fund	-	-	(30,193)	30,193
Fund Balances, January 1, 2011	<u>\$ 1,718,460</u>	<u>\$ -</u>	<u>\$ (30,193)</u>	<u>\$ 2,199,131</u>



**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

**NOTE 21 – SUBSEQUENT EVENT**

In March 2012, the citizens of London voted to approve a 1.4 Millage Fire Replacement Levy.

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# Dave Yost • Auditor of State

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

Kathleen Hensel, Auditor  
City of London  
102 South Main Street  
London, Ohio 43140

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of London, Madison County, Ohio (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 11, 2012, wherein we noted the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### **Compliance and Other Matters**

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

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated July 11, 2012.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

July 11, 2012



# Dave Yost • Auditor of State

CITY OF LONDON

MADISON COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
AUGUST 02, 2012