

CITY OF LONDON

Madison County, Ohio



Basic Financial Statements

December 31, 2014

**CITY OF LONDON, OHIO
MADISON COUNTY**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of London (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2014, and the respective changes in financial position and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and Fire Department Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting 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 assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2015, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Plattenburg & Associates, Inc.

Cincinnati, Ohio

June 19, 2015

**CITY OF LONDON, OHIO
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014
(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, 2014. 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 2014 are as follows:

- The assets of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by approximately \$29.2 million (net position). Of this amount, approximately \$7.6 million (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net position increased by \$685,694 in 2014. This increase is the result of a \$42,978 increase in governmental activities net position and a \$642,716 increase in business-type activities net position.
- For governmental activities, general revenues accounted for approximately \$6.4 million, or 82 percent of total revenues, and program specific revenues accounted for the remaining 18 percent, or approximately \$1.4 million.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$6.1 million, a \$500,824 increase in comparison with the prior year. Of this amount, approximately \$1.8 million 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 approximately \$1.8 million, or 50 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 Position* presents information on all of the City's assets, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

**CITY OF LONDON, OHIO
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014
(UNAUDITED)**

The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position 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 but 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 38 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 Fire Department Fund, which are considered to be major funds. Data from the other 32 governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 14-19 of this report.

**CITY OF LONDON, OHIO
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014
(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 20-23 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 24 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 starting on page 25 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The table below provides a summary of the City's net position for 2014 compared to 2013:

	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Current and Other Assets	\$ 8,220,676	\$ 8,572,888	\$ 5,143,581	\$ 5,476,084	\$ 13,364,257	\$ 14,048,972
Capital Assets, Net	15,161,144	14,434,156	32,639,399	31,591,474	47,800,543	46,025,630
Total Assets	23,381,820	23,007,044	37,782,980	37,067,558	61,164,800	60,074,602
Current and Other Liabilities	450,954	444,148	267,294	283,554	718,248	727,702
Long-Term Liabilities	4,774,783	4,456,730	26,017,081	24,642,683	30,791,864	29,099,413
Total Liabilities	5,225,737	4,900,878	26,284,375	24,926,237	31,510,112	29,827,115
Deferred Inflows of Resources	1,121,609	1,028,714	-	-	1,121,609	1,028,714
Net Position:						
Net Investment in Capital Assets	11,940,944	11,449,202	6,796,542	7,132,985	18,737,486	18,582,187
Restricted	2,596,427	3,002,859	-	-	2,596,427	3,002,859
Unrestricted	2,497,103	2,625,391	4,702,063	5,008,336	7,199,166	7,633,727
Total Net Position	\$ 17,034,474	\$ 17,077,452	\$ 11,498,605	\$ 12,141,321	\$ 28,533,079	\$ 29,218,773

**CITY OF LONDON, OHIO
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014
(UNAUDITED)**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities and deferred inflows of resources by approximately \$29.2 million at the close of the most recent fiscal year.

Governmental Activities – The significant decrease in capital assets, net, is the result of current year depreciation of \$955,123 offset by \$228,135 in additions. The significant decrease in long-term liabilities is the result of principal payments made during the year totaling \$318,905.

Business-Type Activities – The significant decrease in capital assets, net, is the result of depreciation and net disposals of approximately \$1.6 million offset by \$503,418 in additions. The significant decrease in long-term liabilities is the result of principal payments made during the year totaling approximately \$1.7 million.

By far the largest portion of the City's net position (64 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 position (10 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (approximately \$7.6 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 position, 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.

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**CITY OF LONDON, OHIO
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014
(UNAUDITED)**

The table below shows the changes in net position for fiscal years 2014 and 2013.

	Governmental Activities		Business-type Activities		Total	
	2013	2014	2013	2014	2013	2014
Program Revenues:						
Charges for Service	\$ 608,022	\$ 626,283	\$ 5,225,448	\$ 5,663,215	\$ 5,833,470	\$ 6,289,498
Operating Grants	685,473	740,842	-	-	685,473	740,842
Capital Grants	-	-	720	-	720	-
General Revenues:						
Property Taxes	889,807	647,519	-	-	889,807	647,519
Payment in Lieu of Taxes	447,023	309,642	-	-	447,023	309,642
Income Taxes	4,313,983	5,203,234	-	-	4,313,983	5,203,234
Unrestricted Grants	217,086	179,856	-	-	217,086	179,856
Investment Income	5,109	8,464	-	-	5,109	8,464
Other Revenue	185,005	55,579	-	19,457	185,005	75,036
Total Revenues	7,351,508	7,771,419	5,226,168	5,682,672	12,577,676	13,454,091
Expenses:						
General Government	1,277,761	1,453,756	-	-	1,277,761	1,453,756
Security of Persons and Property	3,178,060	3,653,913	-	-	3,178,060	3,653,913
Transportation	1,642,140	1,972,328	-	-	1,642,140	1,972,328
Community and Economic Development	167,674	256,020	-	-	167,674	256,020
Leisure Time Activities	194,451	227,382	-	-	194,451	227,382
Interest on Long-Term Debt	130,996	125,042	-	-	130,996	125,042
Water	-	-	1,534,551	1,569,423	1,534,551	1,569,423
Sewer	-	-	2,563,729	2,390,446	2,563,729	2,390,446
Sanitation	-	-	887,179	1,120,087	887,179	1,120,087
Total Expenses	6,591,082	7,688,441	4,985,459	5,079,956	11,576,541	12,768,397
Change in Net Position before Transfers	760,426	82,978	240,709	602,716	1,001,135	685,694
Transfers	-	(40,000)	-	40,000	-	-
Change in Net Position	760,426	42,978	240,709	642,716	1,001,135	685,694
Net Position, Beginning	16,274,048	17,034,474	11,257,896	11,498,605	27,531,944	28,533,079
Net Position, Ending	<u>\$ 17,034,474</u>	<u>\$ 17,077,452</u>	<u>\$ 11,498,605</u>	<u>\$ 12,141,321</u>	<u>\$ 28,533,079</u>	<u>\$ 29,218,773</u>

Governmental Activities – The significant increase in income taxes is the result of the passage of a 0.5 percent increase for the fire levy in May 2013. 2014 was the first full year of collection of this new income tax.

Business-Type Activities – The significant increase in charges for services is the result of water and sewer charge increases of 15 percent and 4 percent, respectively, beginning January 1, 2014. The significant increase in expenses in the Sanitation Fund is primarily the result of an increase in contractual services.

**CITY OF LONDON, OHIO
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014
(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	
	2014	2013	2014	2013
Governmental Activities:				
General Government	\$ (1,453,756)	\$ (1,277,761)	\$ (1,323,994)	\$ (1,151,878)
Security of Persons and Property	(3,653,913)	(3,178,060)	(3,348,112)	(2,876,386)
Transportation	(1,972,328)	(1,642,140)	(1,375,231)	(1,057,869)
Community and Economic Development	(256,020)	(167,674)	(24,321)	34,071
Leisure Time Activities	(227,382)	(194,451)	(124,616)	(114,529)
Interest Expense	(125,042)	(130,996)	(125,042)	(130,996)
Total Governmental Activities	(7,688,441)	(6,591,082)	(6,321,316)	(5,297,587)
Business-Type Activities:				
Water	(1,569,423)	(1,534,551)	12,904	(120,884)
Sewer	(2,390,446)	(2,563,729)	687,746	287,209
Sanitation	(1,120,087)	(887,179)	(117,391)	74,384
Total Business-Type Activities	(5,079,956)	(4,985,459)	583,259	240,709
Grand Total	\$ (12,768,397)	\$ (11,576,541)	\$ (5,738,057)	\$ (5,056,878)

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 \$6.1 million, an increase of \$500,824 from the previous year.

**CITY OF LONDON, OHIO
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014
(UNAUDITED)**

The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2014 and 2013.

	<u>Fund Balance</u> <u>12/31/2013</u>	<u>Fund Balance</u> <u>12/31/2014</u>	<u>Increase</u> <u>(Decrease)</u>
General Fund	\$ 2,055,104	\$ 2,377,009	\$ 321,905
Fire Department Fund	739,642	1,230,895	491,253
Other Governmental	2,804,230	2,491,896	(312,334)
Total	<u>\$ 5,598,976</u>	<u>\$ 6,099,800</u>	<u>\$ 500,824</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 approximately \$1.8 million, 77% of the total fund balance. The fund balance of the City's General Fund increased \$321,905 during the current fiscal year, or 15.7%, from the previous year. General Fund expenditures decreased \$272,501, or 7.0% in comparison with the prior year, primarily as a result of the transition of fire department expenditures from the general fund to its own dedicated fund.

The fund balance in the Fire Department Fund increased \$491,253 during the fiscal year. This increase represents the amount in which tax receipts, receipts for services, and other receipts exceeded operating and capital expenditures during the year.

Proprietary Funds - The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail. Unrestricted net position at the end of the year amounted to approximately \$1.4 million, \$2.7 million, and \$916,261 in the Water, Sewer and Sanitation funds, respectively. The change in net position was an increase of \$12,904 in the Water Fund, an increase of \$743,953 in the Sewer Fund, and a decrease of \$114,141 in the Sanitation Fund. The significant increase in the Sewer Fund is primarily the result of a 4 percent fee increase that took effect January 1, 2014 and a significant decrease in depreciation.

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 2014, 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, actual revenues exceeded the final revenue and other financing sources budget by \$505,895, or 17 percent. This variance is primarily the result of excess income tax receipts. The variance between the original and final revenue budgets was insignificant.

**CITY OF LONDON, OHIO
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014
(UNAUDITED)**

Actual budgetary expenditures and other financing uses were \$256,462, or 7 percent, less than final appropriations. The variance between the original and final appropriation measures was 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, 2014, amounts to approximately \$46.0 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings, machinery and equipment, vehicles, and infrastructure. The City's net capital asset balance decreased approximately \$1.8 million during the year. This decrease represents the amount by which current year depreciation and disposals of approximately \$2.5 million exceeded current year acquisitions, totaling approximately \$731,553.

Detailed information regarding capital asset activity is included in the Note 9 to the basic financial statements.

Debt

At the end of the current fiscal year, the City had total debt outstanding of approximately \$28.6 million, a decrease of approximately \$1.7 million in comparison with the prior year. This decrease represents the current year principal payments made during the year of approximately \$2.0 million exceeded new loans totaling \$315,020.

Detailed information regarding long-term debt is included in Note 14 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 POSITION
AS OF DECEMBER 31, 2014

	Governmental Activities	Business-type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 5,499,603	\$ 4,667,371	\$ 10,166,974
Cash and Cash Equivalents in Segregated Accounts	51,768	-	51,768
Receivables:			
Taxes	2,496,696	-	2,496,696
Accounts	27,207	563,981	591,188
Intergovernmental	353,126	-	353,126
Interest	1,838	-	1,838
Special Assessments	40,350	20,688	61,038
Notes	12,327	-	12,327
Prepaid Items	37,310	19,495	56,805
Materials and Supplies Inventory	52,663	43,618	96,281
Restricted Cash and Cash Equivalents	-	160,931	160,931
Capital Assets:			
Non-Depreciable	1,075,372	606,581	1,681,953
Depreciable, Net	13,358,784	30,984,893	44,343,677
Total Assets	23,007,044	37,067,558	60,074,602
Liabilities			
Accounts Payable	6,933	4,167	11,100
Retainage Payable	84,961	-	84,961
Accrued Wages	158,659	56,398	215,057
Intergovernmental Payable	184,337	62,058	246,395
Customer Deposits Payable	-	160,931	160,931
Accrued Interest Payable	9,258	-	9,258
Long-Term Liabilities:			
Due Within One Year	414,685	1,759,283	2,173,968
Due in More Than One Year	4,042,045	22,883,400	26,925,445
Total Liabilities	4,900,878	24,926,237	29,827,115
Deferred Inflows of Resources:			
Property and Other Local Taxes	1,028,714	-	1,028,714
Total Deferred Inflows of Resources	1,028,714	-	1,028,714
Net Position			
Net Investment in Capital Assets	11,449,202	7,132,985	18,582,187
Restricted for:			
Debt Service	410,446	-	410,446
Capital Projects	3,228	-	3,228
Security of Persons and Property	1,467,639	-	1,467,639
Transportation	965,105	-	965,105
Community Development	98,211	-	98,211
Leisure Time Activities	58,230	-	58,230
Unrestricted	2,625,391	5,008,336	7,633,727
Total Net Position	\$ 17,077,452	\$ 12,141,321	\$ 29,218,773

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO
MADISON COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental Activities:			
General Government	\$ 1,453,756	\$ 127,376	\$ 2,386
Security of Persons and Property	3,653,913	269,289	36,512
Public Health Services	-	-	-
Leisure Time Activities	227,382	87,556	15,210
Community and Economic Development	256,020	142,062	89,637
Transportation	1,972,328	-	597,097
Interest and Fiscal Charges	125,042	-	-
Total Governmental Activities	7,688,441	626,283	740,842
Business-type Activities:			
Water	1,569,423	1,582,327	-
Sewer	2,390,446	3,078,192	-
Sanitation	1,120,087	1,002,696	-
Total Business-type Activities	5,079,956	5,663,215	-
Total Government	\$ 12,768,397	\$ 6,289,498	\$ 740,842

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 Entitlement
Investment Earnings
Miscellaneous
Tranfers
Total General Revenues

Change in Net Position

Net Position at Beginning of Year
Net Position at End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$ (1,323,994)	\$ -	\$ (1,323,994)
(3,348,112)	-	(3,348,112)
-	-	-
(124,616)	-	(124,616)
(24,321)	-	(24,321)
(1,375,231)	-	(1,375,231)
(125,042)	-	(125,042)
<u>(6,321,316)</u>	<u>-</u>	<u>(6,321,316)</u>
-	12,904	12,904
-	687,746	687,746
-	(117,391)	(117,391)
<u>-</u>	<u>583,259</u>	<u>583,259</u>
<u>\$ (6,321,316)</u>	<u>\$ 583,259</u>	<u>\$ (5,738,057)</u>
529,839	-	529,839
117,680	-	117,680
309,642	-	309,642
3,595,957	-	3,595,957
1,607,277	-	1,607,277
179,856	-	179,856
8,464	-	8,464
55,579	19,457	75,036
(40,000)	40,000	-
<u>6,364,294</u>	<u>59,457</u>	<u>6,423,751</u>
42,978	642,716	685,694
17,034,474	11,498,605	28,533,079
<u>\$ 17,077,452</u>	<u>\$ 12,141,321</u>	<u>\$ 29,218,773</u>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO
MADISON COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2014**

	General Fund	Fire Department Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 2,065,221	\$ 1,019,823	\$ 2,414,559	\$ 5,499,603
Cash and Cash Equivalents in Segregated Accounts	-	-	51,768	51,768
Receivables:				
Taxes	1,705,866	422,701	368,129	2,496,696
Accounts	27,207	-	-	27,207
Intergovernmental	79,838	3,945	269,343	353,126
Interest	1,838	-	-	1,838
Special Assessments	-	-	40,350	40,350
Notes	-	-	12,327	12,327
Prepaid Items	23,414	3,212	10,684	37,310
Materials and Supplies Inventory	680	-	51,983	52,663
Total Assets	\$ 3,904,064	\$ 1,449,681	\$ 3,219,143	\$ 8,572,888
Liabilities:				
Accounts Payable	\$ 6,754	\$ 7	\$ 172	\$ 6,933
Retainage Payable	-	-	84,961	84,961
Accrued Wages	143,409	-	15,250	158,659
Intergovernmental Payable	109,635	43,653	31,049	184,337
Total Liabilities	259,798	43,660	131,432	434,890
Deferred Inflows of Resources:				
Property and Other Local Taxes	560,196	62,684	405,834	1,028,714
Unavailable Revenue	707,061	112,442	189,981	1,009,484
Total Deferred Inflows of Resources	1,267,257	175,126	595,815	2,038,198
Fund Balances:				
Nonspendable:				
Materials and Supplies Inventory	680	-	51,983	52,663
Prepaid Items	23,414	3,212	10,684	37,310
Restricted for:				
Debt Service	-	-	419,358	419,358
Capital Projects	-	-	165,082	165,082
Security of Persons and Property	-	1,227,683	153,680	1,381,363
Transportation	-	-	719,047	719,047
Community and Economic Development	-	-	98,211	98,211
Leisure Time Activities	-	-	58,230	58,230
Committed for:				
Capital Projects	-	-	611,075	611,075
Community and Economic Development	-	-	204,546	204,546
Assigned for:				
Future Appropriations	260,141	-	-	260,141
General Government	79,319	-	-	79,319
Security of Persons and Property	82,207	-	-	82,207
Leisure Time Activities	8,548	-	-	8,548
Community and Economic Development	100,130	-	-	100,130
Unassigned	1,822,570	-	-	1,822,570
Total Fund Balances	2,377,009	1,230,895	2,491,896	6,099,800
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,904,064	\$ 1,449,681	\$ 3,219,143	\$ 8,572,888

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO
MADISON COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014

Total Governmental Fund Balances	\$ 6,099,800
<i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	14,434,156
Other long-term assets are not available to pay for current period expenditures and therefore are reported as deferred inflows of resources in the funds.	
Income Taxes Receivable	717,367
Property Taxes Receivable	28,783
Intergovernmental Receivable	261,537
Interest Receivable	1,797
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	(325,493)
General Obligation Bonds Payable	(2,643,000)
Loans Payable	(1,434,508)
Police and Fire Pension Payable	(53,729)
Accrued Interest Payable	(9,258)
Net Position of Governmental Activities	<u><u>\$ 17,077,452</u></u>

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, 2014

	General Fund	Fire Department Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 4,196,883	\$ 1,636,931	\$ 368,709	\$ 6,202,523
Special Assessments	9,816	-	39,343	49,159
Charges for Services	87,556	252,000	29,512	369,068
Fines, Licenses, and Permits	256,200	-	1,015	257,215
Intergovernmental	172,293	10,100	659,623	842,016
Interest	4,701	-	3,322	8,023
Other	59,043	13,932	20,164	93,139
Total Revenues	<u>4,786,492</u>	<u>1,912,963</u>	<u>1,121,688</u>	<u>7,821,143</u>
Expenditures:				
Current:				
General Government	1,329,563	-	47,570	1,377,133
Security of Persons and Property	1,958,625	1,421,710	180,225	3,560,560
Leisure Time Activities	184,823	-	-	184,823
Community and Economic Development	164,729	-	119,237	283,966
Transportation	-	-	896,064	896,064
Capital Outlay	-	-	533,013	533,013
Debt service:				
Principal Retirement	-	-	318,905	318,905
Interest and Fiscal Charges	-	-	125,940	125,940
Total Expenditures	<u>3,637,740</u>	<u>1,421,710</u>	<u>2,220,954</u>	<u>7,280,404</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,148,752	491,253	(1,099,266)	540,739
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	85	-	-	85
Transfers In	-	-	786,932	786,932
Transfers Out	(826,932)	-	-	(826,932)
Total Other Financing Sources (Uses)	<u>(826,847)</u>	<u>-</u>	<u>786,932</u>	<u>(39,915)</u>
Net Change in Fund Balances	321,905	491,253	(312,334)	500,824
Fund Balance at Beginning of Year	2,055,104	739,642	2,804,230	5,598,976
Fund Balance at End of Year	<u>\$ 2,377,009</u>	<u>\$ 1,230,895</u>	<u>\$ 2,491,896</u>	<u>\$ 6,099,800</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, 2014

Net Change in Fund Balances - Total Governmental Funds \$ 500,824

*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	228,135
Depreciation Expense	(955,123)

Revenues in the statement of activities that do not provide current financial
resources are not reported as revenues in the funds. (49,809)

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 position.

Principal Payments on Debt	318,905
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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.

Police and Fire Pension	1,623
Compensated Absences	(2,475)
Accrued Interest	898

Change in Position of Governmental Activities \$ 42,978

**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, 2014

	Original Budget	Final Budget	Actual	Variance (Over)/Under
Revenues				
Taxes	\$ 3,482,502	\$ 3,482,502	\$ 3,937,710	\$ 455,208
Special Assessments	9,800	9,800	9,816	16
Charges for Services	57,050	57,050	87,556	30,506
Fines, Licenses, and Permits	111,600	111,600	113,438	1,838
Intergovernmental	170,500	170,500	171,944	1,444
Interest	5,000	5,000	6,458	1,458
Other	37,000	37,000	55,339	18,339
Total Revenues	<u>3,873,452</u>	<u>3,873,452</u>	<u>4,382,261</u>	<u>508,809</u>
Expenditures				
Current:				
General Government	1,166,778	1,193,778	1,068,604	125,174
Security of Persons and Property	2,117,199	2,117,199	2,007,705	109,494
Leisure Time Activities	168,588	214,088	192,294	21,794
Total Expenditures	<u>3,452,565</u>	<u>3,525,065</u>	<u>3,268,603</u>	<u>256,462</u>
Excess of Revenues Over (Under) Expenditures	420,887	348,387	1,113,658	765,271
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	-	-	85	85
Transfers Out	(805,614)	(845,933)	(848,932)	(2,999)
Total Other Financing Sources (Uses)	<u>(805,614)</u>	<u>(845,933)</u>	<u>(848,847)</u>	<u>(2,914)</u>
Net Change in Fund Balance	(384,727)	(497,546)	264,811	762,357
Fund Balances at Beginning of Year	1,359,240	1,359,240	1,359,240	-
Prior Year Encumbrances Appropriated	118,135	118,135	118,135	-
Fund Balances at End of Year	<u>\$ 1,092,648</u>	<u>\$ 979,829</u>	<u>\$ 1,742,186</u>	<u>\$ 762,357</u>

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
FIRE DEPARTMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	Original Budget	Final Budget	Actual	Variance (Over)/Under
Revenues				
Taxes	\$ 1,360,000	\$ 1,360,000	\$ 1,657,528	\$ 297,528
Charges for Services	252,000	252,000	252,000	-
Intergovernmental	7,500	7,500	10,100	2,600
Other	-	-	13,932	13,932
Total Revenues	<u>1,619,500</u>	<u>1,619,500</u>	<u>1,933,560</u>	<u>314,060</u>
Expenditures				
Current:				
Security of Persons and Property	<u>1,587,070</u>	<u>1,662,070</u>	<u>1,447,973</u>	<u>214,097</u>
Total Expenditures	<u>1,587,070</u>	<u>1,662,070</u>	<u>1,447,973</u>	<u>214,097</u>
Excess of Revenues Over (Under) Expenditures	32,430	(42,570)	485,587	528,157
Other Financing Sources (Uses)				
Transfers In	129,600	189,600	189,600	-
Transfers Out	<u>(129,600)</u>	<u>(189,600)</u>	<u>(189,600)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	32,430	(42,570)	485,587	528,157
Fund Balances at Beginning of Year	<u>505,222</u>	<u>505,222</u>	<u>505,222</u>	<u>-</u>
Fund Balances at End of Year	<u>\$ 537,652</u>	<u>\$ 462,652</u>	<u>\$ 990,809</u>	<u>\$ 528,157</u>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO
MADISON COUNTY**

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
AS OF DECEMBER 31, 2014

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Sanitation	Total
Assets				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 1,384,835	\$ 2,355,724	\$ 926,812	\$ 4,667,371
Receivables:				
Accounts	200,289	351,523	12,169	563,981
Special Assessments	-	20,688	-	20,688
Prepaid Items	8,159	8,371	2,965	19,495
Materials and Supplies Inventory	17,524	1,282	24,812	43,618
Total Current Assets	<u>1,610,807</u>	<u>2,737,588</u>	<u>966,758</u>	<u>5,315,153</u>
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	160,931	-	-	160,931
Non-Depreciable Capital Assets	439,853	66,768	99,960	606,581
Depreciable Capital Assets, Net	2,870,143	27,586,291	528,459	30,984,893
Total Noncurrent Assets	<u>3,470,927</u>	<u>27,653,059</u>	<u>628,419</u>	<u>31,752,405</u>
Total Assets	<u>5,081,734</u>	<u>30,390,647</u>	<u>1,595,177</u>	<u>37,067,558</u>
Liabilities				
Current Liabilities:				
Accounts Payable	3,638	-	529	4,167
Accrued Wages	29,807	13,702	12,889	56,398
Intergovernmental Payable	32,850	14,865	14,343	62,058
Customer Deposits Payable	160,931	-	-	160,931
Compensated Absences Payable	17,681	10,223	9,700	37,604
OWDA Loans Payable	129,581	1,592,098	-	1,721,679
Total Current Liabilities	<u>374,488</u>	<u>1,630,888</u>	<u>37,461</u>	<u>2,042,837</u>
Noncurrent Liabilities:				
Compensated Absences Payable	92,307	41,247	13,036	146,590
OWDA Loans Payable	840,099	21,896,711	-	22,736,810
Total Noncurrent Liabilities	<u>932,406</u>	<u>21,937,958</u>	<u>13,036</u>	<u>22,883,400</u>
Total Liabilities	<u>1,306,894</u>	<u>23,568,846</u>	<u>50,497</u>	<u>24,926,237</u>
Net Position				
Net Investment in Capital Assets	2,340,316	4,164,250	628,419	7,132,985
Unrestricted	1,434,524	2,657,551	916,261	5,008,336
Total Net Position	<u>\$ 3,774,840</u>	<u>\$ 6,821,801</u>	<u>\$ 1,544,680</u>	<u>\$ 12,141,321</u>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO
MADISON COUNTY**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Sanitation	Total
Operating Revenues				
Charges for Services	\$ 1,582,327	\$ 3,078,192	\$ 1,002,696	\$ 5,663,215
Total Operating Revenues	<u>1,582,327</u>	<u>3,078,192</u>	<u>1,002,696</u>	<u>5,663,215</u>
Operating Expenses				
Personal Services	786,439	514,766	520,025	1,821,230
Contractual Services	474,566	356,903	384,089	1,215,558
Materials and Supplies	127,016	9,597	119,350	255,963
Depreciation	142,933	1,302,587	94,186	1,539,706
Total Operating Expenses	<u>1,530,954</u>	<u>2,183,853</u>	<u>1,117,650</u>	<u>4,832,457</u>
Operating Income (Loss)	<u>51,373</u>	<u>894,339</u>	<u>(114,954)</u>	<u>830,758</u>
Nonoperating Revenues (Expenses)				
Other Non-Operating Revenue	-	16,207	3,250	19,457
Interest Expense	(38,469)	(197,393)	-	(235,862)
Loss on Disposal of Capital Assets	-	(9,200)	(2,437)	(11,637)
Transfers In	-	40,000	-	40,000
Total Non-Operating Revenues (Expenses)	<u>(38,469)</u>	<u>(150,386)</u>	<u>813</u>	<u>(188,042)</u>
Change in Net Position	<u>12,904</u>	<u>743,953</u>	<u>(114,141)</u>	<u>642,716</u>
Net Position at Beginning of Year	3,761,936	6,077,848	1,658,821	11,498,605
Net Position at End of Year	<u>\$ 3,774,840</u>	<u>\$ 6,821,801</u>	<u>\$ 1,544,680</u>	<u>\$ 12,141,321</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, 2014

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Sanitation	Total
Cash Flows from Operating Activities				
Cash Received from Customers	\$ 1,599,023	\$ 3,075,227	\$ 1,003,269	\$ 5,677,519
Cash Payments to Suppliers for Goods and Services	(625,605)	(366,260)	(513,297)	(1,505,162)
Cash Payments for Salaries and Benefits	(783,200)	(504,556)	(514,335)	(1,802,091)
Net Cash Flows from Operating Activities	<u>190,218</u>	<u>2,204,411</u>	<u>(24,363)</u>	<u>2,370,266</u>
Cash Flows from Noncapital Financing Activities				
Cash Received from Other Non-operating Receipts	-	19,092	3,250	22,342
Net Cash Flows from Noncapital Financing Activities	<u>-</u>	<u>19,092</u>	<u>3,250</u>	<u>22,342</u>
Cash Flows from Capital and Related Financing Activities				
Proceeds from Loans	307,315	-	-	307,315
Acquisition of Capital Assets	(330,655)	(172,763)	-	(503,418)
Principal Payments of Debt	(119,951)	(1,579,437)	-	(1,699,388)
Payment of Interest	(30,764)	(197,393)	-	(228,157)
Net Cash Flows from Capital and Related Financing Activities	<u>(174,055)</u>	<u>(1,949,593)</u>	<u>-</u>	<u>(2,123,648)</u>
Net Change in Cash	16,163	273,910	(21,113)	268,960
Cash and Cash Equivalents at Beginning of Year	<u>1,529,603</u>	<u>2,081,814</u>	<u>947,925</u>	<u>4,559,342</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,545,766</u>	<u>\$ 2,355,724</u>	<u>\$ 926,812</u>	<u>\$ 4,828,302</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, 2014

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Sanitation	Total
Cash Flows from Operating Activities				
Reconciliation of Operating Income (Loss) to Net				
Cash Flows from Operating Activities:				
Operating Income (Loss)	\$ 51,373	\$ 894,339	\$ (114,954)	\$ 830,758
Add Depreciation Expense	142,933	1,302,587	94,186	1,539,706
(Increase)/Decrease in Current Assets				
Accounts Receivable	(16,958)	(2,965)	573	(19,350)
Material and Supply Inventory	14	448	(7,901)	(7,439)
Prepaid Items	380	46	(65)	361
Increase/(Decrease) in Current Liabilities				
Accounts Payable	(25)	(254)	(3,192)	(3,471)
Accrued Wages	1,950	1,055	1,748	4,753
Compensated Absences	(1,586)	8,313	3,243	9,970
Intergovernmental Payable	2,875	842	1,999	5,716
Customers Deposits	9,262	-	-	9,262
Net Cash Flows from Operating Activities	\$ 190,218	\$ 2,204,411	\$ (24,363)	\$ 2,370,266

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO
MADISON COUNTY**

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AS OF DECEMBER 31, 2014

	<u>Agency Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 153,863
Total Assets	<u>153,863</u>
Liabilities	
Undistributed Monies	153,863
Total Liabilities	<u>\$ 153,863</u>

See accompanying notes to the basic financial statements

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

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” and No. 61, “The Financial Reporting Entity: Omnibus an amendment of GASB Statement No. 14 and No. 39”.

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 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, 2014

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 Position 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 Position 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 Position 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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance.

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following are the City's major governmental fund types:

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.

Fire Department Fund – The Fire Department Fund accounts for all fire department revenues and expenditures; with the exception of the Ohio Police and Fire pension obligation.

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 position, 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 position and changes in net position. 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 deferred outflows of resources and liabilities and deferred inflows of resources with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

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, current liabilities, and deferred outflows/inflows of resources 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 deferred outflows of resources and liabilities and deferred inflows of resources associated with the operation of these funds are included on the Statement of Fund Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position 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 unavailable 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 6). 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, 2014

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 Outflows/Inflows of Resources - In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until then. The City does not have any items that qualify for reporting in this category.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Property taxes, special assessments and payments in lieu of taxes for which there is an enforceable legal claim as of December 31, 2014, but which were levied to finance year 2015 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as deferred inflows of resources on the Statement of Net Position. Income taxes, grants and entitlements, and other revenues not received within the available period and delinquent property taxes due at December 31, 2014, are recorded as unavailable revenue in the governmental funds and as revenue on the Statement of Activities.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as unavailable 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 2014, investments were limited to negotiable certificates of deposit and STAR Plus.

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

STAR Plus is a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account. STAR Plus offers attractive yields with no market or credit risk, weekly liquidity and penalty free withdrawals. All deposits with STAR Plus have full FDIC insurance, with no term commitment on deposits. As of December 31, 2014 the Net Annual Percentage Yield (APY) for STAR Plus was .20%

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the General Fund amounted to \$4,701 and \$3,322 was credited to other City funds.

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, 2014 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 the 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.

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Capital Assets

General capital assets are capital assets which are associated and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide Statement of Net Position 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 Position and in the respective funds.

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

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

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

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 2014.

(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 Position except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

(l) Compensated Absences

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

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

(m) Accrued Liabilities and Long-Term Obligations

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

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

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Net Position

Net position represents the difference between assets, liabilities, and deferred inflows/outflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the 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 position is available.

(o) Fund Balance

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.

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City applies restricted resources first when an expense is incurred for purposes which both restricted and unrestricted fund balance 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.

(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.

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Budgetary Data

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

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.

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CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

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 and Fire Department 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 an assignment 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 and Fire Department Fund.

Net Change in Fund Balance

	General Fund	Fire Department Fund
GAAP Basis	\$ 321,905	\$ 491,253
Building and Zoning Fund Change	(499)	-
Taxation Fund Change	(18,321)	-
Revenue Accruals	88,383	20,597
Expenditure Accruals	43,416	2,751
Encumbrances	(170,073)	(29,014)
Budget Basis	\$ 264,811	\$ 485,587

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 4 – 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;
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 and STAR Plus).
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

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

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 2014, 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.

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, including STAR Plus, was \$9,287,273. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2014, \$1,230,711 of the City’s bank balance of \$9,522,818 was covered by Federal Deposit Insurance Corporation.

Investments - As of December 31, 2014, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less than 1</u>	<u>1-2</u>	<u>2-3</u>
Negotiable Certificates of Deposit	\$ 1,246,263	\$ 500,263	\$ 250,300	\$ 495,700

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

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 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:

<u>Investment Type</u>	<u>Percent of Total</u>
Negotiable Certificates of Deposit	100.00%

NOTE 5 – 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, 2014 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 6 – 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 2014 for real and public utility property taxes represents collections of the 2013 taxes. Property tax payments received during 2014 for tangible personal property (other than public utility property) are for 2013 taxes.

The 2014 real property taxes are levied after October 1, 2014, on the assessed value as of January 1, 2014, the lien date. Assessed values are established by the State law at 35 percent of appraised market value. 2014 real property taxes are collected in and intended to finance 2015.

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. 2014 public utility property taxes which became a lien on December 31, 2013, are levied after October 1, 2014, and are collected in 2015 with real property taxes.

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 6 – PROPERTY TAXES (Continued)

The full tax rate for all City operations for the year ended December 31, 2014, was \$5.75 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2014 property tax receipts were based are as follows:

	Assesed Valuation
Real Property	\$ 166,784,840
Public Utility Property	5,831,060
Total	\$ 172,615,900

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.

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, 2014 and for which there is an enforceable legal claim. In the General Fund, and the Police and Fire Pension special revenue funds, the entire receivable has been offset by a deferred inflow of resources since the current taxes were not levied to finance 2014 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 remains in deferred inflows of resources.

NOTE 7 – INCOME TAXES

The City levied 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. On May 7, 2013, the City passed a new one-half percent fire levy which increased the income tax to 1.5 percent effective July 1, 2013. This tax also applies to the net income of businesses operating within the City. In addition, residents of the City are required to pay income tax on income earned outside the City.

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

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

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 8 – RECEIVABLES AND DEFERRED INFLOWS OF RESOURCES

(a) Receivables

Receivables at December 31, 2014 consisted of taxes, interest, 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 Position follows:

Receivable	Amount
Property taxes	\$ 714,347
Income taxes	1,479,549
Payment in lieu of taxes	302,800
Total	\$ 2,496,696

(b) Deferred Inflows of Resources

Deferred Inflows of Resources at December 31, 2014 consisted of property taxes, payments in lieu of taxes, and special assessments for which there is an enforceable legal claim as of December 31, 2014, which were levied to finance year 2015 operations.

A summary of Deferred Inflows of Resources reported on the Statement of Net Position follows:

Property and Other Local Taxes	Amount
Property taxes	\$ 685,564
Payment in lieu of taxes	302,800
Special assessments	40,350
Total	\$ 1,028,714

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 9 – CAPITAL ASSETS

A summary of changes in governmental capital assets during the year is as follows:

Governmental Activities

	Beginning Balance	Additions	Deductions	Ending Balance
Nondepreciable Capital Assets				
Land	\$ 808,996	\$ -	\$ -	\$ 808,996
Construction in Progress	141,193	125,183	-	266,376
Total Nondepreciable Assets	950,189	125,183	-	1,075,372
Depreciable Capital Assets				
Land Improvements	640,432	8,000	-	648,432
Buildings	2,346,112	-	-	2,346,112
Machinery and Equipment	1,199,781	43,486	-	1,243,267
Vehicles	2,052,044	51,466	(28,925)	2,074,585
Infrastructure	20,131,726	-	-	20,131,726
Total Depreciable Assets	26,370,095	102,952	(28,925)	26,444,122
Less accumulated depreciation				
Land Improvements	(423,369)	(24,790)	-	(448,159)
Buildings	(748,629)	(72,392)	-	(821,021)
Machinery and Equipment	(877,428)	(57,554)	-	(934,982)
Vehicles	(1,867,463)	(83,114)	28,925	(1,921,652)
Infrastructure	(8,242,251)	(717,273)	-	(8,959,524)
Total accumulated depreciation	(12,159,140)	(955,123)	28,925	(13,085,338)
Depreciable Capital Assets, Net of accumulated depreciation	14,210,955	(852,171)	-	13,358,784
Total Capital Assets, Net	\$ 15,161,144	\$ (726,988)	\$ -	\$ 14,434,156

Depreciation expense was charged to the governmental functions as follows:

General Government	\$ 59,416
Security of Persons and Property	97,764
Leisure Activities	42,559
Transportation	755,384
Total depreciation expense	\$ 955,123

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 9 – CAPITAL ASSETS (Continued)

Business-Type Activities

	Beginning Balance	Additions	Deductions	Ending Balance
Nondepreciable Capital Assets				
Land	\$ 275,926	\$ -	\$ -	\$ 275,926
Construction in Progress	-	330,655	-	330,655
Total Nondepreciable Assets	275,926	330,655	-	606,581
Depreciable Capital Assets				
Land Improvements	17,639	-	-	17,639
Buildings	4,916,178	-	-	4,916,178
Improvements Other Than Buildings	20,090,599	-	-	20,090,599
Machinery and Equipment	4,381,937	148,763	(28,539)	4,502,161
Vehicles	1,138,752	24,000	(36,000)	1,126,752
Water and Sewer Lines	18,353,139	-	-	18,353,139
Total Depreciable Assets	48,898,244	172,763	(64,539)	49,006,468
Less accumulated depreciation				
Land Improvements	(15,979)	(882)	-	(16,861)
Buildings	(1,221,943)	(153,275)	-	(1,375,218)
Improvements Other Than Buildings	(5,980,315)	(797,684)	-	(6,777,999)
Machinery and Equipment	(2,869,438)	(155,501)	28,539	(2,996,400)
Vehicles	(917,391)	(70,174)	24,363	(963,202)
Water and Sewer Lines	(5,529,705)	(362,190)	-	(5,891,895)
Total accumulated depreciation	(16,534,771)	(1,539,706)	52,902	(18,021,575)
Depreciable Capital Assets, Net of accumulated depreciation	32,363,473	(1,366,943)	(11,637)	30,984,893
Total Business-Type Capital Assets, Net	\$ 32,639,399	\$ (1,036,288)	\$ (11,637)	\$ 31,591,474

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 10 – 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 2014, the City was insured through Wichert Insurance. During 2014, the City had the following types of insurance:

<u>Coverage</u>	<u>Limit</u>
Real Property Legal Liability	\$ 64,933,915
Equipment	Unlimited
Flood and Earthquake	1,000,000
General Liability (per occurrence)	1,000,000
Automobile Liability	1,000,000
Umbrella (per occurrence)	5,000,000

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

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

NOTE 11 – 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.

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 11 – PENSION BENEFITS (Continued)

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).

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2014, 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 2014 member contribution rate for City employees was 10.00 percent of covered payroll. The 2014 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, 2014, 2013, and 2012 were \$353,943, \$320,154, and \$320,458 respectively. The full amount has been contributed for 2013 and 2012; 92.0 percent has been contributed for 2014, 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 10.75 percent of their annual covered salary from January 1, 2014 thru July 1, 2014 and 11.50 percent of their annual covered salary from July 2, 2014 thru December 31, 2014, while employers are required to contribute 19.5 percent and 24 percent respectively for police officers and firefighters. The City's contributions to OP&F for the years ending December 31, 2014, 2013, and 2012 were \$338,655, \$318,201, and \$347,870, respectively. The full amount has been contributed for 2013 and 2012; 92.0 percent has been contributed for 2014, with the remainder being reported as a fund liability.

NOTE 12 – 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.

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

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.

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 2.0%. The portion of employer contributions allocated to health care for members in the Combined Plan was 2.0%. 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, 2014, 2013, and 2012 were \$50,563, \$22,859, and \$91,555, respectively. The full amount has been contributed for 2013 and 2012. 92.0 percent has been contributed for 2014, with the remainder being reported as a fund liability.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

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.

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

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.

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, 2014, the employer contribution allocated to the health care plan was 0.50 percent of covered payroll from January 1, 2014 thru December 31, 2014. 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, 2014, 2013, and 2012 were \$338,655, \$318,201, and \$347,870, respectively, of which \$7,892, \$53,572, and \$110,024, respectively, was allocated to the healthcare plan. The full amount has been contributed for 2013 and 2012. 92.0 percent has been contributed for police and firefighters for 2014, with the remainder being reported as a fund liability.

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 13 – 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.

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, 2014, the accrued liability for unpaid compensated absences was \$509,687.

NOTE 14 – LONG TERM LIABILITIES

	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Date of Maturity</u>
<i>Governmental Activities:</i>			
East High Street OPWC Loan- 1993	0.00%	267,660	July 1, 2014
Various Purpose Bonds- 2006	4.95%	303,800	December 1, 2016
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
<i>Business-Type Activities:</i>			
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
Water Planning OWDA Loans- 2013	4.62%	746,000	July 1, 2034

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, 2014, is \$53,729 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.

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 14 – LONG TERM LIABILITIES (Continued)

The following is a summary of changes in long-term liabilities of the governmental activities for the year ended December 31, 2014:

<i>Governmental Activities</i>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
OPWC Loan - 1993	\$ 13,383	\$ -	\$ (13,383)	\$ -	\$ -
OPWC Loan - 2006 Phase I	164,253	-	(13,687)	150,566	13,688
OPWC Loan - 2006 Phase II	380,418	-	(27,176)	353,242	27,172
OWDA Sewer Improvements 2005	1,014,359	-	(83,659)	930,700	84,498
General Obligation Bonds:					
Various Purpose	107,000	-	(34,000)	73,000	35,600
Street Sweeper Bonds	47,000	-	(47,000)	-	-
Keny Blvd Improvement Bonds	2,670,000	-	(100,000)	2,570,000	105,000
Total Governmental Debt	4,396,413	-	(318,905)	4,077,508	265,958
Compensated Absences	323,018	135,511	(133,036)	325,493	147,035
Police & Fire Pension Payable	55,352		(1,623)	53,729	1,692
Total Governmental Activities	<u>\$ 4,774,783</u>	<u>\$ 135,511</u>	<u>\$ (453,564)</u>	<u>\$ 4,456,730</u>	<u>\$ 414,685</u>

The following is a summary of changes in long-term liabilities of the business-type activities for the year ended December 31, 2014:

<i>Business-Type Activities</i>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
OWDA Loans:					
Water Improvements 2001	\$ 761,886	\$ -	\$ (88,576)	\$ 673,310	\$ 92,281
Sewer Improvements 2006	25,068,246	-	(1,579,437)	23,488,809	1,592,098
Water Planning 2009	12,725	-	(12,725)	-	-
Water Planning 2013	-	315,020	(18,650)	296,370	37,300
Total OWDA Loans	25,842,857	315,020	(1,699,388)	24,458,489	1,721,679
Compensated Absences	174,224	70,603	(60,633)	184,194	37,604
Total Business-Type Activities	<u>\$ 26,017,081</u>	<u>\$ 385,623</u>	<u>\$ (1,760,021)</u>	<u>\$ 24,642,683</u>	<u>\$ 1,759,283</u>

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. The City drew down a total of \$32,779,024 of this loan amount. The remaining amount will not be drawn.

On December 12, 2013, the City was awarded a planning loan from the OWDA in the amount of \$746,000. The proceeds of this loan will be used to design the new water tower and plant. The loan bears a fixed interest rate of 4.62% during the project, then 0% thereafter. The loan has a final maturity of December 1, 2030. During 2014, the City drew down \$315,020 of this loan amount. The remaining amount will be drawn down in 2015.

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 14 – LONG TERM LIABILITIES (Continued)

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. Pledged revenues of a given year may also include specified portions of cash balances carried over from the prior year. The remaining OWDA loans are payable, through their final maturities, from net revenues applicable to the respective Water and Sewer 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. As of December 31, 2014, the principal and interest remaining to be paid on these OWDA loans is \$25,946,866. In 2014, total customer revenues were \$1,582,327 and \$3,078,192 for the Water and Sewer Funds, respectively.

The annual requirements to retire the governmental activities long-term obligations outstanding at December 31, 2014 are as follows:

	Governmental Activities		Business Type-Activities			
			Water		Sewer	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 265,958	\$ 120,190	129,581	26,930	1,592,096	184,732
2016	268,605	114,693	133,440	23,070	1,604,860	171,971
2017	237,061	109,098	137,462	19,048	1,617,725	159,105
2018	247,925	104,494	141,651	14,859	1,630,693	146,139
2019	253,797	99,542	146,016	10,494	1,643,765	133,067
2020-2024	1,357,400	409,063	281,530	7,155	8,418,592	465,562
2025-2029	1,196,762	217,696	-	-	6,981,078	126,245
2030-2034	250,000	11,875	-	-	-	-
Total	\$ 4,077,508	\$ 1,186,651	\$ 969,680	\$ 101,556	\$ 23,488,809	\$ 1,386,821

For the governmental activities, the Ohio Public Works Commission (OPWC) loans, OWDA loan and general obligation bonds will be paid from the Other Governmental Funds. Compensated absences will be paid from general operating revenues of the fund from which the employees’ salaries are paid. The police and fire pension liability will be paid from tax revenues of the Police and Fire Pension Fund.

For business-type activities, the Ohio Water Development Authority (OWDA) loans will be paid from charges for services revenue in the Water and Sewer Funds. Compensated absences will be paid from general operating revenues of the fund from which the employees’ salaries are paid.

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 15 – 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	\$ -	\$ 826,932
Other Governmental	786,932	-
Sewer	40,000	-
	<u>\$ 826,932</u>	<u>\$ 826,932</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, 2014 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	\$ 65,000	\$ -	\$ (65,000)	\$ -
Moving Ohio Forward Grant	(25,000)	-	25,000	-
Sewer	(40,000)	-	40,000	-

The Capital Improvements Fund advanced monies to the Sewer Fund to provide start-up funds for a storm water assessment project. The Sewer Fund repaid these monies in 2014. 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 16 – 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, 2014.
- B. Litigation** - The City may be a defendant in several lawsuits, the outcome of which cannot be determined. It is the opinion of the City’s Law Director that any judgment against the City would not have a material adverse effect on the City’s financial position.

CITY OF LONDON, OHIO
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

NOTE 17 – FUND RECLASSIFICATION

The Capital Improvements Fund no longer met the definition of a major fund in 2014 and was reclassified as a nonmajor governmental fund, accordingly. In addition, the Fire Department Fund met the definition of a major fund in 2014 and was reclassified as a major fund, accordingly. The effect of these reclassifications is presented below:

	Capital Improvements Fund	Fire Department Fund	Other Governmental Funds
Fund Balances, December 31, 2013	\$ 864,583	\$ -	\$ 2,679,289
Major Fund Reclassifications:	(864,583)	739,642	124,941
Fund Balances, January 1, 2014	\$ -	\$ 739,642	\$ 2,804,230

NOTE 18 – CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2014, the City has implemented the following:

GASB Statement No. 70 “Accounting and Financial Reporting for Nonexchange Financial Guarantees” enhances comparability of financial statements by requiring consistent reporting by those governmental entities that extend nonexchange financial guarantees and by those governmental entities that receive nonexchange financial guarantees. This implementation of this statement did not have an effect on the financial statements of the City.