

**CITY OF LONDON**

**Madison County, Ohio**



**Basic Financial Statements**

**December 31, 2015**





# Dave Yost • Auditor of State

City Council  
City of London  
102 South Main Street  
London, Ohio 43140

We have reviewed the *Independent Auditor's Report* of the City of London, Madison County, prepared by Plattenburg & Associates, Inc., for the audit period January 1, 2015 through December 31, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

September 15, 2016

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**CITY OF LONDON, OHIO  
MADISON COUNTY**

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**INDEPENDENT AUDITORS' 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, 2015, 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 above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2015, 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.

## Emphasis of Matter

As described in Note 17 to the financial statements, the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules of net pension assets/liabilities, and pension contributions 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 24, 2016, 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.

*Plattensburg & Associates, Inc.*

Plattensburg & Associates, Inc.  
Cincinnati, Ohio  
June 24, 2016

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(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, 2015. 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 2015 are as follows:

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by approximately \$25.9 million (net position). Of this amount, approximately \$3.5 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 approximately \$2.1 million in 2015. This increase is the result of an approximate \$1.3 million increase in governmental activities net position and a \$788,379 increase in business-type activities net position.
- For governmental activities, general revenues accounted for approximately \$6.8 million, or 79 percent of total revenues, and program specific revenues accounted for the remaining 21 percent, or approximately \$1.8 million.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately \$7.3 million, an approximate \$1.2 million 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 49 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, deferred outflows of resources, 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  
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**MANAGEMENT'S DISCUSSION & ANALYSIS  
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(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 13-15 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 16-21 of this report.

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MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
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***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 22-25 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 26 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 27 of this report.

***Other Information*** - In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. This required supplementary information can be found on pages 63-66 of this report.

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**CITY OF LONDON, OHIO  
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**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(UNAUDITED)**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The table below provides a summary of the City's net position for 2015 compared to 2014:

	Governmental Activities		Business-Type Activities		Total	
	2014	2015	2014	2015	2014	2015
Current and Other Assets	\$ 8,575,916	\$ 9,835,851	\$ 5,476,084	\$ 6,057,209	\$ 14,052,000	\$ 15,893,060
Capital Assets, Net	14,434,156	14,222,322	31,591,474	30,684,210	46,025,630	44,906,532
Total Assets	23,010,072	24,058,173	37,067,558	36,741,419	60,077,630	60,799,592
Deferred Outflows of Resources	490,368	847,322	121,207	194,743	611,575	1,042,065
Current and Other Liabilities	444,148	495,237	283,554	293,173	727,702	788,410
Long-Term Liabilities	4,456,730	4,238,261	24,642,683	23,552,312	29,099,413	27,790,573
Net Pension Liability	5,017,808	5,289,342	968,028	990,398	5,985,836	6,279,740
Total Liabilities	9,918,686	10,022,840	25,894,265	24,835,883	35,812,951	34,858,723
Deferred Inflows of Resources	1,028,714	1,049,831	-	17,399	1,028,714	1,067,230
Net Position:						
Net Investment in Capital Assets	11,449,202	11,418,828	7,132,985	7,328,966	18,582,187	18,747,794
Restricted	3,002,859	3,707,178	-	-	3,002,859	3,707,178
Unrestricted	(1,899,021)	(1,293,182)	4,161,515	4,753,914	2,262,494	3,460,732
Total Net Position	\$ 12,553,040	\$ 13,832,824	\$ 11,294,500	\$ 12,082,880	\$ 23,847,540	\$ 25,915,704

During 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting the net pension asset and deferred outflows related to pension.

GASB standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension asset/liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

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Under the new standards required by GASB 68, the net pension asset and net pension liability equal the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise, if applicable, is a present obligation of the City, part of a bargained-for benefit to the employee, and should accordingly be reported by the City as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribute rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by the contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension systems are responsible for the administration of the plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with the required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension asset/liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the City is reporting a net pension asset, net pension liability, and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014, from \$17,077,452 to \$12,553,040 for governmental activities and from \$12,141,321 to \$11,294,501 for business type activities.

**CITY OF LONDON, OHIO  
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**MANAGEMENT'S DISCUSSION & ANALYSIS  
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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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by approximately \$25.9 million at the close of the most recent fiscal year.

*Governmental Activities* – The significant increase in current and other assets, is the result of an increase in cash and cash equivalents. The significant decrease in long-term liabilities is the result of principal payments made during the year totaling \$265,958.

*Business-Type Activities* – The significant decrease in capital assets, net, is the result of depreciation of approximately \$1.5 million offset by \$626,807 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 (73 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 (14 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (approximately \$3.4 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 as a whole is able to report positive balances in all three categories of net position. The same situation held true for the prior fiscal year.

**CITY OF LONDON, OHIO  
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**MANAGEMENT'S DISCUSSION & ANALYSIS  
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The table below shows the changes in net position for fiscal years 2015 and 2014.

	Governmental Activities		Business-type Activities		Total	
	2014	2015	2014	2015	2014	2015
<b>Program Revenues:</b>						
Charges for Service	\$ 626,283	\$ 564,654	\$ 5,663,215	\$ 5,871,912	\$ 6,289,498	\$ 6,436,566
Operating Grants	740,842	666,928	-	-	740,842	666,928
Capital Grants	-	604,555	-	-	-	604,555
<b>General Revenues:</b>						
Property Taxes	647,519	728,285	-	-	647,519	728,285
Payment in Lieu of Taxes	309,642	395,311	-	-	309,642	395,311
Income Taxes	5,203,234	5,471,249	-	-	5,203,234	5,471,249
Unrestricted Grants	179,856	169,297	-	-	179,856	169,297
Investment Income	8,464	18,186	-	-	8,464	18,186
Other Revenue	55,579	44,628	19,457	18,330	75,036	62,958
<b>Total Revenues</b>	<b>7,771,419</b>	<b>8,663,093</b>	<b>5,682,672</b>	<b>5,890,242</b>	<b>13,454,091</b>	<b>14,553,335</b>
<b>Expenses:</b>						
General Government	1,453,756	1,399,043	-	-	1,453,756	1,399,043
Security of Persons and Property	3,653,913	3,936,399	-	-	3,653,913	3,936,399
Transportation	1,972,328	1,516,338	-	-	1,972,328	1,516,338
Community and Economic Development	256,020	146,803	-	-	256,020	146,803
Leisure Time Activities	227,382	234,876	-	-	227,382	234,876
Interest on Long-Term Debt	125,042	119,850	-	-	125,042	119,850
Water	-	-	1,569,423	1,580,215	1,569,423	1,580,215
Sewer	-	-	2,390,446	2,507,288	2,390,446	2,507,288
Sanitation	-	-	1,120,087	1,044,360	1,120,087	1,044,360
<b>Total Expenses</b>	<b>7,688,441</b>	<b>7,353,309</b>	<b>5,079,956</b>	<b>5,131,863</b>	<b>12,768,397</b>	<b>12,485,172</b>
<b>Change in Net Position</b>						
before Transfers	82,978	1,309,784	602,716	758,379	685,694	2,068,163
Transfers	(40,000)	(30,000)	40,000	30,000	-	-
<b>Change in Net Position</b>	<b>42,978</b>	<b>1,279,784</b>	<b>642,716</b>	<b>788,379</b>	<b>685,694</b>	<b>2,068,163</b>
Net Position, Beginning	N/A	12,553,040	N/A	11,294,501	N/A	23,847,541
<b>Net Position, Ending</b>	<b>\$ 12,553,040</b>	<b>\$ 13,832,824</b>	<b>\$ 11,294,501</b>	<b>\$ 12,082,880</b>	<b>\$ 23,847,541</b>	<b>\$ 25,915,704</b>

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$611,575 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$645,541. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

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**MANAGEMENT'S DISCUSSION & ANALYSIS  
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(UNAUDITED)**

	Governmental Activities	Business-Type Activities	Total
Total 2015 program expenses under GASB 68	\$ 7,353,309	\$ 5,131,863	\$ 12,485,172
Pension expense under GASB 68	(537,409)	(108,132)	(645,541)
2015 contractually required contribution	606,270	141,898	748,168
Adjusted 2015 program expenses	7,422,170	5,165,629	12,587,799
Total 2014 program expenses under GASB 27	7,688,441	5,079,956	12,768,397
Increase/(Decrease) in program expenses not related to pension	\$ (266,271)	\$ 85,673	\$ (180,598)

*Governmental Activities* – The significant increase in operating grants is the result of the Toland Street Bridge Project.

*Business-Type Activities* – Revenues and expenses were both fairly consistent with amounts reported in the previous year for the water, sewer, and sanitation funds.

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	
	2015	2014	2015	2014
<b>Governmental Activities:</b>				
General Government	\$ (1,399,043)	\$ (1,453,756)	\$ (1,275,000)	\$ (1,323,994)
Security of Persons and Property	(3,936,399)	(3,653,913)	(3,642,526)	(3,348,112)
Transportation	(1,516,338)	(1,972,328)	(323,644)	(1,375,231)
Community and Economic Development	(146,803)	(256,020)	(6,459)	(24,321)
Leisure Time Activities	(234,876)	(227,382)	(149,693)	(124,616)
Interest Expense	(119,850)	(125,042)	(119,850)	(125,042)
Total Governmental Activities	(7,353,309)	(7,688,441)	(5,517,172)	(6,321,316)
<b>Business-Type Activities:</b>				
Water	(1,580,215)	(1,569,423)	192,117	12,904
Sewer	(2,507,288)	(2,390,446)	655,541	687,746
Sanitation	(1,044,360)	(1,120,087)	(107,609)	(117,391)
Total Business-Type Activities	(5,131,863)	(5,079,956)	740,049	583,259
Grand Total	\$ (12,485,172)	\$ (12,768,397)	\$ (4,777,123)	\$ (5,738,057)

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(UNAUDITED)**

**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 \$7.3 million, an increase of approximately \$1.2 million from the previous year.

The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2015 and 2014.

	<b>Fund Balance 12/31/2014</b>	<b>Fund Balance 12/31/2015</b>	<b>Increase (Decrease)</b>
General Fund	\$ 2,377,009	\$ 2,455,604	\$ 78,595
Fire Department Fund	1,230,895	1,606,161	375,266
Other Governmental	2,491,896	3,251,493	759,597
Total	\$ 6,099,800	\$ 7,313,258	\$ 1,213,458

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, 74% of the total fund balance. The fund balance of the City's General Fund increased \$78,595 during the current fiscal year, or 3.3%, from the previous year. This increase represents the amount in which tax receipts, receipts for fines, licenses, and permits, intergovernmental receipts, and other receipts exceeded operating and capital expenditures during the year.

The fund balance in the Fire Department Fund increased \$375,266 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 \$1.2 million, \$2.9 million, and \$687,640 in the Water, Sewer and Sanitation funds, respectively. The change in net position was an increase of \$192,117 in the Water Fund, an increase of \$685,980 in the Sewer Fund, and a decrease of \$89,718 in the Sanitation Fund. The significant increase in the Sewer Fund is primarily the result of charges for services provided exceeding operating and interest expenses.

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(UNAUDITED)**

**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 2015, 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 \$400,451, or 14 percent. This variance is primarily the result of excess income tax receipts. The variance between the original and final revenue budgets was insignificant.

Actual budgetary expenditures and other financing uses were \$287,766, or 8 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, 2015, amounts to approximately \$44.9 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 \$1.1 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 \$1.4 million.

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 \$27.2 million, a decrease of approximately \$1.4 million in comparison with the prior year. This decrease represents the amount in which current year principal payments of approximately \$2.0 million exceeded new loans totaling \$618,434.

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 Nicholas Szabo, Auditor of City of London, Ohio, 102 South Main Street, London, OH 43140.

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**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF NET POSITION  
AS OF DECEMBER 31, 2015

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 6,763,852	\$ 5,257,586	\$ 12,021,438
Cash and Cash Equivalents in Segregated Accounts	51,795	-	51,795
Receivables:			
Taxes	2,470,337	-	2,470,337
Accounts	24,456	562,322	586,778
Intergovernmental	339,609	-	339,609
Interest	2,176	-	2,176
Special Assessments	40,350	17,657	58,007
Notes	12,327	-	12,327
Prepaid Items	39,392	19,703	59,095
Materials and Supplies Inventory	80,446	31,434	111,880
Restricted Cash and Cash Equivalents	-	168,507	168,507
Capital Assets:			
Non-Depreciable	808,996	1,179,539	1,988,535
Depreciable, Net	13,413,326	29,504,671	42,917,997
Net Pension Asset	11,111	-	11,111
Total Assets	<u>24,058,173</u>	<u>36,741,419</u>	<u>60,799,592</u>
<b>Deferred Outflows of Resources</b>			
Pension	847,322	194,743	1,042,065
Total Deferred Outflows of Resources	<u>847,322</u>	<u>194,743</u>	<u>1,042,065</u>
<b>Liabilities</b>			
Accounts Payable	6,867	2,024	8,891
Retainage Payable	84,961	-	84,961
Accrued Wages	200,548	57,971	258,519
Intergovernmental Payable	193,991	64,671	258,662
Customer Deposits Payable	-	168,507	168,507
Accrued Interest Payable	8,870	-	8,870
Long-Term Liabilities:			
Due Within One Year	400,481	1,778,049	2,178,530
Due in More Than One Year	3,837,780	21,774,263	25,612,043
Net Pension Liability	5,289,342	990,398	6,279,740
Total Liabilities	<u>10,022,840</u>	<u>24,835,883</u>	<u>34,858,723</u>
<b>Deferred Inflows of Resources:</b>			
Property and Other Local Taxes	1,025,189	-	1,025,189
Pension	24,642	17,399	42,041
Total Deferred Inflows of Resources	<u>1,049,831</u>	<u>17,399</u>	<u>1,067,230</u>
<b>Net Position</b>			
Net Investment in Capital Assets	11,418,828	7,328,966	18,747,794
Restricted for:			
Debt Service	467,405	-	467,405
Capital Projects	3,252	-	3,252
Security of Persons and Property	1,902,085	-	1,902,085
Transportation	1,159,738	-	1,159,738
Community Development	104,768	-	104,768
Leisure Time Activities	69,930	-	69,930
Unrestricted	(1,293,182)	4,753,914	3,460,732
Total Net Position	<u>\$ 13,832,824</u>	<u>\$ 12,082,880</u>	<u>\$ 25,915,704</u>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General Government	\$ 1,399,043	\$ 123,590	\$ 453	\$ -
Security of Persons and Property	3,936,399	269,822	24,051	-
Leisure Time Activities	234,876	73,483	11,700	-
Community and Economic Development	146,803	97,759	42,585	-
Transportation	1,516,338	-	588,139	604,555
Interest and Fiscal Charges	119,850	-	-	-
Total Governmental Activities	<u>7,353,309</u>	<u>564,654</u>	<u>666,928</u>	<u>604,555</u>
<b>Business-type Activities:</b>				
Water	1,580,215	1,772,332	-	-
Sewer	2,507,288	3,162,829	-	-
Sanitation	1,044,360	936,751	-	-
Total Business-type Activities	<u>5,131,863</u>	<u>5,871,912</u>	<u>-</u>	<u>-</u>
Total Government	<u>\$ 12,485,172</u>	<u>\$ 6,436,566</u>	<u>\$ 666,928</u>	<u>\$ 604,555</u>

General Revenues:

Property Taxes Levied for:

General Purposes

Other Purposes

Payments in Lieu of Taxes

Income Taxes Levied for:

General Purposes

Other Purposes

Unrestricted Grants and Entitlements

Investment Earnings

Miscellaneous

Transfers

Total General Revenues

Change in Net Position

Net Position at Beginning of Year, Restated

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
\$ (1,275,000)	\$ -	\$ (1,275,000)
(3,642,526)	-	(3,642,526)
(149,693)	-	(149,693)
(6,459)	-	(6,459)
(323,644)	-	(323,644)
(119,850)	-	(119,850)
<u>(5,517,172)</u>	<u>-</u>	<u>(5,517,172)</u>
-	192,117	192,117
-	655,541	655,541
-	<u>(107,609)</u>	<u>(107,609)</u>
-	<u>740,049</u>	<u>740,049</u>
<u>\$ (5,517,172)</u>	<u>\$ 740,049</u>	<u>\$ (4,777,123)</u>
593,135	-	593,135
135,150	-	135,150
395,311	-	395,311
3,110,689	-	3,110,689
2,360,560	-	2,360,560
169,297	-	169,297
18,186	-	18,186
44,628	18,330	62,958
(30,000)	30,000	-
<u>6,796,956</u>	<u>48,330</u>	<u>6,845,286</u>
1,279,784	788,379	2,068,163
12,553,040	11,294,501	23,847,541
<u>\$ 13,832,824</u>	<u>\$ 12,082,880</u>	<u>\$ 25,915,704</u>

See accompanying notes to the basic financial statements

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF DECEMBER 31, 2015**

	General Fund	Fire Department Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 2,236,178	\$ 1,394,808	\$ 3,132,866	\$ 6,763,852
Cash and Cash Equivalents in Segregated Accounts	-	-	51,795	51,795
Receivables:				
Taxes	1,679,868	414,406	376,063	2,470,337
Accounts	24,456	-	-	24,456
Intergovernmental	72,741	3,924	262,944	339,609
Interest	2,176	-	-	2,176
Special Assessments	-	-	40,350	40,350
Notes	-	-	12,327	12,327
Prepaid Items	24,253	3,490	11,649	39,392
Materials and Supplies Inventory	850	-	79,596	80,446
<b>Total Assets</b>	<u>\$ 4,040,522</u>	<u>\$ 1,816,628</u>	<u>\$ 3,967,590</u>	<u>\$ 9,824,740</u>
<b>Liabilities:</b>				
Accounts Payable	\$ 5,622	\$ 234	\$ 1,011	\$ 6,867
Retainage Payable	-	-	84,961	84,961
Accrued Wages	184,731	-	15,817	200,548
Intergovernmental Payable	116,858	45,086	32,047	193,991
Matured Compensated Absences	66,516	-	-	66,516
<b>Total Liabilities</b>	<u>373,727</u>	<u>45,320</u>	<u>133,836</u>	<u>552,883</u>
<b>Deferred Inflows of Resources:</b>				
Property and Other Local Taxes	551,277	62,131	411,781	1,025,189
Unavailable Revenue	659,914	103,016	170,480	933,410
<b>Total Deferred Inflows of Resources</b>	<u>1,211,191</u>	<u>165,147</u>	<u>582,261</u>	<u>1,958,599</u>
<b>Fund Balances:</b>				
Nonspendable:				
Materials and Supplies Inventory	850	-	79,596	80,446
Prepaid Items	24,253	3,490	11,649	39,392
Restricted for:				
Debt Service	-	-	482,768	482,768
Capital Projects	-	-	165,106	165,106
Security of Persons and Property	-	1,602,671	186,329	1,789,000
Transportation	-	-	904,637	904,637
Community and Economic Development	-	-	104,768	104,768
Leisure Time Activities	-	-	69,930	69,930
Committed for:				
Capital Projects	-	-	1,011,786	1,011,786
Community and Economic Development	-	-	234,924	234,924
Assigned for:				
Future Appropriations	337,702	-	-	337,702
General Government	126,306	-	-	126,306
Security of Persons and Property	48,728	-	-	48,728
Leisure Time Activities	3,947	-	-	3,947
Community and Economic Development	108,895	-	-	108,895
Unassigned	1,804,923	-	-	1,804,923
<b>Total Fund Balances</b>	<u>2,455,604</u>	<u>1,606,161</u>	<u>3,251,493</u>	<u>7,313,258</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 4,040,522</u>	<u>\$ 1,816,628</u>	<u>\$ 3,967,590</u>	<u>\$ 9,824,740</u>

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, 2015

<b>Total Governmental Fund Balances</b>	\$ 7,313,258
 <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.	14,222,322
The net pension asset is not a financial resource and therefore is not reported in the funds.	11,111
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	673,557
Property Taxes Receivable	29,558
Intergovernmental Receivable	228,992
Interest Receivable	1,303
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:	
Deferred outflows - pension	847,322
Deferred inflows - pension	(24,642)
Net pension liability	(5,289,342)
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	(308,158)
General Obligation Bonds Payable	(2,502,400)
Loans Payable	(1,309,150)
Police and Fire Pension Payable	(52,037)
Accrued Interest Payable	(8,870)
 <b>Net Position of Governmental Activities</b>	 <b><u>\$ 13,832,824</u></b>

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, 2015

	General Fund	Fire Department Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 4,077,509	\$ 1,749,566	\$ 810,805	\$ 6,637,880
Special Assessments	-	-	42,482	42,482
Charges for Services	73,483	252,000	33,120	358,603
Fines, Licenses, and Permits	205,106	-	945	206,051
Intergovernmental	178,415	7,887	1,219,959	1,406,261
Interest	15,072	-	3,608	18,680
Other	43,302	6,479	17,574	67,355
<b>Total Revenues</b>	<b>4,592,887</b>	<b>2,015,932</b>	<b>2,128,493</b>	<b>8,737,312</b>
<b>Expenditures:</b>				
Current:				
General Government	1,301,379	-	77,519	1,378,898
Security of Persons and Property	2,084,992	1,640,666	195,543	3,921,201
Leisure Time Activities	190,723	-	-	190,723
Community and Economic Development	112,713	-	34,765	147,478
Transportation	-	-	650,803	650,803
Capital Outlay	-	-	820,410	820,410
Debt service:				
Principal Retirement	-	-	265,958	265,958
Interest and Fiscal Charges	-	-	120,238	120,238
<b>Total Expenditures</b>	<b>3,689,807</b>	<b>1,640,666</b>	<b>2,165,236</b>	<b>7,495,709</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	903,080	375,266	(36,743)	1,241,603
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Capital Assets	1,855	-	-	1,855
Transfers In	-	-	796,340	796,340
Transfers Out	(826,340)	-	-	(826,340)
<b>Total Other Financing Sources (Uses)</b>	<b>(824,485)</b>	<b>-</b>	<b>796,340</b>	<b>(28,145)</b>
<b>Net Change in Fund Balances</b>	<b>78,595</b>	<b>375,266</b>	<b>759,597</b>	<b>1,213,458</b>
Fund Balance at Beginning of Year	2,377,009	1,230,895	2,491,896	6,099,800
<b>Fund Balance at End of Year</b>	<b>\$ 2,455,604</b>	<b>\$ 1,606,161</b>	<b>\$ 3,251,493</b>	<b>\$ 7,313,258</b>

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, 2015

**Net Change in Fund Balances - Total Governmental Funds** \$ 1,213,458

*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	731,230
Depreciation Expense	(943,064)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(76,074)
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Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.	606,270
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Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	(537,409)
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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	265,958
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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	1,692
Compensated Absences	17,335
Accrued Interest	388
	388

<b>Change in Position of Governmental Activities</b>	<b>\$ 1,279,784</b>
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**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, 2015

	Original Budget	Final Budget	Actual	Variance (Over)/Under
<b>Revenues</b>				
Taxes	\$ 3,346,302	\$ 3,346,302	\$ 3,720,903	\$ 374,601
Special Assessments	9,800	9,800	-	(9,800)
Charges for Services	82,800	82,800	73,483	(9,317)
Fines, Licenses, and Permits	109,000	109,000	110,124	1,124
Intergovernmental	157,500	157,500	172,544	15,044
Interest	5,000	5,000	10,197	5,197
Other	21,000	21,000	42,747	21,747
Total Revenues	<u>3,731,402</u>	<u>3,731,402</u>	<u>4,129,998</u>	<u>398,596</u>
<b>Expenditures</b>				
Current:				
General Government	1,183,846	1,226,846	1,062,630	164,216
Security of Persons and Property	2,190,882	2,190,882	2,075,501	115,381
Leisure Time Activities	200,548	201,548	193,428	8,120
Total Expenditures	<u>3,575,276</u>	<u>3,619,276</u>	<u>3,331,559</u>	<u>287,717</u>
Excess of Revenues Over (Under) Expenditures	156,126	112,126	798,439	686,313
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets	-	-	1,855	1,855
Transfers Out	<u>(586,340)</u>	<u>(848,389)</u>	<u>(848,340)</u>	<u>49</u>
Total Other Financing Sources (Uses)	<u>(586,340)</u>	<u>(848,389)</u>	<u>(846,485)</u>	<u>1,904</u>
Net Change in Fund Balance	(430,214)	(736,263)	(48,046)	688,217
Fund Balances at Beginning of Year	1,742,186	1,742,186	1,742,186	-
Prior Year Encumbrances Appropriated	170,073	170,073	170,073	-
Fund Balances at End of Year	<u>\$ 1,482,045</u>	<u>\$ 1,175,996</u>	<u>\$ 1,864,213</u>	<u>\$ 688,217</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, 2015

	Original Budget	Final Budget	Actual	Variance (Over)/Under
<b>Revenues</b>				
Taxes	\$ 1,460,000	\$ 1,460,000	\$ 1,747,903	\$ 287,903
Charges for Services	252,000	252,000	252,000	-
Intergovernmental	7,500	7,500	7,887	387
Other	-	-	6,479	6,479
Total Revenues	<u>1,719,500</u>	<u>1,719,500</u>	<u>2,014,269</u>	<u>294,769</u>
<b>Expenditures</b>				
Current:				
Security of Persons and Property	1,814,054	1,819,054	1,695,991	123,063
Total Expenditures	<u>1,814,054</u>	<u>1,819,054</u>	<u>1,695,991</u>	<u>123,063</u>
Excess of Revenues Over (Under) Expenditures	(94,554)	(99,554)	318,278	417,832
<b>Other Financing Sources (Uses)</b>				
Transfers In	470,000	470,000	470,000	-
Transfers Out	(470,000)	(470,000)	(470,000)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(94,554)	(99,554)	318,278	417,832
Fund Balances at Beginning of Year	990,809	990,809	990,809	-
Prior Year Encumbrances Appropriated	29,014	29,014	29,014	-
Fund Balances at End of Year	<u>\$ 925,269</u>	<u>\$ 920,269</u>	<u>\$ 1,338,101</u>	<u>\$ 417,832</u>

**CITY OF LONDON, OHIO  
MADISON COUNTY**

STATEMENT OF FUND NET POSITION  
PROPRIETARY FUNDS  
AS OF DECEMBER 31, 2015

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Sanitation	Total
<b>Assets</b>				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 1,567,649	\$ 2,776,718	\$ 913,219	\$ 5,257,586
Receivables:				
Accounts	217,728	333,233	11,361	562,322
Special Assessments	-	17,657	-	17,657
Prepaid Items	8,289	8,414	3,000	19,703
Materials and Supplies Inventory	10,669	3,092	17,673	31,434
Total Current Assets	<u>1,804,335</u>	<u>3,139,114</u>	<u>945,253</u>	<u>5,888,702</u>
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	168,507	-	-	168,507
Non-Depreciable Capital Assets	1,012,811	66,768	99,960	1,179,539
Depreciable Capital Assets, Net	2,761,005	26,279,413	464,253	29,504,671
Total Noncurrent Assets	<u>3,942,323</u>	<u>26,346,181</u>	<u>564,213</u>	<u>30,852,717</u>
Total Assets	<u>5,746,658</u>	<u>29,485,295</u>	<u>1,509,466</u>	<u>36,741,419</u>
<b>Deferred Outflows of Resources</b>				
Pension	104,085	46,193	44,465	194,743
Total Deferred Outflows of Resources	<u>104,085</u>	<u>46,193</u>	<u>44,465</u>	<u>194,743</u>
<b>Liabilities</b>				
Current Liabilities:				
Accounts Payable	300	1,724	-	2,024
Accrued Wages	32,551	11,198	14,222	57,971
Intergovernmental Payable	34,930	15,008	14,733	64,671
Customer Deposits Payable	168,507	-	-	168,507
Compensated Absences Payable	19,648	9,679	10,422	39,749
OWDA Loans Payable	133,440	1,604,860	-	1,738,300
Total Current Liabilities	<u>389,376</u>	<u>1,642,469</u>	<u>39,377</u>	<u>2,071,222</u>
Noncurrent Liabilities:				
Compensated Absences Payable	85,098	51,239	20,982	157,319
OWDA Loans Payable	1,325,093	20,291,851	-	21,616,944
Net Pension Liability	518,148	234,704	237,546	990,398
Total Noncurrent Liabilities	<u>1,928,339</u>	<u>20,577,794</u>	<u>258,528</u>	<u>22,764,661</u>
Total Liabilities	<u>2,317,715</u>	<u>22,220,263</u>	<u>297,905</u>	<u>24,835,883</u>
<b>Deferred Inflows of Resources</b>				
Pension	9,103	4,123	4,173	17,399
Total Deferred Inflows of Resources	<u>9,103</u>	<u>4,123</u>	<u>4,173</u>	<u>17,399</u>
<b>Net Position</b>				
Net Investment in Capital Assets	2,315,283	4,449,470	564,213	7,328,966
Unrestricted	1,208,642	2,857,632	687,640	4,753,914
Total Net Position	<u>\$ 3,523,925</u>	<u>\$ 7,307,102</u>	<u>\$ 1,251,853</u>	<u>\$ 12,082,880</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, 2015

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Sanitation	Total
<b>Operating Revenues</b>				
Charges for Services	\$ 1,772,332	\$ 3,162,829	\$ 936,751	\$ 5,871,912
Total Operating Revenues	<u>1,772,332</u>	<u>3,162,829</u>	<u>936,751</u>	<u>5,871,912</u>
<b>Operating Expenses</b>				
Personal Services	767,534	496,905	485,845	1,750,284
Contractual Services	463,017	482,394	382,291	1,327,702
Materials and Supplies	125,061	19,448	88,164	232,673
Depreciation	122,203	1,323,808	88,060	1,534,071
Total Operating Expenses	<u>1,477,815</u>	<u>2,322,555</u>	<u>1,044,360</u>	<u>4,844,730</u>
Operating Income (Loss)	<u>294,517</u>	<u>840,274</u>	<u>(107,609)</u>	<u>1,027,182</u>
<b>Nonoperating Revenues (Expenses)</b>				
Other Non-Operating Revenue	-	439	17,891	18,330
Interest Expense	(53,930)	(184,733)	-	(238,663)
Other Expenses	(48,470)	-	-	(48,470)
Transfers In	-	30,000	-	30,000
Total Non-Operating Revenues (Expenses)	<u>(102,400)</u>	<u>(154,294)</u>	<u>17,891</u>	<u>(238,803)</u>
Change in Net Position	<u>192,117</u>	<u>685,980</u>	<u>(89,718)</u>	<u>788,379</u>
Net Position at Beginning of Year, Restated	<u>3,331,808</u>	<u>6,621,122</u>	<u>1,341,571</u>	<u>11,294,501</u>
Net Position at End of Year	<u>\$ 3,523,925</u>	<u>\$ 7,307,102</u>	<u>\$ 1,251,853</u>	<u>\$ 12,082,880</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, 2015

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Sanitation	Total
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$ 1,927,603	\$ 3,181,119	\$ 937,559	\$ 6,046,281
Cash Payments to Suppliers for Goods and Services	(610,119)	(502,601)	(463,880)	(1,576,600)
Cash Payments for Salaries and Benefits	(927,524)	(497,233)	(481,309)	(1,906,066)
Net Cash Flows from Operating Activities	<u>389,960</u>	<u>2,181,285</u>	<u>(7,630)</u>	<u>2,563,615</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Cash Received from Other Non-operating Receipts	-	3,470	17,891	21,361
Transfers In	-	30,000	-	30,000
Net Cash Flows from Noncapital Financing Activities	<u>-</u>	<u>33,470</u>	<u>17,891</u>	<u>51,361</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from Loans	542,963	-	-	542,963
Acquisition of Capital Assets	(586,023)	(16,930)	(23,854)	(626,807)
Principal Payments of Debt	(129,581)	(1,592,098)	-	(1,721,679)
Payment of Interest	(26,929)	(184,733)	-	(211,662)
Net Cash Flows from Capital and Related Financing Activities	<u>(199,570)</u>	<u>(1,793,761)</u>	<u>(23,854)</u>	<u>(2,017,185)</u>
Net Change in Cash	190,390	420,994	(13,593)	597,791
Cash and Cash Equivalents at Beginning of Year	1,545,766	2,355,724	926,812	4,828,302
Cash and Cash Equivalents at End of Year	<u>\$ 1,736,156</u>	<u>\$ 2,776,718</u>	<u>\$ 913,219</u>	<u>\$ 5,426,093</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, 2015

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Sanitation	Total
<b>Cash Flows from Operating Activities</b>				
<b>Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:</b>				
Operating Income (Loss)	\$ 294,517	\$ 840,274	\$ (107,609)	\$ 1,027,182
Add Depreciation Expense	122,203	1,323,808	88,060	1,534,071
(Increase)/Decrease in Current Assets				
Accounts Receivable	(17,439)	18,290	808	1,659
Material and Supply Inventory	6,855	(1,810)	7,139	12,184
Prepaid Items	(130)	(43)	(35)	(208)
Deferred Outflows of Resources - Pension	(40,673)	(17,469)	(15,394)	(73,536)
Increase/(Decrease) in Current Liabilities				
Accounts Payable	(3,338)	1,724	(529)	(2,143)
Accrued Wages	2,744	(2,504)	1,333	1,573
Compensated Absences	(5,242)	9,448	8,668	12,874
Intergovernmental Payable	2,080	143	390	2,613
Customers Deposits	7,576	-	-	7,576
Net Pension Liability	11,704	5,301	5,366	22,371
Deferred Inflows of Resources - Pension	9,103	4,123	4,173	17,399
Net Cash Flows from Operating Activities	<u>\$ 389,960</u>	<u>\$ 2,181,285</u>	<u>\$ (7,630)</u>	<u>\$ 2,563,615</u>

**Schedule of Noncash Transactions:**

During 2015, the Water Fund financed interest costs and loan fees in the amount of \$27,001 and \$48,470, respectively.

**CITY OF LONDON, OHIO  
MADISON COUNTY**

**STATEMENT OF ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
AS OF DECEMBER 31, 2015**

	<u>Agency Funds</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 153,863
Total Assets	<u>153,863</u>
<b>Liabilities</b>	
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, 2015

**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 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.

**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.

**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

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

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.

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.

**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

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

**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.

**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.

**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

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

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.

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.

**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

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

*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. For the City, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 11.

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, pension, special assessments and payments in lieu of taxes. Property taxes represent enforceable legal claim as of December 31, 2015, but which were levied to finance year 2016 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, 2015, 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.

Deferred inflows of resources related to pensions are reported on the government-wide and proprietary fund statements on net position (See Note 11).

*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) Pensions**

For purposes of measuring the net pension asset and net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of pension plans and additions/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**(f) 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."

**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

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

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 2015, investments were limited to negotiable certificates of deposit and STAR Plus.

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, 2015 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 \$15,072 and \$3,608 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.

***(g) Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2015 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.

***(h) 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.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

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

***(i) 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.

***(j) 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, 2015**

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

***(k) 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 2015.

***(l) 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.

***(m) 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.

***(n) 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, 2015

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

***(o) 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.

***(p) 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, 2015

**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.

***(g) 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.

***(r) 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.

***(s) 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.

***(t) 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, 2015

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

***(u) 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, 2015**

**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	\$ 78,595	\$ 375,266
Building and Zoning Fund Change	(7,122)	-
Taxation Fund Change	(17,707)	-
Revenue Accruals	(24,601)	(1,663)
Expenditure Accruals	102,243	1,382
Encumbrances	(179,454)	(56,707)
Budget Basis	\$ (48,046)	\$ 318,278

**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

**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
8. Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

**NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)**

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

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

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 2015, 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 \$11,146,985. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2015, \$1,222,735 of the City’s bank balance of \$11,327,289 was covered by Federal Deposit Insurance Corporation.

Investments - As of December 31, 2015, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1	1-2	2-3
Negotiable Certificates of Deposit	\$ 1,248,618	\$ 250,133	\$ 498,933	\$ 499,552

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

**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, 2015 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 2015 for real and public utility property taxes represents collections of the 2014 taxes. Property tax payments received during 2015 for tangible personal property (other than public utility property) are for 2014 taxes.

The 2015 real property taxes are levied after October 1, 2015, on the assessed value as of January 1, 2015, the lien date. Assessed values are established by the State law at 35 percent of appraised market value. 2015 real property taxes are collected in and intended to finance 2016.

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. 2015 public utility property taxes which became a lien on December 31, 2014, are levied after October 1, 2015, and are collected in 2016 with real property taxes.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

**NOTE 6 – PROPERTY TAXES (Continued)**

The full tax rate for all City operations for the year ended December 31, 2015, was \$4.40 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2015 property tax receipts were based are as follows:

	Assesed Valuation
Real Property	\$ 171,251,990
Public Utility Property	7,656,510
Total	\$ 178,908,500

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, 2015 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 2015 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, 2015**

**NOTE 8 – RECEIVABLES AND DEFERRED INFLOWS OF RESOURCES**

***(a) Receivables***

Receivables at December 31, 2015 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	\$ 726,113
Income taxes	1,434,924
Payment in lieu of taxes	309,300
Total	\$ 2,470,337

***(b) Deferred Inflows of Resources***

Deferred Inflows of Resources at December 31, 2015 consisted of property taxes, payments in lieu of taxes, and special assessments for which there is an enforceable legal claim as of December 31, 2015, which were levied to finance year 2016 operations.

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

Property and Other Local Taxes	Amount
Property taxes	\$ 675,539
Payment in lieu of taxes	309,300
Special assessments	40,350
Pension	42,041
Total	\$ 1,067,230

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

**NOTE 9 – CAPITAL ASSETS**

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

*Governmental Activities*

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
<b>Nondepreciable Capital Assets</b>					
Land	\$ 808,996	\$ -	\$ -	\$ -	\$ 808,996
Construction in Progress	266,376	606,055	-	(872,431)	-
<b>Total Nondepreciable Assets</b>	<b>1,075,372</b>	<b>606,055</b>	<b>-</b>	<b>(872,431)</b>	<b>808,996</b>
<b>Depreciable Capital Assets</b>					
Land Improvements	648,432	-	-	-	648,432
Buildings	2,346,112	47,502	-	-	2,393,614
Machinery and Equipment	1,243,267	21,359	-	-	1,264,626
Vehicles	2,074,585	56,314	(16,604)	-	2,114,295
Infrastructure	20,131,726	-	-	872,431	21,004,157
<b>Total Depreciable Assets</b>	<b>26,444,122</b>	<b>125,175</b>	<b>(16,604)</b>	<b>872,431</b>	<b>27,425,124</b>
<b>Less accumulated depreciation</b>					
Land Improvements	(448,159)	(24,274)	-	-	(472,433)
Buildings	(821,021)	(72,225)	-	-	(893,246)
Machinery and Equipment	(934,982)	(55,191)	-	-	(990,173)
Vehicles	(1,921,652)	(74,102)	16,604	-	(1,979,150)
Infrastructure	(8,959,524)	(717,272)	-	-	(9,676,796)
<b>Total accumulated depreciation</b>	<b>(13,085,338)</b>	<b>(943,064)</b>	<b>16,604</b>	<b>-</b>	<b>(14,011,798)</b>
<b>Depreciable Capital Assets, Net of accumulated depreciation</b>	<b>13,358,784</b>	<b>(817,889)</b>	<b>-</b>	<b>872,431</b>	<b>13,413,326</b>
<b>Total Capital Assets, Net</b>	<b>\$ 14,434,156</b>	<b>\$ (211,834)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 14,222,322</b>

Depreciation expense was charged to the governmental functions as follows:

General Government	\$ 58,840
Security of Persons and Property	85,573
Leisure Activities	40,912
Transportation	757,739
<b>Total depreciation expense</b>	<b>\$ 943,064</b>

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

**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	572,958	-	903,613
Total Nondepreciable Assets	<u>606,581</u>	<u>572,958</u>	<u>-</u>	<u>1,179,539</u>
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	4,502,161	40,784	-	4,542,945
Vehicles	1,126,752	13,065	-	1,139,817
Water and Sewer Lines	18,353,139	-	-	18,353,139
Total Depreciable Assets	<u>49,006,468</u>	<u>53,849</u>	<u>-</u>	<u>49,060,317</u>
Less accumulated depreciation				
Land Improvements	(16,861)	(609)	-	(17,470)
Buildings	(1,375,218)	(153,275)	-	(1,528,493)
Improvements Other Than Buildings	(6,777,999)	(784,734)	-	(7,562,733)
Machinery and Equipment	(2,996,400)	(163,146)	-	(3,159,546)
Vehicles	(963,202)	(66,835)	-	(1,030,037)
Water and Sewer Lines	(5,891,895)	(365,472)	-	(6,257,367)
Total accumulated depreciation	<u>(18,021,575)</u>	<u>(1,534,071)</u>	<u>-</u>	<u>(19,555,646)</u>
Depreciable Capital Assets, Net of accumulated depreciation	<u>30,984,893</u>	<u>(1,480,222)</u>	<u>-</u>	<u>29,504,671</u>
Total Business-Type Capital Assets, Net	<u>\$ 31,591,474</u>	<u>\$ (907,264)</u>	<u>\$ -</u>	<u>\$ 30,684,210</u>

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

**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 2015, the City was insured through Wichert Insurance. During 2015, the City had the following types of insurance:

<u>Coverage</u>	<u>Limit</u>
Real Property Legal Liability	\$ 66,548,266
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 - DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension.

**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

**NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

GASB 68 assumes the net pension liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

***Plan Description – Ohio Public Employees Retirement System (OPERS)***

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

**NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

<b>2015 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
<b>2015 Actual Contribution Rates</b>	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	<u>2.0</u>
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

**CITY OF LONDON, OHIO**  
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**NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$275,832 for 2015. Of this amount, \$14,867 is reported as an intergovernmental payable.

***Plan Description – Ohio Police & Fire Pension Fund (OPF)***

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OPF may retire and receive a lifetime monthly pension. OPF offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police	Firefighters
<b>2015 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %
<b>2015 Actual Contribution Rates</b>		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OPF was \$472,336 for 2015. Of this amount \$27,840 is reported as an intergovernmental payable.

***Pension Assets, Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension asset and net pension liability for OPERS were measured as of December 31, 2014, and the total pension liability used to calculate the net pension asset/liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2014, and was determined by rolling forward the total pension liability as of January 1, 2014, to December 31, 2014. The City's proportion of the net pension asset/liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional Plan	OPERS Combined Plan	OP&F	Total
Proportionate Share of the Net Pension (Asset)/Liability	\$2,200,068	(\$11,111)	\$4,079,672	\$6,268,629
Proportion of the Net Pension (Asset)/Liability	0.018241%	0.0288570%	0.0787518%	
Pension Expense	\$240,205	\$7,383	\$397,953	\$645,541

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**NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS <u>Traditional Plan</u>	OPERS <u>Combined Plan</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>				
Net difference between projected and actual earnings on pension plan investments	\$117,389	\$678	\$175,830	\$293,897
City contributions subsequent to the measurement date	<u>275,832</u>	<u>0</u>	<u>472,336</u>	<u>748,168</u>
Total Deferred Outflows of Resources	<u><u>\$393,221</u></u>	<u><u>\$678</u></u>	<u><u>\$648,166</u></u>	<u><u>\$1,042,065</u></u>
<b>Deferred Inflows of Resources</b>				
Differences between expected and actual experience	<u>\$38,651</u>	<u>\$3,390</u>	<u>\$0</u>	<u>\$42,041</u>

\$748,168 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as pension expense in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS <u>Traditional Plan</u>	OPERS <u>Combined Plan</u>	<u>OP&amp;F</u>	<u>Total</u>
2016	\$ 11,513	\$ (233)	\$ 43,958	\$ 55,238
2017	11,513	(233)	43,958	55,238
2018	26,364	(233)	43,958	70,089
2019	29,348	(235)	43,956	73,069
2020	-	(403)	-	(403)
Thereafter	<u>-</u>	<u>(1,375)</u>	<u>-</u>	<u>(1,375)</u>
Total	<u><u>\$ 78,738</u></u>	<u><u>\$ (2,712)</u></u>	<u><u>\$ 175,830</u></u>	<u><u>\$ 251,856</u></u>

***Actuarial Assumptions - OPERS***

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**CITY OF LONDON, OHIO**  
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**NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled male mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five-year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

**CITY OF LONDON, OHIO**  
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**NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other investments	18.00	4.59
<b>Total</b>	<b>100.00 %</b>	<b>5.28 %</b>

**Discount Rate** The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the City's Proportionate Share of the Net Pension Asset/Liability to Changes in the Discount Rate** The following table presents the City's proportionate share of the net pension asset/liability calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension asset/liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension (asset)/liability			
Traditional Plan	\$4,047,495	\$2,200,068	\$644,090
Combined Plan	\$1,443	(\$11,111)	(\$21,066)

**Actuarial Assumptions – OPF**

OPF's total pension liability as of December 31, 2014 is based on the results of an actuarial valuation date of January 1, 2014, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2014, are presented below:

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2014 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	- %	(0.25) %
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income *	20.00	1.62
Global Inflation Protected *	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
Total	<u>120.00 %</u>	

\* levered 2x

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)**

OPF’s Board of Trustees has incorporated the “risk parity” concept into OPF’s asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

**Discount Rate** The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$5,642,803	\$4,079,672	\$275,617

**NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS**

**A. Public Employees Retirement System**

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

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients 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.

**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)**

In order to qualify for health care coverage, age and service retirees under the Traditional Pension and Combined plans must have 20 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. Please see the Plan Statement in the OPERS 2014 CAFR for details.

The Ohio Revised Code permits, but does not mandate, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <http://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, the City contributed at a rate of 14.0% of earnable salary. This is the maximum employer contribution rate permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two main cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans.

The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2015. As recommended by OPER' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to VEBA for participants in the Member-Directed Plan for 2015 was 4.5%

The City's contributions to OPERS for post-employment benefits for the years ending December 31, 2015, 2014, and 2013 were \$45,972, \$50,563, and \$22,859, respectively. The full amount has been contributed for 2014 and 2013; 95 percent has been contributed for 2015 with the remainder being reported as a fund liability.

**CITY OF LONDON, OHIO**  
NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)**

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

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

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

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

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% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% 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. The portion of employer contribution allocated to the health care plan was 0.50% 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 to fund post-employment benefits for the years ending December 31, 2015, 2014, and 2013 were \$11,310, \$7,892 and \$53,672, respectively. The full amount has been contributed for 2014 and 2013; 94 percent has been contributed for 2015 with the remainder being reported as a fund liability.

**CITY OF LONDON, OHIO**  
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**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, 2015, the accrued liability for unpaid compensated absences was \$571,742.

**NOTE 14 – LONG TERM LIABILITIES**

	Interest Rate	Original Issue Amount	Date of Maturity
<b><i>Governmental Activities:</i></b>			
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
Keny Blvd Improvement Bonds- 2011	1.20-4.75%	2,890,000	December 1, 2030
<b><i>Business-Type Activities:</i></b>			
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- 2013	4.62%	746,000	July 1, 2034
Elevated Storage Tank OWDA Loan - 2017	1.30%	3,638,840	January 1, 2037

**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, 2015 is \$52,037 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**  
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**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, 2015:

<i>Governmental Activities</i>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
OPWC Loan - 2006 Phase I	\$ 150,566	\$ -	\$ (13,688)	\$ 136,878	\$ 13,688
OPWC Loan - 2006 Phase II	353,242	-	(27,172)	326,070	27,172
OWDA Sewer Improvements 2005	930,700	-	(84,498)	846,202	85,345
General Obligation Bonds:					
Various Purpose	73,000	-	(35,600)	37,400	37,400
Keny Blvd Improvement Bonds	2,570,000	-	(105,000)	2,465,000	105,000
Total Governmental Debt	4,077,508	-	(265,958)	3,811,550	268,605
Compensated Absences	325,493	156,077	(106,896)	374,674	130,111
Net Pension Liability	5,017,808	271,534	-	5,289,342	-
Police & Fire Pension Payable	53,729	-	(1,692)	52,037	1,765
Total Governmental Activities	<u>\$ 9,474,538</u>	<u>\$ 427,611</u>	<u>\$ (374,546)</u>	<u>\$ 9,527,603</u>	<u>\$ 400,481</u>

The following is a summary of changes in long-term liabilities of the business-type activities for the year ended December 31, 2015:

<i>Business-Type Activities</i>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
OWDA Loans:					
Water Improvements 2001	\$ 673,310	\$ -	\$ (92,281)	\$ 581,029	\$ 96,140
Sewer Improvements 2006	23,488,809	-	(1,592,098)	21,896,711	1,604,860
Water Planning 2013	296,370	462,556	(37,300)	721,626	37,300
Water Elevated Storage Tank 2017	-	155,878	-	155,878	-
Total OWDA Loans	24,458,489	618,434	(1,721,679)	23,355,244	1,738,300
Compensated Absences	184,194	74,558	(61,684)	197,068	39,749
Net Pension Liability	968,028	22,370	-	990,398	-
Total Business-Type Activities	<u>\$ 25,610,711</u>	<u>\$ 715,362</u>	<u>\$ (1,783,363)</u>	<u>\$ 24,542,710</u>	<u>\$ 1,778,049</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 2015, the City drew down the remaining amount.

**CITY OF LONDON, OHIO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

**NOTE 14 – LONG TERM LIABILITIES (Continued)**

In 2015, the City was awarded a loan from OWDA in the amount of \$3,638,840. The proceeds of this loan will be used for the new elevated water storage tank. The loan bears a fixed rate of 1.30%. The loan has a final maturity date of January 1, 2037. During 2015, the City drew down \$155,878 of the loan. The remaining amount of the loan will be drawn in the upcoming years.

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, 2015, the principal and interest remaining to be paid on these OWDA loans is \$24,455,532. In 2015, total customer revenues were \$1,722,332 and \$3,162,829 for the Water and Sewer Funds, respectively.

The annual requirements to retire the governmental activities long-term obligations outstanding at December 31, 2015 are as follows:

	<b>Governmental Activities</b>		<b>Business Type-Activities</b>			
			<b>Water*</b>		<b>Sewer</b>	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 268,605	\$ 114,693	133,440	16,717	1,604,860	171,971
2017	237,061	109,098	137,462	13,803	1,617,725	159,105
2018	247,925	104,494	141,651	10,767	1,630,693	146,139
2019	253,797	99,542	146,016	7,605	1,643,765	133,067
2020	259,679	94,035	150,564	4,309	1,656,941	119,890
2021-2025	1,345,143	376,449	593,522	876	8,486,075	398,078
2026-2030	1,199,340	168,150	-	-	5,256,652	73,839
2031-2035	-	-	-	-	-	-
<b>Total</b>	<b>\$ 3,811,550</b>	<b>\$ 1,066,461</b>	<b>\$ 1,302,655</b>	<b>\$ 54,077</b>	<b>\$ 21,896,711</b>	<b>\$ 1,202,089</b>

\* During 2015, the City was awarded a loan from OWDA to fund a new elevated water storage tank. The amount awarded was \$3,638,840. As of December 31, 2015, the City had only drawn down \$155,878. Since the loan was not completed at December 31, 2015, this amount was excluded for the future debt service schedule presented above.

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 and the net pension liability, excluding police and fire, 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, 2015**

**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	\$ -	\$ 826,340
Other Governmental	796,340	-
Sewer	30,000	-
	<u>\$ 826,340</u>	<u>\$ 826,340</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.

**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, 2015.
- 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, 2015**

**NOTE 17 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION**

For 2015, the City implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “*Accounting and Financial Reporting for Pensions*” and GASB Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.*” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure.

The implementation of this pronouncement had the following effect on net position as reported December 31, 2014:

	Governmental Activities	Business -Type Activities	Water	Sewer	Sanitation
Net position December 31, 2014	\$17,077,452	\$12,141,321	\$3,774,840	\$6,821,801	\$1,544,680
Adjustments:					
Net Pension Liability	(5,014,780)	(968,027)	(506,444)	(229,403)	(232,180)
Deferred Outflow - Payments Subsequent to Measurement Date	490,368	121,207	63,412	28,724	29,071
Restated Net Position December 31, 2014	<u>\$12,553,040</u>	<u>\$11,294,501</u>	<u>\$3,331,808</u>	<u>\$6,621,122</u>	<u>\$1,341,571</u>

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**City of London, Ohio**  
 Required Supplementary Information  
 Schedule of City's Proportionate Share of the Net Pension (Asset)/Liability  
 Ohio Public Employees Retirement System

Last Two Years (1)

	<b>2014</b>	<b>2013</b>
City's Proportion of the Net Pension (Asset)/Liability		
Traditional Plan	0.0182410%	0.0182410%
Combined Plan	0.0288570%	0.0288570%
City's Proportionate Share of the Net Pension		
Traditional Plan	\$ 2,200,068	\$ 2,150,378
Combined Plan	(11,111)	3,028
City's Covered-Employee Payroll	\$ 2,949,525	\$ 2,462,723
City's Proportionate Share of the Net Pension (Asset)/Liability as a Percentage of its Covered-Employee Payroll	74.21%	87.44%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		
Traditional Plan	86.45%	86.36%
Combined Plan	114.83%	104.56%

(1) Information prior to 2013 is not available.

Amounts presented as of the City's measurement date, which is the prior fiscal year-end.

**City of London, Ohio**  
 Required Supplementary Information  
 Schedule of City's Proportionate Share of the Net Pension Liability  
 Ohio Police and Fire Pension Fund

Last Two Years (1)

	<u>2014</u>	<u>2013</u>
City's Proportion of the Net Pension Liability	0.0787518%	0.0787518%
City's Proportionate Share of the Net Pension Liability	\$ 4,079,672	\$ 3,835,460
City's Covered-Employee Payroll	\$ 1,572,023	\$ 1,839,043
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	259.52%	208.56%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.20%	73.00%

(1) Information prior to 2013 is not available.

Amounts presented as of the City's measurement date, which is the prior fiscal year-end.

**City of London, Ohio**  
 Required Supplementary Information  
 Schedule of City Contributions  
 Ohio Public Employees Retirement System

Last Three Years (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 275,832	\$ 353,943	\$ 320,154
Contributions in relation to the contractually required contribution	\$ 275,832	\$ 353,943	\$ 320,154
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 2,298,604	\$ 2,949,525	\$ 2,462,723
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

**City of London, Ohio**  
 Required Supplementary Information  
 Schedule of City Contributions  
 Ohio Police and Fire Pension Fund

Last Four Fiscal Years (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$ 472,336	\$ 341,917	\$ 318,200	\$ 250,784
Contributions in relation to the contractually required contribution	\$ 472,336	\$ 341,917	\$ 318,200	\$ 250,784
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 2,261,972	\$ 1,572,023	\$ 1,839,043	\$ 1,624,106
Contributions as a percentage of covered-employee payroll	20.88%	21.75%	17.30%	15.44%

(1) Information prior to 2011 is not available.

**CITY OF LONDON, OHIO**



**Yellow Book Report**

**December 31, 2015**

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of London (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 24, 2016, wherein we noted the City adopted GASB No. 68 and 71 as disclosed in Note 17.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plattenburg & Associates, Inc.*

Plattenburg & Associates, Inc.

Cincinnati, Ohio

June 24, 2016

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# Dave Yost • Auditor of State

**CITY OF LONDON**

**MADISON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 27, 2016**