

THE CITY OF LOVELAND, OHIO

CLERMONT, HAMILTON AND WARREN COUNTIES

GENERAL PURPOSE
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2002

AUDITED

Presented by:
William R. Taphorn,
Director of Finance

Prepared by:
Donald J. Schonhardt
& Associates, Inc.



**Auditor of State
Betty Montgomery**

City Council
City of Loveland
120 West Loveland Avenue
Loveland, Ohio 45140

We have reviewed the Independent Auditor's Reports of the City of Loveland, Hamilton County, prepared by Bastin & Company, LLC, for the audit period January 1, 2002 through December 31, 2003. 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 Loveland is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 29, 2004

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CITY OF LOVELAND, OHIO HAMILTON, CLERMONT AND WARREN COUNTIES

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Bastin & Company, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

City Council Members
City of Loveland, Ohio

We have audited the accompanying general-purpose financial statements of the City of Loveland, Ohio, as of and for the year ended December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City of Loveland, Ohio's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Loveland, Ohio, as of December 31, 2002 and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2004 on our consideration of the City of Loveland, Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Bastin & Company, LLC". The signature is written in black ink on a white background.

Cincinnati, Ohio
June 9, 2004

THE CITY OF LOVELAND, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2002

	<i>Governmental</i>				<i>Proprietary</i>	<i>Fiduciary</i>	<i>Account</i>		Totals (Memorandum Only)
	<i>Fund Types</i>				<i>Fund Type</i>	<i>Fund Type</i>	<i>Groups</i>		
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Enterprise Funds	Agency Fund	General Fixed Assets	General Long-Term Obligations	
Assets and Other Debits:									
Assets:									
Cash and Cash Equivalents	\$0	\$911,117	\$17,856	\$271,150	\$966,927	\$0	\$0	\$0	\$2,167,050
Investments	0	1,360,333	0	478,841	1,552,790	0	0	0	3,391,964
Receivables (net of allowance for doubtful accounts):									
Taxes	677,540	1,629,724	0	0	0	0	0	0	2,307,264
Accounts	26,916	130	0	2,525	964,385	0	0	0	993,956
Interest	0	0	0	53,529	0	0	0	0	53,529
Special Assessments	0	0	0	72,650	0	0	0	0	72,650
Intergovernmental Receivables	355,216	381,801	0	150,000	0	0	0	0	887,017
Inventory of Supplies at Cost	1,278	19,133	0	0	20,883	0	0	0	41,294
Prepaid Items	24,515	16,228	0	1,650	11,036	0	0	0	53,429
Restricted Assets:									
Cash and Cash Equivalents	0	31,830	0	0	207,998	0	0	0	239,828
Cash with Fiscal Agent	0	0	18,677	0	0	7,799	0	0	26,476
Fixed Assets (net of accumulated depreciation)	0	0	0	0	9,891,745	0	15,727,412	0	25,619,157
Other Debits:									
Amount Available in Debt Service Fund	0	0	0	0	0	0	0	17,856	17,856
Amount to be Provided for General Long-Term Obligations	0	0	0	0	0	0	0	6,313,116	6,313,116
Total Assets and Other Debits	\$1,085,465	\$4,350,296	\$36,533	\$1,030,345	\$13,615,764	\$7,799	\$15,727,412	\$6,330,972	\$42,184,586

THE CITY OF LOVELAND, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2002

	<i>Governmental</i>			<i>Proprietary</i>	<i>Fiduciary</i>	<i>Account</i>		Totals (Memorandum Only)	
	<i>Fund Types</i>			<i>Fund Type</i>	<i>Fund Type</i>	<i>Groups</i>			
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Enterprise Funds	Agency Fund	General Fixed Assets	General Long-Term Obligations	
Liabilities, Equity and Other Credits:									
Liabilities:									
Accounts Payable	\$54,211	\$156,220	\$0	\$42,067	\$372,226	\$0	\$0	\$0	\$624,724
Accrued Wages and Benefits	158,226	33,587	0	10,251	26,677	0	0	0	228,741
Due to Others	0	0	0	0	0	7,799	0	0	7,799
Matured Bonds and Interest Payable	0	0	18,677	0	0	0	0	0	18,677
Accrued Interest Payable	0	0	0	13,523	10,187	0	0	0	23,710
Deferred Revenue	924,762	1,586,299	0	73,801	0	0	0	0	2,584,862
General Obligation Notes Payable	0	0	0	2,300,000	0	0	0	0	2,300,000
Compensated Absences Payable	0	13,402	0	0	122,707	0	0	637,567	773,676
Capital Lease Payable	0	0	0	0	58,393	0	0	405,535	463,928
Ohio Public Works Commission Loans Payable	0	0	0	0	0	0	0	2,035,112	2,035,112
General Obligation Bonds Payable	0	0	0	0	2,275,000	0	0	3,215,000	5,490,000
Police Pension Accrued Liability	0	0	0	0	0	0	0	37,758	37,758
Total Liabilities	1,137,199	1,789,508	18,677	2,439,642	2,865,190	7,799	0	6,330,972	14,588,987
Equity and Other Credits:									
Investment in General Fixed Assets	0	0	0	0	0	0	15,727,412	0	15,727,412
Contributed Capital	0	0	0	0	3,415,802	0	0	0	3,415,802
Retained Earnings:									
Unreserved	0	0	0	0	7,334,772	0	0	0	7,334,772
Fund Balances:									
Reserved for Encumbrances	0	25,089	0	35,917	0	0	0	0	61,006
Reserved for Supplies Inventory	1,278	19,133	0	0	0	0	0	0	20,411
Reserved for Prepaid Items	24,515	16,228	0	1,650	0	0	0	0	42,393
Reserved for Debt Service	0	0	17,856	0	0	0	0	0	17,856
Unreserved:									
Undesignated	(77,527)	2,500,338	0	(1,446,864)	0	0	0	0	975,947
Total Equity and Other Credits	(51,734)	2,560,788	17,856	(1,409,297)	10,750,574	0	15,727,412	0	27,595,599
Total Liabilities, Equity and Other Credits	\$1,085,465	\$4,350,296	\$36,533	\$1,030,345	\$13,615,764	\$7,799	\$15,727,412	\$6,330,972	\$42,184,586

The notes to the general purpose financial statements are an integral part of this statement.

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THE CITY OF LOVELAND, OHIO
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002

	<i>Governmental Fund Types</i>				Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	
Revenues:					
Taxes	\$712,835	\$3,925,928	\$0	\$3,313	\$4,642,076
Intergovernmental Revenues	860,497	728,022	0	177,878	1,766,397
Charges for Services	9,880	60,000	0	0	69,880
Licenses and Permits	51,064	7,500	0	7,500	66,064
Investment Earnings	0	0	0	256,956	256,956
Fines and Forfeitures	156,060	1,356	0	0	157,416
All Other Revenues	42,552	58,771	750	58,624	160,697
Total Revenues	1,832,888	4,781,577	750	504,271	7,119,486
Expenditures:					
Current:					
Security of Persons and Property	1,825,633	1,907,507	0	0	3,733,140
Leisure Time Activities	0	0	0	318,965	318,965
Community Environment	165,555	0	0	0	165,555
Transportation	0	587,503	0	0	587,503
General Government	1,312,102	734,218	0	118,311	2,164,631
Capital Outlay	0	0	0	556,652	556,652
Debt Service:					
Principal Retirement	0	0	283,952	0	283,952
Interest and Fiscal Charges	0	0	156,831	56,669	213,500
Total Expenditures	3,303,290	3,229,228	440,783	1,050,597	8,023,898
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,470,402)	1,552,349	(440,033)	(546,326)	(904,412)
Other Financing Sources (Uses):					
Proceeds from Sale of Fixed Assets	0	25,269	0	0	25,269
Proceeds from General Obligation Bonds	0	635,000	0	465,000	1,100,000
Proceeds from Ohio Public Works Commission Loans	0	0	0	300,000	300,000
Operating Transfers In	1,489,543	97,328	440,783	527,540	2,555,194
Operating Transfers Out	(69,956)	(1,836,567)	0	(175,341)	(2,081,864)
Other Financing Sources - Capital Lease	0	226,801	0	27,806	254,607
Total Other Financing Sources (Uses)	1,419,587	(852,169)	440,783	1,145,005	2,153,206
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(50,815)	700,180	750	598,679	1,248,794
Restated Fund Balance (Deficit) Beginning of Year	(961)	1,879,023	17,106	(2,007,976)	(112,808)
Increase (Decrease) in Inventory Reserve	42	(18,415)	0	0	(18,373)
Fund Balance (Deficit) End of Year	(\$51,734)	\$2,560,788	\$17,856	(\$1,409,297)	\$1,117,613

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF LOVELAND, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002

	<i>General Fund</i>			<i>Special Revenue Funds</i>		
	Revised Budget	Actual	Variance:	Revised Budget	Actual	Variance:
			Favorable (Unfavorable)			Favorable (Unfavorable)
Revenues:						
Taxes	\$711,800	\$714,746	\$2,946	\$3,870,100	\$3,943,274	\$73,174
Intergovernmental Revenues	861,400	855,947	(5,453)	707,100	699,940	(7,160)
Charges for Services	12,200	12,348	148	60,000	60,000	0
Licenses and Permits	50,000	51,064	1,064	6,000	7,500	1,500
Investment Earnings	0	0	0	0	0	0
Fines and Forfeitures	150,000	156,060	6,060	3,000	2,551	(449)
All Other Revenues	52,950	53,382	432	58,700	58,771	71
Total Revenues	1,838,350	1,843,547	5,197	4,704,900	4,772,036	67,136
Expenditures:						
Current:						
Security of Persons and Property	1,815,100	1,812,621	2,479	2,304,289	1,653,298	650,991
Leisure Time Activities	0	0	0	0	0	0
Community Environment	163,400	163,192	208	0	0	0
Transportation	0	0	0	622,440	474,610	147,830
General Government	1,350,300	1,287,321	62,979	1,972,502	762,542	1,209,960
Other Expenditures	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	3,328,800	3,263,134	65,666	4,899,231	2,890,450	2,008,781
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,490,450)	(1,419,587)	70,863	(194,331)	1,881,586	2,075,917
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	0	0	0	66,100	62,532	(3,568)
Proceeds from General Obligation Notes	0	0	0	0	0	0
Proceeds from General Obligation Bonds	0	0	0	635,000	635,000	0
Proceeds from Ohio Public Works Commission Loans	0	0	0	0	0	0
Operating Transfers In	1,560,600	1,489,543	(71,057)	97,328	97,328	0
Operating Transfers Out	(70,000)	(69,956)	44	(1,976,951)	(1,836,567)	140,384
Total Other Financing Sources (Uses)	1,490,600	1,419,587	(71,013)	(1,178,523)	(1,041,707)	136,816
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	150	0	(150)	(1,372,854)	839,879	2,212,733
Fund Balance at Beginning of Year	0	0	0	1,312,965	1,312,965	0
Prior Year Encumbrances	0	0	0	125,347	125,347	0
Fund Balance (Deficit) at End of Year	\$150	\$0	(\$150)	\$65,458	\$2,278,191	\$2,212,733

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF LOVELAND, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002

<i>Debt Service Fund</i>			<i>Capital Projects Funds</i>			<i>Totals (Memorandum Only)</i>		
Revised		Variance:	Revised		Variance:	Revised		Variance:
Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
\$0	\$0	\$0	\$4,300	\$3,313	(\$987)	\$4,586,200	\$4,661,333	\$75,133
0	0	0	177,878	27,878	(150,000)	1,746,378	1,583,765	(162,613)
0	0	0	0	0	0	72,200	72,348	148
0	0	0	6,000	7,500	1,500	62,000	66,064	4,064
0	0	0	220,000	230,788	10,788	220,000	230,788	10,788
0	0	0	0	0	0	153,000	158,611	5,611
0	750	750	53,000	56,099	3,099	164,650	169,002	4,352
0	750	750	461,178	325,578	(135,600)	7,004,428	6,941,911	(62,517)
0	0	0	0	0	0	4,119,389	3,465,919	653,470
0	0	0	311,524	309,778	1,746	311,524	309,778	1,746
0	0	0	0	0	0	163,400	163,192	208
0	0	0	0	0	0	622,440	474,610	147,830
0	0	0	94,456	94,456	0	3,417,258	2,144,319	1,272,939
0	0	0	0	0	0	0	0	0
0	0	0	1,478,521	629,521	849,000	1,478,521	629,521	849,000
283,952	283,952	0	2,300,000	2,300,000	0	2,583,952	2,583,952	0
173,453	156,831	16,622	63,074	63,074	0	236,527	219,905	16,622
457,405	440,783	16,622	4,247,575	3,396,829	850,746	12,933,011	9,991,196	2,941,815
(457,405)	(440,033)	17,372	(3,786,397)	(3,071,251)	715,146	(5,928,583)	(3,049,285)	2,879,298
0	0	0	0	0	0	66,100	62,532	(3,568)
0	0	0	2,300,000	2,300,000	0	2,300,000	2,300,000	0
0	0	0	465,000	465,000	0	1,100,000	1,100,000	0
0	0	0	300,000	300,000	0	300,000	300,000	0
440,299	440,783	484	596,823	527,540	(69,283)	2,695,050	2,555,194	(139,856)
0	0	0	(175,426)	(175,341)	85	(2,222,377)	(2,081,864)	140,513
440,299	440,783	484	3,486,397	3,417,199	(69,198)	4,238,773	4,235,862	(2,911)
(17,106)	750	17,856	(300,000)	345,948	645,948	(1,689,810)	1,186,577	2,876,387
17,106	17,106	0	223,958	223,958	0	1,554,029	1,554,029	0
0	0	0	76,042	76,042	0	201,389	201,389	0
\$0	\$17,856	\$17,856	\$0	\$645,948	\$645,948	\$65,608	\$2,941,995	\$2,876,387

THE CITY OF LOVELAND, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u><i>Enterprise Funds</i></u>
<u>Operating Revenues:</u>	
Charges for Services	\$3,530,985
Total Operating Revenues	<u>3,530,985</u>
<u>Operating Expenses:</u>	
Personal Services	407,867
Materials and Supplies	66,597
Contractual Services	1,952,797
Utilities	109,087
Depreciation	287,941
Total Operating Expenses	<u>2,824,289</u>
Operating Income	706,696
<u>Nonoperating Revenues (Expenses):</u>	
Intergovernmental Grants	32,632
Investment Earnings	11,601
Interest and Fiscal Charges	(176,629)
Nonoperating Revenues	5,115
Total Nonoperating Revenues (Expenses)	<u>(127,281)</u>
Income Before Operating Transfers	579,415
<u>Operating Transfers:</u>	
Operating Transfers In	50,000
Operating Transfers Out	(523,330)
Total Operating Transfers	<u>(473,330)</u>
Net Income	106,085
Restated Retained Earnings at Beginning of Year	<u>7,228,687</u>
Retained Earnings at End of Year	<u><u>\$7,334,772</u></u>

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF LOVELAND, OHIO
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2002

	<i>Enterprise Funds</i>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$3,444,752
Cash Payments for Goods and Services	(2,253,520)
Cash Payments to Employees	(365,374)
Net Cash Provided by Operating Activities	825,858
<u>Cash Flows from Noncapital Financing Activities:</u>	
Operating Grants Received	32,632
Transfers In from Other Funds	50,000
Transfers Out to Other Funds	(523,330)
Net Cash Used for Noncapital Financing Activities	(440,698)
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Assets	(121,407)
Landfill Postclosure Costs	(15,647)
Principal Paid on General Obligation Bonds	(205,000)
Interest Paid on All Debt	(114,127)
Net Cash Used for Capital and Related Financing Activities	(456,181)
<u>Cash Flows from Investing Activities:</u>	
Sale of Investments	419,381
Net Cash Provided by Investing Activities	419,381
Net Increase in Cash and Cash Equivalents	348,360
Cash and Cash Equivalents at Beginning of Year	826,565
Cash and Cash Equivalents at End of Year	\$1,174,925
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income	\$706,696
Adjustments to Reconcile Operating Income to	
Net Cash Provided by Operating Activities:	
Depreciation Expense	287,941
Miscellaneous Nonoperating Revenue	5,115
<u>Changes to Assets and Liabilities:</u>	
Increase in Accounts Receivable	(91,348)
Decrease in Inventory	5,580
Increase in Prepaid Items	(1,286)
Decrease in Accounts Payable	(70,223)
Increase in Accrued Wages and Benefits	1,092
Decrease in Compensated Absences	(17,709)
Total Adjustments	119,162
Net Cash Provided by Operating Activities	\$825,858

Schedule of Noncash Investing, Capital and Financing Activities:

The Water and Sanitation Funds incurred new leases liabilities of \$41,709 and \$16,684, respectively, in 2002

THE CITY OF LOVELAND, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Loveland, Ohio (the "City") is a home-rule municipal corporation created under the laws of the State of Ohio. The City operates under its own Charter. The current Charter, which provides for a Council-Manager form of government, was adopted on July 25, 1961.

A. Reporting Entity

The accompanying general purpose financial statements comply with the provisions of the Governmental Accounting Standards Board (the "GASB") Statement No. 14, *"The Financial Reporting Entity,"* in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity includes all funds, account groups, agencies, boards and commissions that are part of the primary government, which include the following services: police protection, parks and recreation, planning, zoning, street maintenance and other governmental services. The City also provides refuse collection services (on a contractual basis) and owns and operates a water treatment and distribution system and a wastewater treatment and collection system (which is operated by the Metropolitan Sewer District), each of which is reported as an enterprise fund. In addition, the City has included the Community Improvement Corporation of Loveland (CIC) as a blended component unit.

The Community Improvement Corporation of Loveland (CIC), a non-profit organization, is an eleven member board comprised of one City official, seven council members and three community representatives. Although it is legally separate from the City, the CIC is reported as if it were part of the primary government because the City can impose its will on the CIC. The primary purpose of the CIC is the planning of the industrial, commercial, distribution and research development of the City, including the assurance that mortgage payments will be made to foster such development, the acquisition, construction, equipment and improvement of buildings, structures and other properties, the acquisition of sites for such development, the lease, sale and subdivision of such sites and incurring of debt in order to carry out such development, and to make loans to any individual or business entity in order to carry out such development purpose for the City. Funding to finance the CIC comes from the sale of properties owned by the CIC and contributions from the City and private sources.

The accounting policies and financial reporting practices of the City conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the general purpose financial statements. The following fund types and account groups are used by the City:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except that accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the City's governmental fund types:

General Fund - This fund is used to account for all financial resources except those 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 and the limitations of the City Charter.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - This fund is used for the accumulation of resources for the payment of general and special assessment long-term debt principal and interest.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than that financed by the proprietary funds).

Proprietary Funds

The proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and liabilities associated with the operation of the proprietary fund is included on the balance sheet. Fund equity (i.e., net assets) is segregated into contributed capital and retained earnings components. The proprietary fund operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Fiduciary Fund

Agency Fund - This fund is used to account for assets held by a government unit as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups - To make a clear distinction between fixed assets related to specific funds and those of general government and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for fixed assets of the City other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This account group is established to account for all long-term debt and other long-term liabilities of the City except those accounted for in the proprietary funds.

C. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses in the accounts and reported in the financial statements, and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

Revenues considered susceptible to accrual at year end include income taxes withheld by employers, interest on investments and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenues, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues, are recorded as revenues when received in cash because generally these revenues are not measurable until received.

Special assessment installments and related accrued interest, which are measurable but not available at December 31, are recorded as deferred revenue. Property taxes which are measurable at December 31, 2002 but which are not intended to finance 2002 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 5.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

D. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by ordinance of the City Council.

1. Tax Budget

By July 15, the Manager submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2002.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of City Council. The budgetary figures which appear in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying general purpose financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting

The City's budgetary process accounts for the City's transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on the cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to reservation of fund balance (GAAP basis).

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

6. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary cash basis statements for the governmental funds:

	Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses			
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds
GAAP Basis (as reported)	(\$50,815)	\$700,180	\$750	\$598,679
Increase (Decrease):				
Accrued Revenues at December 31, 2002 received during 2003	(134,910)	(425,356)	0	(241,281)
Accrued Revenues at December 31, 2001 received during 2002	145,569	415,815	0	62,588
Accrued Expenditures at December 31, 2002 paid during 2003	212,437	203,209	0	65,841
Accrued Expenditures at December 31, 2001 paid during 2002	(163,453)	(66,640)	0	(72,064)
2001 Prepays for 2002	15,687	16,725	0	1,500
2002 Prepays for 2003	(24,515)	(16,228)	0	(1,650)
Note Proceeds	0	0	0	2,300,000
Note Retirement	0	0	0	(2,300,000)
Entity Difference	0	37,263	0	0
Outstanding Encumbrances	0	(25,089)	0	(67,665)
Budget Basis	<u>\$0</u>	<u>\$839,879</u>	<u>\$750</u>	<u>\$345,948</u>

E. Cash and Investments

Cash and cash equivalents include amounts in demand deposits as well as the State Treasury Asset Reserve (STAR Ohio). STAR Ohio is a very liquid investment and is reported as a cash equivalent in the general purpose financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Investments (Continued)

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds consider its share of equity in STAR Ohio to be cash equivalents. See Note 4, "Cash, Cash Equivalents and Investments."

F. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City reports its investments at fair value, except for nonparticipating investment contracts (repurchase agreements and certificates of deposit) which are reported at cost.

The City has invested funds in the STAR Ohio during 2002. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2002. See Note 4, "Cash, Cash Equivalents and Investments".

G. Inventory

Inventory is stated at cost (first in, first out) in the governmental funds, and at the lower of cost or market in the proprietary funds. The costs of inventory items are recorded as expenditures in the governmental and expendable trust funds when purchased and as expenses in the proprietary funds when used.

H. Fixed Assets and Depreciation

The accounting and reporting treatment applied to fixed assets is determined by the ultimate use:

1. Property, Plant and Equipment - General Governmental Purposes

Fixed assets acquired or constructed for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years) in the General Fixed Assets Account Group. Contributed fixed assets are recorded at fair market value at the date received.

Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the City; therefore, the purpose of stewardship for capital expenditures can be satisfied without recording these assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fixed Assets and Depreciation (Continued)

1. Property, Plant and Equipment - General Governmental Purposes (Continued)

General fixed asset values were initially determined at December 31, 1988 by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. The estimated cost for certain fixed assets was arrived at by indexing estimated current costs back to the estimated year of acquisition.

The City has elected not to record depreciation in the General Fixed Assets Account Group.

2. Property, Plant and Equipment - Proprietary Funds

Property, plant and equipment (including water and sewer lines) acquired by the proprietary funds are stated at estimated historical cost. Estimated historical costs for water and sewer lines were derived by establishing a current cost for construction and indexing this cost back to the estimated date of original construction. Contributed fixed assets are recorded at fair market value at the date received.

Depreciation has been provided using the straight-line method over the following estimated useful lives:

Description	Estimated Lives (Years)
Buildings	15 - 60
Improvements Other Than Buildings (Utility Lines)	50
Machinery, Equipment, Furniture and Fixtures	3 - 10

I. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

Obligation	Fund
General Obligation Bonds	General Bond Fund Water Fund
Ohio Public Works Commission Loans	General Bond Fund
Capital Leases	General Fund Fire and EMS Fund Street Maintenance Fund Recreation Capital Improvement Fund Water Fund Sanitation Fund
Compensated Absences	General Fund Water Fund Sewer Fund Sanitation Fund
Police and Fire Pension Accrued Liability	General Fund

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement is accrued to the extent that it is considered probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees expected to become eligible to receive such payments in the future.

For governmental funds, the portion of unpaid compensated absences expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." The long-term portion of the liability is reported in the General Long-Term Obligations Account Group.

Compensated absences are expensed in the water, sewer, and refuse collection enterprise funds when earned, and the related liability is reported within the fund.

K. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

L. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. Interfund transactions are generally classified as follows:

- Operating transfers are reported as "Other Financing Sources and Uses" in the governmental funds, as "Operating Transfers In" by the recipient fund, and "Operating Transfers Out" by the disbursing fund.
- Residual Equity Transfers are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from the fund equity balance. The City did not perform any residual equity transfers in 2002.

Transactions that would be treated as revenues and expenditures if the transactions involved organizations external to the City are similarly treated when involving other funds of the City. The City also advances cash from one fund to another as necessary to meet current obligations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for prepaid items, supplies inventory, debt service, and encumbered amounts that have not been accrued at year end.

N. Total Columns on Combined Financial Statements - Overview

Total columns on the "Combined Financial Statements - Overview" are captioned "Memorandum Only" to indicate they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

O. Restricted Assets

Certain assets are classified as restricted cash and cash equivalents and cash with fiscal agents on the balance sheet because these funds are not available for general operating purposes.

NOTE 2 - PRIOR PERIOD ADJUSTMENTS

The beginning of year balance in the general fund and special revenue funds has been restated due to the correction of an accounting error related to taxes receivable. The correction of the accounting error has required the restatement of fund balance at December 31, 2001 in the following amounts:

Fund Name	Fund Balance/(Deficit) as Reported 12/31/01	Correction of Accounting Error	Fund Balance/(Deficit) as Restated 12/31/01
General Fund	\$334,059	(\$335,020)	(\$961)
Special Revenue Funds	1,544,003	335,020	1,879,023

In addition to the above noted change to fund balance, the restatement of fund balance had the following effect on prior year excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses:

Fund Name	of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses as Reported 12/31/01	Correction of Accounting Error	of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses as Restated 12/31/01
General Fund	(\$53,728)	(\$335,020)	(\$388,748)
Special Revenue Funds	(432,637)	335,020	(97,617)

NOTE 2 - PRIOR PERIOD ADJUSTMENTS (Continued)

Also during 2002 certain adjustments were made to the beginning retained earnings balance of the enterprise funds due to an accounting error in the reporting of accounts receivable. This resulted in the following change to the beginning retained earnings balance in the enterprise funds:

Fund Name	Retained Earnings as Reported 12/31/01	Correction of Accounting Error	Retained Earnings as Restated 12/31/01
Enterprise Funds	\$6,884,993	\$343,694	\$7,228,687

In addition to the above noted change to retained earnings, the restatement had the following effect on prior year net income:

Fund Name	Net Income as Reported 12/31/01	Correction of Accounting Error	Net Income as Restated 12/31/01
Enterprise Funds	\$8,571	\$343,694	\$352,265

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits-The fund deficit at December 31, 2002 of \$51,734 in the General Fund arose from the recognition of expenditures on the modified accrual basis of accounting which are greater than expenditures recognized on the cash basis. The fund deficit of \$1,698,237 in the Special Projects Fund (capital projects fund) arose from the recognition of general obligation notes payable under the modified accrual basis of accounting. Under the budgetary basis of accounting, proceeds from the sale of notes are recognized as revenue and expenditures are recognized when paid, therefore, a deficit did not exist. The General Fund provides operating transfers when cash is required, not when accruals occur.

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Statutes require the classification of funds held by the City into three categories.

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "near cash" status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3 "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,*" collateral held in single financial collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investments:

- Category 1 Insured or registered, with securities held by the City or its agent in the City's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

A. Deposits

At year end the carrying amount of the City's deposits was \$1,983,984 and the bank balance was \$2,255,397. Federal depository insurance covered \$2,017,362 of the deposits and bank balance. All remaining deposits were classed as Category 3.

NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments

The City's investments at December 31, 2002 are summarized below:

<u>Categorized Investments</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Fair Value</u>
U.S. Government Securities	\$1,514,964	\$0	\$1,514,964
Repurchase Agreements	0	472,007	472,007
Total Categorized	1,514,964	472,007	1,986,971
<u>Non-Categorized Investments</u>			
STAR Ohio	N/A	N/A	1,854,363
Total Investments	\$1,514,964	\$472,007	\$3,841,334

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. STAR Ohio is treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the combined financial statements and the classifications per items A and B of this note are as follows:

	<u>Cash and Cash Equivalents *</u>	<u>Investments</u>
Per Combined Balance Sheet	\$2,433,354	\$3,391,964
Certificates of Deposit (with maturities of more than 3 months)	1,877,000	(1,877,000)
Investments:		
Repurchase Agreements	(472,007)	472,007
STAR Ohio	(1,854,363)	1,854,363
Per GASB Statement No. 3	\$1,983,984	\$3,841,334

* Includes Cash with Fiscal Agent of \$26,476.

D. Cash with Fiscal Agent

Cash with Fiscal Agent includes funds on deposit with the Mayor's Court and a bond and coupon account, all of which are classified as Category 3.

NOTE 5 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2002 were levied after October 1, 2001 on assessed values as of January 1, 2001, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation was completed for tax year 2002 for Clermont County, 2000 for Warren County, and 1999 for Hamilton County. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is assessed for ad valorem taxation purposes at 25%. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually: the first payment is due April 30; the remainder is payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100% of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurers collect property taxes on behalf of all taxing districts in the counties including the City of Loveland. The County Auditors periodically remit to the City its portion of the taxes collected.

The assessed values upon which the 2002 property tax receipts were based were as follows:

	County		
	Hamilton	Clermont	Warren
Real Property:			
Residential/Agricultural	\$168,818,890	\$24,684,870	\$10,029,100
Personal Property:			
Tangible Personal Property	17,163,480	1,590,630	144,920
Public Utility Personal Property	4,429,750	1,573,960	119,570
Total Assessed Value	<u>\$190,412,120</u>	<u>\$27,849,460</u>	<u>\$10,293,590</u>
Tax Rate/Assessed Value	\$10.00/\$1,000	\$10.00/\$1,000	\$7.43/\$1,000

NOTE 5 - TAXES (Continued)

B. Income Tax

The City levies a tax of 1% on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

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

NOTE 6 - RECEIVABLES

Receivables at December 31, 2002 consisted of taxes, interest, accounts receivable, special assessments and intergovernmental receivables arising from shared revenues.

NOTE 7 - OPERATING TRANSFERS

Following is a summary of operating transfers in and out for all funds for 2002:

Fund	Transfers In	Transfers Out
General Fund	\$1,489,543	\$69,956
Special Revenue Funds:		
Income Tax Fund	97,328	1,686,483
Paramedic Fund	0	16,400
Fire and EMS Fund	0	117,284
Fire Protection Fund	0	16,400
Total Special Revenue Funds	97,328	1,836,567
Debt Service Fund:		
General Bond Fund	440,783	0
Capital Projects Funds:		
Recreation Capital Improvement Fund	499,662	125,341
Special Projects Fund	0	50,000
Issue II Projects Fund	27,878	0
Total Capital Projects Funds	527,540	175,341
Enterprise Funds:		
Water Fund	50,000	336,830
Sanitation Fund	0	123,200
Sewer Fund	0	63,300
Total Enterprise Funds	50,000	523,330
Totals	\$2,605,194	\$2,605,194

NOTE 8 - FIXED ASSETS**A. General Fixed Assets**

Summary by category of changes in general fixed assets:

Category	December 31, 2001	Additions	Deletions	December 31, 2002
Land	\$5,623,718	\$0	\$0	\$5,623,718
Buildings and Improvements	4,530,876	143,202	(4,979)	4,669,099
Improvements other than Buildings	1,233,153	0	0	1,233,153
Machinery and Equipment	3,494,232	498,632	(123,279)	3,869,585
Construction In Progress	168,467	257,188	(93,798)	331,857
Totals	\$15,050,446	\$899,022	(\$222,056)	\$15,727,412

B. Proprietary Fixed Assets

Summary by category at December 31, 2002:

Category	Historic Cost	Accumulated Depreciation	Book Value
Land	\$254,907	\$0	\$254,907
Buildings and Improvements	1,446,273	(844,813)	601,460
Utility Structures in Service	12,416,256	(3,559,630)	8,856,626
Machinery and Equipment	335,070	(156,318)	178,752
Property, Plant and Equipment	\$14,452,506	(\$4,560,761)	\$9,891,745

NOTE 9 – DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

A. Ohio Public Employees Retirement System (the "Ohio PERS")

The following information was provided by the Ohio PERS to assist the City in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers."

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in the Ohio PERS, a cost-sharing multiple employer defined benefit pension plan. The Ohio PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (the "Ohio PERS") (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 2002 employer contribution rate for local government employer units was 13.55%, of covered payroll, 8.55% to fund the pension and 5.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2002, 2001 and 2000 were \$217,843, \$179,616 and \$144,116, respectively, which were equal to the required contributions for each year.

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2002 employer contribution rate (identified above) that was used to fund health care for the year 2002 was 5.0% of covered payroll which amounted to \$80,385.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2001 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 402,041. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2001 is \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund (the "OP&F Fund")

All City full-time police officers participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% for police officers. The City's contributions to the OP&F Fund for the years ending December 31, 2002, 2001 and 2000 were \$172,861, \$162,656 and \$165,270 for police officers, which were equal to the required contributions for each year.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2002 covered payroll that was used to fund postemployment health care benefits was \$68,701 representing 7.75% of covered payroll for police officers. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. As of December 31, 2001, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,174 for police and 10,239 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2001 were \$122,298,771, which was net of member contributions of \$6,874,699.

NOTE 10 - COMPENSATED ABSENCES

All full-time City employees earn sick leave at the rate of 10 hours per calendar month of active service, up to a limit of 1,424 hours. Upon retirement from the City any employee, with 15 years of active service, receives one hour of monetary compensation for every two hours of unused sick leave. A retiring employee's payout may not exceed 1,248 hours of unused sick leave. The monetary compensation is the hourly rate of compensation of the employee at the time of retirement.

NOTE 10 - COMPENSATED ABSENCES (Continued)

All full-time City employees earn vacation at varying rates based upon length of service. An employee may carry forward up to one year of vacation credit, plus six days, to the next year. Upon separation from the City, the employee (or his estate) is paid for his accumulated unused vacation leave balance, which is not to exceed the carryover for one year.

The City records a liability for accumulated unpaid vacation and sick leave benefits when earned by employees. Accrued employee benefits for governmental funds not currently due and payable at year end are recorded in the General Long-Term Obligations Account Group. The amount increased \$88,676 from a beginning year balance of \$548,891 to a year end balance of \$637,567.

At December 31, 2002 the total accumulated unpaid sick leave time recorded in the General Long-Term Obligations Account Group was as follows:

	<u>Hours</u>	<u>Amount</u>
Sick Leave	23,520	\$565,586
Vacation	<u>3,005</u>	<u>71,981</u>
Total	<u>26,525</u>	<u>\$637,567</u>

Compensated absences attributable to the Enterprise Funds of \$122,707 have been recorded within the Enterprise Funds and are not included in the above figures.

NOTE 11 - NOTES PAYABLE

The Ohio Revised Code provides that notes and renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to and payable no later than those principal maturities required if the bonds had been issued at the expiration of the initial five year period. Bond anticipation notes may be retired at maturity from the proceeds of the sale of renewal notes or of the bonds anticipated by the notes, or from available funds of the City or a combination of these sources.

The City intends to retire its notes by the issuance of one year renewal notes with a portion of the principal being retired in accordance with the above provisions.

	<u>Balance January 1, 2002</u>	<u>Issued (Retired)</u>	<u>Balance December 31, 2002</u>
Capital Projects Funds Notes Payable:			
2.75% Real Estate Bond Anticipation Note	\$2,300,000	(\$2,300,000)	\$0
1.85% Real Estate Bond Anticipation Note	<u>0</u>	<u>2,300,000</u>	<u>2,300,000</u>
Total Notes Payable	<u>\$2,300,000</u>	<u>\$0</u>	<u>\$2,300,000</u>

NOTE 12 - LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations of the City at December 31, 2002 were as follows:

				Balance		Balance
				December 31,	Issued	December 31,
				2001	(Retired)	2002
Enterprise Funds:						
General Obligation Bonds:						
1990	Water System Improvement	2003		\$230,000	(\$110,000)	\$120,000
1998	Water System Improvement	2018		2,250,000	(95,000)	2,155,000
Total General Obligation Bonds				2,480,000	(205,000)	2,275,000
Other Long-Term Obligations:						
Landfill Closure and Postclosure Care				15,647	(15,647)	0
Capital Leases Payable				0	58,393	58,393
Total Other Long-Term Obligations				15,647	42,746	58,393
Total Enterprise Long-Term Debt						
Other Long-Term Obligations				\$2,495,647	(\$162,254)	\$2,333,393
General Long-Term Debt:						
General Obligation Bonds:						
1987	Recreation - Senior Center	2003		\$95,000	(\$50,000)	\$45,000
1997	Various Purpose Bonds	2017		2,165,000	(95,000)	2,070,000
2002	Various Purpose Bonds	2022		0	1,100,000	1,100,000
Total General Obligation Bonds				2,260,000	955,000	3,215,000
Ohio Public Works Commission Loans:						
1993	Hanna Avenue Waterline	2013		126,447	(11,495)	114,952
1993	State Route 48 Waterline	2008		107,284	(15,185)	92,099
1994	Park Avenue Waterline	2009		73,643	(9,604)	64,039
1994	East Loveland Avenue	2014		230,326	(14,727)	215,599
1994	West Booster	2015		181,828	(12,187)	169,641
1995	Lever Water Tower	2016		492,828	(26,454)	466,374
1996	Maderia Road Waterline	2016		422,231	(28,149)	394,082
1999	State Route 48 North	2020		239,477	(13,651)	225,826
2002	West Loveland Waterline	2022		0	300,000	
					(7,500)	292,500
Total Ohio Public Works Commission Loans				1,874,064	161,048	2,035,112
Total General Long-Term Debt				4,134,064	1,116,048	5,250,112
Other Long-Term Obligations:						
Capital Leases Payable				195,761	254,607	
					(44,833)	405,535
Compensated Absences				548,891	88,676	637,567
Police Pension Accrued Liability				38,291	(533)	37,758
Total Other Long-Term Obligations				782,943	297,917	1,080,860
Total General Long-Term Debt and Other Long-Term Obligations				\$4,917,007	\$1,413,965	\$6,330,972

NOTE 12 - LONG-TERM OBLIGATIONS (Continued)

A. Police and Firemen's Pension Fund

The City's liability for past service costs relating to the Police and Firemen's Pension Fund at December 31, 2002 was \$69,103 in principal and interest payments through the year 2035. Only the principal amount due of \$37,758 is included in the General Long-Term Obligations Account Group.

B. Principal and Interest Requirements

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 2002, follows:

Years	General Obligation Bonds		OPWC Loans		Police Pension Accrued Liability	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$390,000	\$271,238	\$148,818	\$29,702	\$556	\$1,599
2004	235,000	241,148	151,255	27,263	580	1,575
2005	250,000	231,561	153,769	24,751	605	1,550
2006	260,000	221,179	156,353	22,163	631	1,524
2007	270,000	209,945	159,021	19,497	659	1,497
2008-2012	1,560,000	854,514	701,045	62,270	3,739	7,035
2013-2017	1,970,000	439,859	476,775	12,973	4,615	6,160
2018-2022	555,000	65,744	88,076	6	5,696	4,148
2023-2035	0	0	0	0	20,677	6,257
Totals	<u>\$5,490,000</u>	<u>\$2,535,188</u>	<u>\$2,035,112</u>	<u>\$198,625</u>	<u>\$37,758</u>	<u>\$31,345</u>

NOTE 13 - CAPITAL LEASE COMMITMENTS

Under several capital leases the City leases a public safety radio communication system, an ambulance, and three trucks for the police, fire, street and recreation departments. The cost of the leased assets is accounted for in the General Fixed Assets Account Group and the related liability in the General Long-Term Obligations Account Group. The original cost of the assets under capital lease is \$499,607.

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2002:

Year Ending December 31,	Capital Leases
2003	\$128,507
2004	128,506
2005	128,507
2006	30,682
2007	30,682
Minimum Lease Payments	446,884
Less: Amount representing interest at the City's incremental borrowing rate of interest	(41,349)
Present value of minimum lease payments	<u>\$405,535</u>

NOTE 14 - CONTRIBUTED CAPITAL

Capital contributions received after December 31, 2000 will be recorded as revenue in the enterprise funds. During 2002, there were no changes in contributed capital reported by the City:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Balance at December 31, 2001	\$3,348,555	\$67,247	\$3,415,802

NOTE 15 - SOLID WASTE LANDFILL POSTCLOSURE CARE COSTS

The City owns a former landfill site which predates most modern regulatory and record keeping requirements. The exact date for commencement of waste placement activities is unknown, but waste placement activities ceased in the 1980's. The Ohio Environmental Protection Agency acting in accordance with applicable state and federal laws required the City to complete final closure of the site commencing in 1994. The approximate total cost of closure was \$351,779. State and federal laws require that the City monitor and maintain the site for at least five years after closure. As of December 31, 2002, no postclosure liability associated with monitoring and maintaining the landfill site exists. Postclosure care costs have been paid from the Sanitation Fund.

NOTE 16 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Included in the services provided by the City financed primarily by user charges are water treatment and distribution, wastewater collection and treatment and refuse collection. The key financial information for these enterprise activities is as follows:

	<u>Water</u>	<u>Sanitation</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues	\$1,329,260	\$841,817	\$1,359,908	\$3,530,985
Depreciation	226,206	2,685	59,050	287,941
Operating Income (Loss)	678,951	50,193	(22,448)	706,696
Operating Grants	0	32,632	0	32,632
Operating Transfers In	50,000	0	0	50,000
Operating Transfers Out	(336,830)	(123,200)	(63,300)	(523,330)
Net Income (Loss)	232,666	(40,833)	(85,748)	106,085
Property, Plant and Equipment:				
Additions	163,116	16,684	0	179,800
Assets	10,753,094	308,803	2,553,867	13,615,764
Net Working Capital	2,342,892	210,472	761,565	3,314,929
Bonds Payable	2,275,000	0	0	2,275,000
Total Equity	8,339,497	172,352	2,238,725	10,750,574

NOTE 17 - INSURANCE AND 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. In 1997, the City joined the Ohio Government Risk Management Plan (OGRMP), a public entity risk plan formed under 2744.081 of the Ohio Revised Code that operates as a common risk management and insurance program for 550 member political subdivisions. The City pays an annual premium to OGRMP for its general insurance coverage. The agreement for formation of OGRMP provides that the organization will be self-sustaining through member premiums and will reinsure through commercial insurance and reinsurance companies.

Workers' Compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

The City also pays unemployment claims to the State of Ohio as incurred.

The City continues to carry commercial insurance for other risks of loss, including employee health and life insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 18 - CONTINGENCIES

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

NOTE 19 - CONSTRUCTION COMMITMENTS

As of December 31, 2002, the City had the following commitments with respect to capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
2nd Street Fire Station Renovation	\$377,812	March 1, 2003

THE CITY OF LOVELAND, OHIO

CLERMONT, HAMILTON AND WARREN COUNTIES

GENERAL PURPOSE
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2003

AUDITED

Presented by:
William R. Taphorn,
Director of Finance

Prepared by:
Donald J. Schonhardt
& Associates, Inc.

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CITY OF LOVELAND, OHIO HAMILTON, CLERMONT AND WARREN COUNTIES

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Bastin & Company, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

City Council Members
City of Loveland, Ohio

We have audited the accompanying general-purpose financial statements of the City of Loveland, Ohio, as of and for the year ended December 31, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City of Loveland, Ohio's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

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

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and business-type activities in accordance with GASB Statement No. 34. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the City's governmental activities and business-type activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Loveland, Ohio, as of December 31, 2003, or the changes in its financial position or its cash flows, where applicable, for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2004 on our consideration of the City of Loveland, Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Bastin & Company, LLC

Cincinnati, Ohio
June 9, 2004

THE CITY OF LOVELAND, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2003

	<i>Governmental</i>			<i>Proprietary</i>	<i>Fiduciary</i>	<i>Account</i>		Totals (Memorandum Only)	
	<i>Fund Types</i>			<i>Fund Type</i>	<i>Fund Type</i>	<i>Groups</i>			
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Enterprise Funds	Agency Fund	General Fixed Assets	General Long-Term Obligations	
Assets and Other Debits:									
Assets:									
Cash and Cash Equivalents	\$0	\$1,005,197	\$17,860	\$263,616	\$1,364,442	\$0	\$0	\$0	\$2,651,115
Investments	0	1,549,938	0	440,288	2,252,069	0	0	0	4,242,295
Receivables (net of allowance for doubtful accounts):									
Taxes	743,505	1,630,982	0	0	0	0	0	0	2,374,487
Accounts	28,620	0	0	0	1,178,070	0	0	0	1,206,690
Interest	0	0	0	40,165	0	0	0	0	40,165
Special Assessments	0	0	0	72,650	0	0	0	0	72,650
Intergovernmental Receivables	353,030	325,256	0	672,175	0	0	0	0	1,350,461
Inventory of Supplies at Cost	845	20,462	0	0	14,794	0	0	0	36,101
Prepaid Items	32,921	24,130	0	2,317	15,181	0	0	0	74,549
Restricted Assets:									
Cash and Cash Equivalents	0	35,971	0	0	207,808	0	0	0	243,779
Cash with Fiscal Agent	0	0	18,677	0	0	7,853	0	0	26,530
Fixed Assets (net of accumulated depreciation)	0	0	0	0	9,685,411	0	16,445,531	0	26,130,942
Other Debits:									
Amount Available in Debt Service Fund	0	0	0	0	0	0	0	17,860	17,860
Amount to be Provided for General Long-Term Obligations	0	0	0	0	0	0	0	7,051,070	7,051,070
Total Assets and Other Debits	\$1,158,921	\$4,591,936	\$36,537	\$1,491,211	\$14,717,775	\$7,853	\$16,445,531	\$7,068,930	\$45,518,694

(Continued)

THE CITY OF LOVELAND, OHIO
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2003

	<i>Governmental</i>			<i>Proprietary</i>	<i>Fiduciary</i>	<i>Account</i>		Totals (Memorandum Only)	
	<i>Fund Types</i>			<i>Fund Type</i>	<i>Fund Type</i>	<i>Groups</i>			
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Enterprise Funds	Agency Fund	General Fixed Assets	General Long-Term Obligations	
Liabilities, Equity and Other Credits:									
Liabilities:									
Accounts Payable	\$66,290	\$57,779	\$0	\$22,975	\$78,258	\$0	\$0	\$0	\$225,302
Accrued Wages and Benefits	178,595	30,140	0	10,137	32,862	0	0	0	251,734
Due to Others	0	0	0	0	0	7,853	0	0	7,853
Matured Bonds and Interest Payable	0	0	18,677	9,286	0	0	0	0	27,963
Accrued Interest Payable	0	0	0	0	16,386	0	0	0	16,386
Deferred Revenue	977,758	1,605,141	0	718,358	0	0	0	0	3,301,257
General Obligation Notes Payable	0	0	0	2,225,000	0	0	0	0	2,225,000
Compensated Absences Payable	0	0	0	0	142,974	0	0	692,781	835,755
Capital Lease Payable	0	0	0	0	124,601	0	0	379,939	504,540
Ohio Public Works Commission Loans Payable	0	0	0	0	0	0	0	2,193,016	2,193,016
General Obligation Bonds Payable	0	0	0	0	3,060,000	0	0	3,765,992	6,825,992
Police Pension Accrued Liability	0	0	0	0	0	0	0	37,202	37,202
Total Liabilities	1,222,643	1,693,060	18,677	2,985,756	3,455,081	7,853	0	7,068,930	16,452,000
Equity and Other Credits:									
Investment in General Fixed Assets	0	0	0	0	0	0	16,445,531	0	16,445,531
Contributed Capital	0	0	0	0	3,415,802	0	0	0	3,415,802
Retained Earnings:									
Unreserved	0	0	0	0	7,846,892	0	0	0	7,846,892
Fund Balances:									
Reserved for Encumbrances	0	79,563	0	1,427	0	0	0	0	80,990
Reserved for Supplies Inventory	845	20,462	0	0	0	0	0	0	21,307
Reserved for Prepaid Items	32,921	24,130	0	2,317	0	0	0	0	59,368
Reserved for Debt Service	0	0	17,860	0	0	0	0	0	17,860
Unreserved:									
Undesignated	(97,488)	2,774,721	0	(1,498,289)	0	0	0	0	1,178,944
Total Equity and Other Credits	(63,722)	2,898,876	17,860	(1,494,545)	11,262,694	0	16,445,531	0	29,066,694
Total Liabilities, Equity and Other Credits	\$1,158,921	\$4,591,936	\$36,537	\$1,491,211	\$14,717,775	\$7,853	\$16,445,531	\$7,068,930	\$45,518,694

The notes to the general purpose financial statements are an integral part of this statement.

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THE CITY OF LOVELAND, OHIO
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003

	<i>Governmental Fund Types</i>				Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	
Revenues:					
Taxes	\$758,257	\$3,842,005	\$0	\$3,538	\$4,603,800
Intergovernmental Revenues	825,718	617,786	0	1,311,075	2,754,579
Charges for Services	18,058	60,000	0	0	78,058
Licenses and Permits	106,179	29,500	0	29,000	164,679
Investment Earnings	0	0	0	129,670	129,670
Fines and Forfeitures	155,219	1,318	0	0	156,537
All Other Revenues	101,543	281,296	0	37,460	420,299
Total Revenues	<u>1,964,974</u>	<u>4,831,905</u>	<u>0</u>	<u>1,510,743</u>	<u>8,307,622</u>
Expenditures:					
Current:					
Security of Persons and Property	1,973,704	2,221,270	0	0	4,194,974
Leisure Time Activities	0	0	0	300,159	300,159
Community Environment	208,903	0	0	0	208,903
Transportation	0	601,975	0	0	601,975
General Government	1,299,470	649,638	0	48,257	1,997,365
Capital Outlay	0	0	0	2,058,171	2,058,171
Debt Service:					
Principal Retirement	0	0	323,818	0	323,818
Interest and Fiscal Charges	0	0	209,252	38,195	247,447
Total Expenditures	<u>3,482,077</u>	<u>3,472,883</u>	<u>533,070</u>	<u>2,444,782</u>	<u>9,932,812</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,517,103)	1,359,022	(533,070)	(934,039)	(1,625,190)
Other Financing Sources (Uses):					
Proceeds from Sale of Fixed Assets	0	25,000	0	0	25,000
Proceeds from General Obligation Bonds	0	725,992	0	0	725,992
Proceeds from Ohio Public Works Commission Loans	0	0	0	306,722	306,722
Operating Transfers In	1,574,099	10,000	533,074	961,710	3,078,883
Operating Transfers Out	(68,551)	(1,868,188)	0	(419,641)	(2,356,380)
Other Financing Sources - Capital Lease	0	84,933	0	0	84,933
Total Other Financing Sources (Uses)	<u>1,505,548</u>	<u>(1,022,263)</u>	<u>533,074</u>	<u>848,791</u>	<u>1,865,150</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(11,555)	336,759	4	(85,248)	239,960
Fund Balance (Deficit) Beginning of Year	(51,734)	2,560,788	17,856	(1,409,297)	1,117,613
Increase (Decrease) in Inventory Reserve	(433)	1,329	0	0	896
Fund Balance (Deficit) End of Year	<u>(\$63,722)</u>	<u>\$2,898,876</u>	<u>\$17,860</u>	<u>(\$1,494,545)</u>	<u>\$1,358,469</u>

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF LOVELAND, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003

	<i>General Fund</i>			<i>Special Revenue Funds</i>		
	Revised Budget	Actual	Variance:	Revised Budget	Actual	Variance:
			Favorable (Unfavorable)			Favorable (Unfavorable)
Revenues:						
Taxes	\$757,506	\$758,257	\$751	\$3,903,789	\$3,895,928	(\$7,861)
Intergovernmental Revenues	813,310	814,935	1,625	637,300	637,992	692
Charges for Services	14,000	16,200	2,200	54,908	60,000	5,092
Licenses and Permits	90,000	106,179	16,179	25,000	29,500	4,500
Investment Earnings	0	0	0	0	0	0
Fines and Forfeitures	145,000	155,219	10,219	1,423	1,448	25
All Other Revenues	100,800	101,697	897	283,300	281,296	(2,004)
Total Revenues	1,920,616	1,952,487	31,871	4,905,720	4,906,164	444
Expenditures:						
Current:						
Security of Persons and Property	1,943,120	1,951,552	(8,432)	2,929,880	2,340,364	589,516
Leisure Time Activities	0	0	0	0	0	0
Community Environment	181,110	192,421	(11,311)	0	0	0
Transportation	0	0	0	675,100	537,073	138,027
General Government	1,405,600	1,318,062	87,538	2,439,659	735,174	1,704,485
Other Expenditures	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	3,529,830	3,462,035	67,795	6,044,639	3,612,611	2,432,028
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,609,214)	(1,509,548)	99,666	(1,138,919)	1,293,553	2,432,472
Other Financing Sources (Uses):						
Proceeds from Sale of Fixed Assets	0	0	0	25,000	25,000	0
Proceeds from General Obligation Notes	0	0	0	0	0	0
Proceeds from General Obligation Bonds	0	0	0	725,992	725,992	0
Proceeds from Ohio Public Works Commission Loans	0	0	0	0	0	0
Operating Transfers In	1,692,890	1,574,099	(118,791)	10,000	10,000	0
Operating Transfers Out	(70,000)	(68,551)	1,449	(1,876,400)	(1,868,188)	8,212
Total Other Financing Sources (Uses)	1,622,890	1,505,548	(117,342)	(1,115,408)	(1,107,196)	8,212
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	13,676	(4,000)	(17,676)	(2,254,327)	186,357	2,440,684
Fund Balance at Beginning of Year	0	0	0	2,278,191	2,278,191	0
Prior Year Encumbrances	0	0	0	25,089	25,089	0
Fund Balance (Deficit) at End of Year	\$13,676	(\$4,000)	(\$17,676)	\$48,953	\$2,489,637	\$2,440,684

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF LOVELAND, OHIO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003

<i>Debt Service Fund</i>			<i>Capital Projects Funds</i>			<i>Totals (Memorandum Only)</i>		
Revised		Variance:	Revised		Variance:	Revised		Variance:
Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
\$0	\$0	\$0	\$5,280	\$3,538	(\$1,742)	\$4,666,575	\$4,657,723	(\$8,852)
0	0	0	1,802,903	1,434,404	(368,499)	3,253,513	2,887,331	(366,182)
0	0	0	0	0	0	68,908	76,200	7,292
0	0	0	25,000	29,000	4,000	140,000	164,679	24,679
0	0	0	160,000	173,285	13,285	160,000	173,285	13,285
0	0	0	0	0	0	146,423	156,667	10,244
0	0	0	39,000	39,985	985	423,100	422,978	(122)
0	0	0	2,032,183	1,680,212	(351,971)	8,858,519	8,538,863	(319,656)
0	0	0	0	0	0	4,873,000	4,291,916	581,084
0	0	0	326,660	297,785	28,875	326,660	297,785	28,875
0	0	0	0	0	0	181,110	192,421	(11,311)
0	0	0	0	0	0	675,100	537,073	138,027
0	0	0	88,000	86,767	1,233	3,933,259	2,140,003	1,793,256
0	0	0	0	0	0	0	0	0
0	0	0	3,341,748	2,044,676	1,297,072	3,341,748	2,044,676	1,297,072
323,818	323,818	0	4,525,000	2,300,000	2,225,000	4,848,818	2,623,818	2,225,000
218,734	209,252	9,482	873,552	42,432	831,120	1,092,286	251,684	840,602
542,552	533,070	9,482	9,154,960	4,771,660	4,383,300	19,271,981	12,379,376	6,892,605
(542,552)	(533,070)	9,482	(7,122,777)	(3,091,448)	4,031,329	(10,413,462)	(3,840,513)	6,572,949
0	0	0	0	0	0	25,000	25,000	0
0	0	0	2,225,000	2,225,000	0	2,225,000	2,225,000	0
0	0	0	3,151,820	0	(3,151,820)	3,877,812	725,992	(3,151,820)
0	0	0	306,722	306,722	0	306,722	306,722	0
524,696	533,074	8,378	1,147,492	961,710	(185,782)	3,375,078	3,078,883	(296,195)
0	0	0	(419,890)	(419,641)	249	(2,366,290)	(2,356,380)	9,910
524,696	533,074	8,378	6,411,144	3,073,791	(3,337,353)	7,443,322	4,005,217	(3,438,105)
(17,856)	4	17,860	(711,633)	(17,657)	693,976	(2,970,140)	164,704	3,134,844
17,856	17,856	0	645,948	645,948	0	2,941,995	2,941,995	0
0	0	0	67,665	67,665	0	92,754	92,754	0
\$0	\$17,860	\$17,860	\$1,980	\$695,956	\$693,976	\$64,609	\$3,199,453	\$3,134,844

THE CITY OF LOVELAND, OHIO
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u><i>Enterprise Funds</i></u>
<u>Operating Revenues:</u>	
Charges for Services	\$4,071,493
Other operating revenues	5,714
Total Operating Revenues	<u>4,077,207</u>
<u>Operating Expenses:</u>	
Personal Services	398,278
Materials and Supplies	70,120
Contractual Services	1,876,021
Utilities	111,086
Depreciation	301,182
Total Operating Expenses	<u>2,756,687</u>
Operating Income	1,320,520
<u>Nonoperating Revenues (Expenses):</u>	
Intergovernmental Grants	23,364
Interest and Fiscal Charges	(109,261)
Total Nonoperating Revenues (Expenses)	<u>(85,897)</u>
Income Before Operating Transfers	1,234,623
<u>Operating Transfers:</u>	
Operating Transfers In	50,000
Operating Transfers Out	(772,503)
Total Operating Transfers	<u>(722,503)</u>
Net Income	512,120
Retained Earnings at Beginning of Year	7,334,772
Retained Earnings at End of Year	<u><u>\$7,846,892</u></u>

The notes to the general purpose financial statements are an integral part of this statement.

THE CITY OF LOVELAND, OHIO
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2003

	<i>Enterprise Funds</i>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$3,863,522
Cash Payments for Goods and Services	(2,349,251)
Cash Payments to Employees	(371,826)
Net Cash Provided by Operating Activities	1,142,445
<u>Cash Flows from Noncapital Financing Activities:</u>	
Operating Grants Received	23,364
Transfers In from Other Funds	50,000
Transfers Out to Other Funds	(772,503)
Net Cash Used for Noncapital Financing Activities	(699,139)
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Assets	(28,640)
Proceeds from General Obligation Bonds	1,000,000
Principal Paid on General Obligation Bonds	(215,000)
Interest Paid on All Debt	(103,062)
Net Cash Provided for Capital and Related Financing Activities	653,298
<u>Cash Flows from Investing Activities:</u>	
Purchase of Investments	(699,279)
Net Cash Used for Investing Activities	(699,279)
Net Increase in Cash and Cash Equivalents	397,325
Cash and Cash Equivalents at Beginning of Year	1,174,925
Cash and Cash Equivalents at End of Year	\$1,572,250
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income	\$1,320,520
Adjustments to Reconcile Operating Income to	
Net Cash Provided by Operating Activities:	
Depreciation Expense	301,182
Changes to Assets and Liabilities:	
Increase in Accounts Receivable	(213,685)
Decrease in Inventory	6,089
Increase in Prepaid Items	(4,145)
Decrease in Accounts Payable	(293,968)
Increase in Accrued Wages and Benefits	6,185
Decrease in Compensated Absences	20,267
Total Adjustments	(178,075)
Net Cash Provided by Operating Activities	\$1,142,445

Schedule of Noncash Investing, Capital and Financing Activities:

The Sanitation Fund incurred a new lease liability of \$84,933, in 2003.

THE CITY OF LOVELAND, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Loveland, Ohio (the "City") is a home-rule municipal corporation created under the laws of the State of Ohio. The City operates under its own Charter. The current Charter, which provides for a Council-Manager form of government, was adopted on July 25, 1961.

A. Reporting Entity

The accompanying general purpose financial statements comply with the provisions of the Governmental Accounting Standards Board (the "GASB") Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity includes all funds, account groups, agencies, boards and commissions that are part of the primary government, which include the following services: police protection, parks and recreation, planning, zoning, street maintenance and other governmental services. The City also provides refuse collection services (on a contractual basis) and owns and operates a water treatment and distribution system and a wastewater treatment and collection system (which is operated by the Metropolitan Sewer District), each of which is reported as an enterprise fund. In addition, the City has included the Community Improvement Corporation of Loveland (CIC) as a blended component unit.

The Community Improvement Corporation of Loveland (CIC), a non-profit organization, is an eleven member board comprised of one City official, seven council members and three community representatives. Although it is legally separate from the City, the CIC is reported as if it were part of the primary government because the City can impose its' will on the CIC. The primary purpose of the CIC is the planning of the industrial, commercial, distribution and research development of the City, including the assurance that mortgage payments will be made to foster such development, the acquisition, construction, equipment and improvement of buildings, structures and other properties, the acquisition of sites for such development, the lease, sale and subdivision of such sites and incurring of debt in order to carry out such development, and to make loans to any individual or business entity in order to carry out such development purpose for the City. Funding to finance the CIC comes from the sale of properties owned by the CIC and contributions from the City and private sources.

The GASB has issued Statement No. 34 Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments. This statement establishes reporting standards for general purpose external financial reporting by governmental units.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

The provisions of GASB 34 were applicable for the City for the year ended December 31, 2003, however, the City has not adopted those provisions and therefore the accounting policies and financial reporting practices of the City do not conform to generally accepted accounting principles as applicable to governmental units.

For 2003, the City has continued to use a basis of reporting that was in effect prior to the requirements of GASB Statement No. 34. The basis of reporting is not in accordance with generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies:

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the general purpose financial statements. The following fund types and account groups are used by the City:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except that accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the City's governmental fund types:

General Fund - This fund is used to account for all financial resources except those 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 and the limitations of the City Charter.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - This fund is used for the accumulation of resources for the payment of general and special assessment long-term debt principal and interest.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than that financed by the proprietary funds).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**B. Basis of Presentation - Fund Accounting** (Continued)***Proprietary Funds***

The proprietary funds are accounted for on an “economic resources” measurement focus. This measurement focus provides that all assets and liabilities associated with the operation of the proprietary fund is included on the balance sheet. Fund equity (i.e., net assets) is segregated into contributed capital and retained earnings components. The proprietary fund operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Fund

Agency Fund - This fund is used to account for assets held by a government unit as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups - To make a clear distinction between fixed assets related to specific funds and those of general government and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for fixed assets of the City other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This account group is established to account for all long-term debt and other long-term liabilities of the City except those accounted for in the proprietary funds.

C. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses in the accounts and reported in the financial statements, and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Revenues considered susceptible to accrual at year end include income taxes withheld by employers, interest on investments and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenues, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues, are recorded as revenues when received in cash because generally these revenues are not measurable until received.

Special assessment installments and related accrued interest, which are measurable but not available at December 31, are recorded as deferred revenue. Property taxes which are measurable at December 31, 2003 but which are not intended to finance 2003 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 4.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Pursuant to GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*," the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

D. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by ordinance of the City Council.

1. Tax Budget

By July 15, the Manager submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2003.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of City Council. The budgetary figures which appear in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying general purpose financial statements.

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting

The City's budgetary process accounts for the City's transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on the cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to reservation of fund balance (GAAP basis).

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

6. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary cash basis statements for the governmental funds:

	Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses			
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds
GAAP Basis (as reported)	(\$11,555)	\$336,759	\$4	(\$85,248)
Increase (Decrease):				
Accrued Revenues at December 31, 2003 received during 2004	(147,397)	(351,097)	0	(71,812)
Accrued Revenues at December 31, 2002 received during 2003	134,910	425,356	0	241,281
Accrued Expenditures at December 31, 2003 paid during 2004	244,885	87,919	0	42,398
Accrued Expenditures at December 31, 2002 paid during 2003	(212,437)	(203,209)	0	(65,841)
2002 Prepays for 2003	24,515	16,228	0	1,650
2003 Prepays for 2004	(32,921)	(24,130)	0	(2,317)
Note Proceeds	0	0	0	2,225,000
Note Retirement	0	0	0	(2,300,000)
Outstanding Encumbrances	(4,000)	(101,469)	0	(2,768)
Budget Basis	<u>(\$4,000)</u>	<u>\$186,357</u>	<u>\$4</u>	<u>(\$17,657)</u>

E. Cash and Investments

Cash and cash equivalents include amounts in demand deposits as well as the State Treasury Asset Reserve (STAR Ohio). STAR Ohio is a very liquid investment and is reported as a cash equivalent in the general purpose financial statements.

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds consider its share of equity in STAR Ohio to be cash equivalents. See Note 3, "Cash, Cash Equivalents and Investments."

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City reports its investments at fair value, except for nonparticipating investment contracts (repurchase agreements and certificates of deposit) which are reported at cost.

The City has invested funds in the STAR Ohio during 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2003. See Note 3, "Cash, Cash Equivalents and Investments".

G. Inventory

Inventory is stated at cost (first in, first out) in the governmental funds, and at the lower of cost or market in the proprietary funds. The costs of inventory items are recorded as expenditures in the governmental and expendable trust funds when purchased and as expenses in the proprietary funds when used.

H. Fixed Assets and Depreciation

The accounting and reporting treatment applied to fixed assets is determined by the ultimate use:

1. Property, Plant and Equipment - General Governmental Purposes

Fixed assets acquired or constructed for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years) in the General Fixed Assets Account Group. Contributed fixed assets are recorded at fair market value at the date received.

Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the City; therefore, the purpose of stewardship for capital expenditures can be satisfied without recording these assets.

General fixed asset values were initially determined at December 31, 1988 by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. The estimated cost for certain fixed assets was arrived at by indexing estimated current costs back to the estimated year of acquisition.

The City has elected not to record depreciation in the General Fixed Assets Account Group.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fixed Assets and Depreciation (Continued)

2. Property, Plant and Equipment - Proprietary Funds

Property, plant and equipment (including water and sewer lines) acquired by the proprietary funds are stated at estimated historical cost. Estimated historical costs for water and sewer lines were derived by establishing a current cost for construction and indexing this cost back to the estimated date of original construction. Contributed fixed assets are recorded at fair market value at the date received.

Depreciation has been provided using the straight-line method over the following estimated useful lives:

Description	Estimated Lives (Years)
Buildings	15 - 60
Improvements Other Than Buildings (Utility Lines)	50
Machinery, Equipment, Furniture and Fixtures	3 - 10

I. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

Obligation	Fund
General Obligation Bonds	General Bond Fund
	Water Fund
	Stormwater Fund
Ohio Public Works Commission Loans	General Bond Fund
Capital Leases	General Fund
	Fire and EMS Fund
	Street Maintenance Fund
	Recreation Capital Improvement Fund
	Water Fund
Compensated Absences	Sanitation Fund
	General Fund
	Water Fund
	Sewer Fund
	Sanitation Fund
Police and Fire Pension Accrued Liability	Stormwater Fund
	General Fund

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**J. Compensated Absences**

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement is accrued to the extent that it is considered probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees expected to become eligible to receive such payments in the future.

For governmental funds, the portion of unpaid compensated absences expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." The long-term portion of the liability is reported in the General Long-Term Obligations Account Group.

Compensated absences are expensed in the water, sewer, and refuse collection enterprise funds when earned, and the related liability is reported within the fund.

K. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

L. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. Interfund transactions are generally classified as follows:

- Operating transfers are reported as "Other Financing Sources and Uses" in the governmental funds, as "Operating Transfers In" by the recipient fund, and "Operating Transfers Out" by the disbursing fund.
- Residual Equity Transfers are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from the fund equity balance. The City did not perform any residual equity transfers in 2003.

Transactions that would be treated as revenues and expenditures if the transactions involved organizations external to the City are similarly treated when involving other funds of the City. The City also advances cash from one fund to another as necessary to meet current obligations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for prepaid items, supplies inventory, debt service, and encumbered amounts that have not been accrued at year end.

N. Total Columns on Combined Financial Statements - Overview

Total columns on the “Combined Financial Statements - Overview” are captioned “Memorandum Only” to indicate they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

O. Restricted Assets

Certain assets are classified as restricted cash and cash equivalents and cash with fiscal agents on the balance sheet because these funds are not available for general operating purposes.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

A. Fund Deficits

The fund deficit at December 31, 2003 of \$63,722 in the General Fund arose from the recognition of expenditures on the modified accrual basis of accounting which are greater than expenditures recognized on the cash basis. The fund deficit of \$1,873,831 in the Special Projects Fund (capital projects fund) resulted from the recognition of general obligation notes payable under the modified accrual basis of accounting. Under the budgetary basis of accounting, proceeds from the sale of notes are recognized as revenue and expenditures are recognized when paid, therefore, a deficit did not exist. The retained earnings deficit of \$19,773 in the Stormwater Fund (enterprise fund) was the result of recognizing expenses on the accrual basis, which result in expenses greater than those of the cash basis. Deficits did not exist on a cash basis. The General Fund provides operating transfers when cash is required, not when accruals occur.

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2003, expenditures exceeded appropriations at the function level as follows:

Fund	Excess
General Fund:	
Security of Persons and Property:	\$8,432
Community Development	\$11,311

The excess expenditures were funded from available fund balances.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY (Continued)

C. Basis of Financial Reporting

The GASB has issued Statement No. 34 Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments. This statement establishes reporting standards for general purpose external financial reporting by governmental units.

The provisions of GASB 34 were applicable for the City for the year ended December 31, 2003, however, the City has not adopted those provisions and therefore the accounting policies and financial reporting practices of the City do not conform to generally accepted accounting principles as applicable to governmental units.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Statutes require the classification of funds held by the City into three categories.

Category 1 consists of “active” funds - those funds required to be kept in “cash” or “near cash” status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3 “*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,*” collateral held in single financial collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investments:

- Category 1 Insured or registered, with securities held by the City or its agent in the City's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Deposits

At year end the carrying amount of the City's deposits was \$1,978,167 and the bank balance was \$2,200,691. Federal depository insurance covered \$1,992,882 of the deposits and bank balance. All remaining deposits were classed as Category 3.

B. Investments

The City's investments at December 31, 2003 are summarized below:

<u>Categorized Investments</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Fair Value</u>
U.S. Government Securities	\$2,285,295	\$0	\$2,285,295
Repurchase Agreements	0	264,250	264,250
Total Categorized	2,285,295	264,250	2,549,545
<u>Non-Categorized Investments</u>			
STAR Ohio	N/A	N/A	2,636,007
Total Investments	\$2,285,295	\$264,250	\$5,185,552

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. STAR Ohio is treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the combined financial statements and the classifications per items A and B of this note are as follows:

	<u>Cash and Cash Equivalents *</u>	<u>Investments</u>
Per Combined Balance Sheet	\$2,921,424	\$4,242,295
Certificates of Deposit (with maturities of more than 3 months)	1,957,000	(1,957,000)
Investments:		
Repurchase Agreements	(264,250)	264,250
STAR Ohio	(2,636,007)	2,636,007
Per GASB Statement No. 3	\$1,978,167	\$5,185,552

* Includes Cash with Fiscal Agent of \$26,530.

D. Cash with Fiscal Agent

Cash with Fiscal Agent includes funds on deposit with the Mayor's Court and a bond and coupon account, all of which are classified as Category 3.

NOTE 4 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2003 were levied after October 1, 2002 on assessed values as of January 1, 2002, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation was completed for tax year 2002 for Clermont County, 2000 for Warren County, and 1999 for Hamilton County. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is assessed for ad valorem taxation purposes at 25%. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually: the first payment is due April 30; the remainder is payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100% of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurers collect property taxes on behalf of all taxing districts in the counties including the City of Loveland. The County Auditors periodically remit to the City its portion of the taxes collected.

The assessed values upon which the 2003 property tax receipts were based were as follows:

	County		
	Hamilton	Clermont	Warren
Real Property:			
Residential/Agricultural	\$183,987,730	\$27,550,410	\$10,689,470
Personal Property:			
Tangible Personal Property	13,720,270	1,574,094	129,000
Public Utility Personal Property	4,766,590	1,386,790	141,350
Total Assessed Value	<u>\$202,474,590</u>	<u>\$30,511,294</u>	<u>\$10,959,820</u>
Tax Rate/Assessed Value	\$12.00/\$1,000	\$11.55/\$1,000	\$11.72/\$1,000

NOTE 4 – TAXES (Continued)

B. Income Tax

The City levies a tax of 1% on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

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

NOTE 5 - RECEIVABLES

Receivables at December 31, 2003 consisted of taxes, interest, accounts receivable, special assessments and intergovernmental receivables arising from shared revenues.

NOTE 6 - OPERATING TRANSFERS

Following is a summary of operating transfers in and out for all funds for 2003:

Fund	Transfers In	Transfers Out
General Fund	\$1,574,099	\$68,551
Special Revenue Funds:		
Income Tax Fund	0	1,712,146
Fire and EMS Fund	0	156,042
Escrow Fund	10,000	0
Total Special Revenue Funds	10,000	1,868,188
Debt Service Fund:		
General Bond Fund	533,074	0
Capital Projects Funds:		
Recreation Capital Improvement Fund	424,647	238,978
Special Projects Fund	75,200	180,663
Issue II Projects Fund	461,863	0
Total Capital Projects Funds	961,710	419,641
Enterprise Funds:		
Water Fund	50,000	432,542
Sanitation Fund	0	82,700
Sewer Fund	0	69,100
Stormwater Fund	0	188,161
Total Enterprise Funds	50,000	772,503
Totals	\$3,128,883	\$3,128,883

NOTE 7 - FIXED ASSETS**A. General Fixed Assets**

Summary by category of changes in general fixed assets:

Category	December 31, 2002	Additions	Deletions	December 31, 2003
Land	\$5,623,718	\$0	\$0	\$5,623,718
Buildings and Improvements	4,669,099	3,000	(65,000)	4,607,099
Improvements other than Buildings	1,233,153	0	0	1,233,153
Machinery and Equipment	3,869,585	241,552	(390,847)	3,720,290
Construction In Progress	331,857	929,414	0	1,261,271
Totals	\$15,727,412	\$1,173,966	(\$455,847)	\$16,445,531

B. Proprietary Fixed Assets

Summary by category at December 31, 2003:

Category	Historic Cost	Accumulated Depreciation	Book Value
Land	\$254,907	\$0	\$254,907
Buildings and Improvements	1,456,188	(867,617)	588,571
Utility Structures in Service	12,416,256	(3,800,991)	8,615,265
Machinery and Equipment	420,003	(193,522)	226,481
Property, Plant and Equipment	\$14,547,354	(\$4,862,130)	\$9,685,224

NOTE 8 – DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

A. Ohio Public Employees Retirement System (the "Ohio PERS")

The following information was provided by the Ohio PERS to assist the City in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers."

NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (the “Ohio PERS”) (Continued)

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2003, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2003 employer contribution rate for local government employer units was 13.55%, of covered payroll, 8.55% to fund the pension and 5.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2003, 2002 and 2001 were \$228,927, \$217,843 and \$179,616, respectively, which were equal to the required contributions for each year.

The Ohio PERS provides postemployment health care benefits to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2003 employer contribution rate (identified above) that was used to fund health care for the year 2003 was 5.0% of covered payroll which amounted to \$84,475.

NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (the “Ohio PERS”) (Continued)

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System’s latest actuarial review performed as of December 31, 2002. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2002 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 364,881. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2002 is \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

B. Ohio Police and Fire Pension Fund (the “OP&F Fund”)

All City full-time police officers participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% for police officers. The City's contributions to the OP&F Fund for the years ending December 31, 2003, 2002 and 2001 were \$185,486, \$172,861 and \$162,656 for police, which were equal to the required contributions for each year.

NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund (the “OP&F Fund”) (Continued)

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2003 covered payroll that was used to fund postemployment health care benefits was \$73,719 representing 7.75% of covered payroll for police. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. As of December 31, 2002, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,527 for police and 10,396 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2002 were \$141,028,006, which was net of member contributions of \$12,623,875.

NOTE 9 – COMPENSATED ABSENCES

All full-time City employees earn sick leave at the rate of 10 hours per calendar month of active service, up to a limit of 1,424 hours. Upon retirement from the City any employee, with 15 years of active service, receives one hour of monetary compensation for every two hours of unused sick leave. A retiring employee's payout may not exceed 1,248 hours of unused sick leave. The monetary compensation is the hourly rate of compensation of the employee at the time of retirement.

All full-time City employees earn vacation at varying rates based upon length of service. An employee may carry forward up to one year of vacation credit, plus six days, to the next year. Upon separation from the City, the employee (or his estate) is paid for his accumulated unused vacation leave balance, which is not to exceed the carryover for one year.

The City records a liability for accumulated unpaid vacation and sick leave benefits when earned by employees. Accrued employee benefits for governmental funds not currently due and payable at year end are recorded in the General Long-Term Obligations Account Group. The amount increased \$55,214 from a beginning year balance of \$637,567 to a year end balance of \$692,781.

NOTE 9 – COMPENSATED ABSENCES (Continued)

At December 31, 2003 the total accumulated unpaid sick leave time recorded in the General Long-Term Obligations Account Group was as follows:

	<u>Hours</u>	<u>Amount</u>
Sick Leave	24,728	\$621,397
Vacation	<u>2,930</u>	<u>71,384</u>
Total	<u><u>27,658</u></u>	<u><u>\$692,781</u></u>

Compensated absences attributable to the Enterprise Funds of \$142,974 have been recorded within the Enterprise Funds and are not included in the above figures.

NOTE 10 - NOTES PAYABLE

The Ohio Revised Code provides that notes and renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to and payable no later than those principal maturities required if the bonds had been issued at the expiration of the initial five year period. Bond anticipation notes may be retired at maturity from the proceeds of the sale of renewal notes or of the bonds anticipated by the notes, or from available funds of the City or a combination of these sources.

The City intends to retire its notes by the issuance of one year renewal notes with a portion of the principal being retired in accordance with the above provisions.

	Balance January 1, 2003	Issued (Retired)	Balance December 31, 2003
Capital Projects Funds Notes Payable:			
1.85% Real Estate Bond Anticipation Note	\$2,300,000	(\$2,300,000)	\$0
1.30% Real Estate Bond Anticipation Note	<u>0</u>	<u>2,225,000</u>	<u>2,225,000</u>
Total Notes Payable	<u><u>\$2,300,000</u></u>	<u><u>(\$75,000)</u></u>	<u><u>\$2,225,000</u></u>

NOTE 11 - LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations of the City at December 31, 2003 were as follows:

			Balance December 31, 2002	Issued (Retired)	Balance December 31, 2003
Enterprise Funds:					
General Obligation Bonds:					
1990	Water System Improvement	2003	\$120,000	(\$120,000)	\$0
1998	Water System Improvement	2018	2,155,000	(95,000)	2,060,000
2003	Stormwater System	2023	1,000,000	1,000,000	1,000,000
Total General Obligation Bonds			2,275,000	785,000	3,060,000
Other Long-Term Obligations:					
Capital Leases Payable			58,393	84,933 (18,725)	124,601
Total Other Long-Term Obligations			58,393	66,208	124,601
Total Enterprise Long-Term Debt					
Other Long-Term Obligations			\$2,333,393	\$851,208	\$3,184,601
General Long-Term Debt:					
General Obligation Bonds:					
1987	Recreation - Senior Center	2003	\$45,000	(\$45,000)	\$0
1997	Various Purpose Bonds	2017	2,070,000	(95,000)	1,975,000
2002	Various Purpose Bonds	2022	1,100,000	(35,000)	1,065,000
2003	City Hall - HVAC System	2013	0	70,000	70,000
2003	Fire Truck Acquisition	2013	0	655,992	655,992
Total General Obligation Bonds			3,215,000	550,992	3,765,992
Ohio Public Works Commission Loans:					
1993	Hanna Avenue Waterline	2013	114,952	(11,495)	103,457
1993	State Route 48 Waterline	2008	92,099	(15,643)	76,456
1994	Park Avenue Waterline	2009	64,039	(9,894)	54,145
1994	East Loveland Avenue	2014	215,599	(15,173)	200,426
1994	West Booster	2015	169,641	(12,556)	157,085
1995	Lever Water Tower	2016	466,374	(27,253)	439,121
1996	Maderia Road Waterline	2016	394,082	(28,149)	365,933
1999	State Route 48 North	2020	225,826	(13,655)	212,171
2002	West Loveland Waterline	2022	292,500	(15,000)	277,500
2003	West Loveland Avenue		0	306,722	306,722
Total Ohio Public Works Commission Loans			2,035,112	157,904	2,193,016
Total General Long-Term Debt			5,250,112	708,896	5,959,008
Other Long-Term Obligations:					
Capital Leases Payable			405,535	84,933 (110,529)	379,939
Compensated Absences			637,567	55,214	692,781
Police Pension Accrued Liability			37,758	(556)	37,202
Total Other Long-Term Obligations			1,080,860	29,062	1,109,922
Total General Long-Term Debt and Other Long-Term Obligations			\$6,330,972	\$737,958	\$7,068,930

NOTE 11 - LONG-TERM OBLIGATIONS (Continued)

A. Police and Firemen's Pension Fund

The City's liability for past service costs relating to the Police and Firemen's Pension Fund at December 31, 2003 was \$66,948 in principal and interest payments through the year 2035. Only the principal amount due of \$37,202 is included in the General Long-Term Obligations Account Group.

B. Principal and Interest Requirements

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 2003, follows:

Years	General Obligation Bonds		OPWC Loans		Police Pension Accrued Liability	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$305,992	\$334,278	\$159,590	\$27,263	\$580	\$1,575
2005	350,000	299,279	170,439	24,751	605	1,550
2006	360,000	285,847	173,023	22,163	631	1,524
2007	380,000	271,514	175,691	19,497	659	1,497
2008	395,000	256,087	169,287	16,753	687	1,469
2009-2013	2,255,000	1,007,763	762,673	51,611	3,899	6,874
2014-2018	2,135,000	465,531	457,944	6,885	4,813	5,961
2019-2023	645,000	92,155	124,369	0	5,941	3,904
2024-2036	0	0	0	0	19,387	5,392
Totals	<u>\$6,825,992</u>	<u>\$3,012,454</u>	<u>\$2,193,016</u>	<u>\$168,923</u>	<u>\$37,202</u>	<u>\$29,746</u>

NOTE 12 - CAPITAL LEASE COMMITMENTS

Under several capital leases the City leases a public safety radio communication system, an ambulance, three trucks, and a street sweeper for the police, fire, street and recreation departments. The cost of the leased assets is accounted for in the General Fixed Assets Account Group and the related liability in the General Long-Term Obligations Account Group. The original cost of the assets under capital lease is \$584,540.

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2003:

Year Ending December 31,	Capital Leases
2004	\$147,480
2005	147,480
2006	49,656
2007	49,656
2008	18,973
Minimum Lease Payments	413,245
Less: Amount representing interest at the City's incremental borrowing rate of interest	(33,306)
Present value of minimum lease payments	<u>\$379,939</u>

NOTE 13 - CONTRIBUTED CAPITAL

Capital contributions received after December 31, 2000 will be recorded as revenue in the enterprise funds. During 2003, there were no changes in contributed capital reported by the City:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Balance at December 31, 2003	\$3,348,555	\$67,247	\$3,415,802

NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Included in the services provided by the City financed primarily by user charges are water treatment and distribution, wastewater collection and treatment and refuse collection. The key financial information for these enterprise activities is as follows:

	<u>Water</u>	<u>Sanitation</u>	<u>Sewer</u>	<u>Stormwater</u>	<u>Total</u>
Operating Revenues	\$1,404,462	\$920,177	\$1,478,747	\$273,821	\$4,077,207
Depreciation	229,471	12,660	59,051	0	301,182
Operating Income (Loss)	643,238	116,369	386,543	174,370	1,320,520
Operating Grants	0	23,364	0	0	23,364
Operating Transfers In	50,000	0	0	0	50,000
Operating Transfers Out	(432,542)	(82,700)	(69,100)	(188,161)	(772,503)
Net Income (Loss)	159,020	55,430	317,443	(19,773)	512,120
Property, Plant and Equipment:					
Additions	9,915	84,933	0	0	94,848
Assets	10,678,848	459,076	2,565,835	1,014,016	14,717,775
Net Working Capital	2,276,699	280,254	1,138,059	1,002,038	4,697,050
Bonds Payable	2,060,000	0	0	1,000,000	3,060,000
Total Equity	8,498,517	227,782	2,556,168	(19,773)	11,262,694

NOTE 15 - INSURANCE AND 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. In 1997, the City joined the Ohio Government Risk Management Plan (OGRMP), a public entity risk plan formed under 2744.081 of the Ohio Revised Code that operates as a common risk management and insurance program for 550 member political subdivisions. The City pays an annual premium to OGRMP for its general insurance coverage. The agreement for formation of OGRMP provides that the organization will be self-sustaining through member premiums and will reinsure through commercial insurance and reinsurance companies.

Workers' Compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

NOTE 15 - INSURANCE AND RISK MANAGEMENT (Continued)

The City also pays unemployment claims to the State of Ohio as incurred.

The City continues to carry commercial insurance for other risks of loss, including employee health and life insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 16 - CONTINGENCIES

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

NOTE 17 - CONSTRUCTION COMMITMENTS

As of December 31, 2003, the City had the following commitments with respect to capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Rich Road Project	\$614,492	June 2004
West Loveland Road Project	82,177	June 2004
White Pillars Sanitary Sewer Project	447,077	June 2004

Bastin & Company, LLC

Certified Public Accountants

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Council Members
City of Loveland, Ohio

We have audited the financial statements of the City of Loveland, Ohio as of and for the years ended December 31, 2003 and 2002, and have issued our reports thereon dated June 9, 2004. For the year ended December 31, 2003, our report contained an adverse opinion on the financial statements as the City did not present financial statement and other information in accordance with Government Accounting Standards Board, Statement Number 34. We conducted our audits 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Loveland, Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* that is described in the accompanying schedule of findings as item 2003-1. We also noted certain immaterial instances of noncompliance that we have reported to management of the City of Loveland, Ohio in a separate letter dated June 9, 2004.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the City of Loveland, Ohio's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain immaterial instances involving the internal control over financial reporting that we have reported to management of the City of Loveland, Ohio in a separate letter dated June 9, 2004.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.



Cincinnati, Ohio
June 9, 2004

CITY OF LOVELAND, OHIO
SCHEDULE OF FINDINGS
For the years ended December 31, 2003 and 2002

FINDING NO. 2003-1 – GAAP REPORTING FOR 2003

In accordance with the Ohio Administrative Code Section 117-2-03 (B) all cities are required to report on a basis of accounting principles generally accepted in the United States of America unless the Auditor of State of Ohio grants a waiver.

The GASB has issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* that established reporting standards for general purpose external financial reporting by government units. The effective date for GASB 34 is based on the amount of revenues reported during the fiscal year that ends after June 15, 1999. For entities with 1999 revenues of \$10 to less than \$100 million, the provisions of GASB 34 are effective for all fiscal years beginning after June 15, 2002. For entities with 1999 revenues of less than \$10 million, GASB 34 is effective for fiscal years beginning after June 15, 2003.

For the year ended December 31, 2003, a calculation error was made in determining whether GASB 34 would apply to the City. This error resulted in calculating 1999 revenues to be less than \$10 million when actual revenues that should have been considered, were in excess of the \$10 million level. As a result, the 2003 statements were compiled under the pre-GASB 34 reporting requirements. Based on actual 1999 revenues, the City was required to adopt the reporting standards of GASB 34 for the year ended December 31, 2003.

Since the requirements of GASB 34 were effective for the year ended December 31, 2003, the City has not presented its financial statements for the year then ended in accordance with accounting principles generally accepted in the United States of America and has not complied with the Ohio Administrative Code Section 117-2-03 (B).

The City intends to implement applicable reporting requirements in subsequent years.



**Auditor of State
Betty Montgomery**

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CITY OF LOVELAND

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 17, 2004**