CITY OF LONDON, OHIO

General Purpose Financial Statements

December 31, 2003

with

Independent Auditors' Report

Auditor of State
Betty Montgomery

Members of Council
City of London

We have reviewed the Independent Auditor's Report of the City of London, Madison County, prepared by Clark, Schaefer, Hackett & Co. for the audit period January 1, 2003 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 London is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 29, 2004

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CITY OF LONDON, OHIO

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Independent Auditors' Report

The Honorable Mayor and Members
of the City Council of the City of London, Ohio

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 City of London, Ohio as of December 31, 2003, and the results of its operations and the cash flows of its enterprise funds 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 also have issued reports dated September 30, 2004 on our consideration of City of London's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are 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.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the City of London, Ohio, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
September 30, 2004

CITY OF LONDON

Combined Balance Sheet
All Fund Types and Account Groups

December 31, 2003

	Governmental Fund Types			
	General	**Special Revenue**	**Debt Service**	**Capital Projects**
ASSETS AND OTHER DEBITS				
Assets:				
Equity in Pooled Cash and Cash Equivalents	$ 393,173	$ 1,513,235	$ 17,626	$ 8,959
Cash and Cash Equivalents:				
With Fiscal Agent	0	4,235	0	0
Investments	145,548	0	0	0
Receivables:				
Taxes - Current	1,155,360	582,069	0	0
Accounts	19,483	0	0	0
Unbilled Utility Billings	0	0	0	0
Special Assessments - Current	0	32,466	77,265	0
Special Assessments - Delinquent	0	0	0	0
Loans	0	650,388	0	0
Intergovernmental	173,625	294,160	0	0
Prepaid Items	37,579	18,784	0	0
Due from Other Funds	0	40,000	0	0
Materials and Supply Inventories	499	23,332	0	0
Fixed Assets (net of accumulated depreciation, where applicable)	0	0	0	0
Other Debits:				
Amount Available in Debt Service Fund	0	0	0	0
Amount to be Provided for Retirement of General Long Term Debt	0	0	0	0
Total Assets and Other Debits	$ 1,925,267	$ 3,158,669	$ 94,891	$ 8,959

See accompanying notes to the financial statements.

Proprietary Fund Types	Fiduciary Fund Types	Account Groups		
Enterprise	Agency	General Fixed Assets	General Long-Term Obligations	Totals (Memorandum Only)
$ 2,332,786	$ 85,389	$ 0	$ 0	$ 4,351,168
0	0	0	0	4,235
0	0	0	0	145,548
0	0	0	0	1,737,429
7,775	9,116	0	0	36,374
272,385	0	0	0	272,385
4,881	0	0	0	114,612
103	0	0	0	103
0	0	0	0	650,388
0	0	0	0	467,785
31,037	0	0	0	87,400
0	0	0	0	40,000
7,726	0	0	0	31,557
6,188,630	0	3,998,729	0	10,187,359
0	0	0	17,626	17,626
0	0	0	634,817	634,817
$ 8,845,323	$ 94,505	$ 3,998,729	$ 652,443	$ 18,778,786

(Continued)

CITY OF LONDON

Combined Balance Sheet
All Fund Types and Account Groups (Continued)

December 31, 2003

	Governmental Fund Types			
	General	**Special Revenue**	**Debt Service**	**Capital Projects**
LIABILITIES, EQUITY, AND OTHER CREDITS				
Liabilities:				
Liability for Prior Service Costs	$ 0	$ 0	$ 0	$ 0
Accounts Payable	62,713	127,719	0	0
Accrued Wages and Benefits	90,853	19,018	0	0
Compensated Absences Payable	0	0	0	0
Due to Other Funds	0	0	0	0
Deferred Revenue	1,179,106	785,745	77,265	0
Undistributed Monies	0	0	0	0
Deposits Held and Due to Others	0	0	0	0
Notes Payable	0	0	0	783,800
Landfill Post Closure Costs	0	0	0	0
Revenue Bonds Payable	0	0	0	0
Capital Lease Liability	0	0	0	0
Special Assessment Bond Payable with Government Commitment	0	0	0	0
Total Liabilities	1,332,672	932,482	77,265	783,800
Equity and Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balances (Deficits):				
Reserved for Encumbrances	52,886	491,343	0	0
Reserved for Supplies Inventory	499	23,332	0	0
Reserved for Notes Receivable	0	650,388	0	0
Reserved for Prepaid Items	37,579	18,784	0	0
Reserved for Debt Service	0	0	17,626	0
Unreserved:				
Undesignated	501,631	1,042,340	0	(774,841)
Total Equity and Other Credits	592,595	2,226,187	17,626	(774,841)
Total Liabilities, Equity, and Other Credits	$ 1,925,267	$ 3,158,669	$ 94,891	$ 8,959

See accompanying notes and accountant's compilation report.

Proprietary Fund Types	Fiduciary Fund Types	Account Groups		
Enterprise	Agency	General Fixed Assets	General Long-Term Obligations	Totals (Memorandum Only)
$ 0	$ 0	$ 0	$ 65,395	$ 65,395
98,622	1,051	0	0	290,105
38,589	0	0	0	148,460
84,854	0	0	197,391	282,245
40,000	0	0	0	40,000
4,984	0	0	0	2,047,100
0	93,454	0	0	93,454
86,125	0	0	0	86,125
4,840,699	0	0	0	5,624,499
280,789	0	0	0	280,789
0	0	0	307,213	307,213
60,223	0	0	15,444	75,667
0	0	0	67,000	67,000
5,534,885	94,505	0	652,443	9,408,052
0	0	4,013,729	0	4,013,729
1,770,959	0	0	0	1,770,959
1,539,479	0	0	0	1,539,479
0	0	0	0	544,229
0	0	0	0	23,831
0	0	0	0	650,388
0	0	0	0	56,363
0	0	0	0	17,626
0	0	0	0	769,130
3,310,438	0	4,013,729	0	9,385,734
$ 8,845,323	$ 94,505	$ 4,013,729	$ 652,443	$ 18,793,786

CITY OF LONDON

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
All Governmental Fund Types

For the Year Ended December 31, 2003

	Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Revenues:					
Income Taxes	$ 1,832,213	$ 676,766	$ 0	$ 0	$ 2,508,979
Property Taxes	478,477	269,640	0	0	748,117
Intergovernmental Revenue	295,279	782,908	2,878	0	1,081,065
Special Assessments	0	32,096	9,665	1,986	43,747
Charges for Services	43,132	0	0	0	43,132
License and Permits	46,698	183,640	0	0	230,338
Investment Earnings	43,403	20,651	0	4,500	68,554
Fines and Forfeitures	20,528	1,032	0	0	21,560
Rentals	9,250	0	0	0	9,250
Other Revenue	1,263	15,716	0	0	16,979
Total Revenues	2,770,243	1,982,449	12,543	6,486	4,771,721
Expenditures:					
Current:					
General Government	820,736	168,038	0	0	988,774
Security of Persons and Property	1,479,513	408,906	0	0	1,888,419
Public Health and Welfare Services	3,419	0	0	0	3,419
Leisure Time Activities	191,642	17,645	0	0	209,287
Community Environment	0	494,506	0	0	494,506
Basic Utility Service	0	700	0	0	700
Transportation	33,999	509,432	0	135,000	678,431
Capital Outlay	0	341,034	0	15,000	356,034
Debt Service:					
Principal Retirements	0	0	39,383	0	39,383
Interest and Fiscal Charges	0	0	13,693	20,595	34,288
Total Expenditures	2,529,309	1,940,261	53,076	170,595	4,693,241
Excess of Revenues Over (Under) Expenditures	240,934	42,188	(40,533)	(164,109)	78,480
Other Financing Sources (Uses):					
Transfers In	0	184,906	43,243	740	228,889
Transfers Out	(182,657)	(43,243)	0	0	(225,900)
Total Other Financing Sources (Uses)	(182,657)	141,663	43,243	740	2,989
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	58,277	183,851	2,710	(163,369)	81,469
Fund Balance(Deficit) at Beginning of Year	534,318	2,042,336	14,916	(611,472)	1,980,098
Fund Balance (Deficit) at End of Year	$ 592,595	$ 2,226,187	$ 17,626	$ (774,841)	$ 2,061,567

See accompanying notes to the financial statements.

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CITY OF LONDON

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

	General Fund		
	Revised Budget	**Actual**	**Variance Favorable (Unfavorable)**
Revenues:			
Income Taxes	$ 1,670,830	$ 1,936,061	$ 265,231
Property Taxes	444,000	478,477	34,477
Intergovernmental Revenue	265,400	353,171	87,771
Special Assessments	0	0	0
Charges for Services	52,200	42,632	(9,568)
Licenses and Permits	39,500	48,426	8,926
Investment Earnings	50,000	46,757	(3,243)
Fines and Forfeitures	18,100	18,617	517
Rentals	3,600	9,250	5,650
Other	750	1,160	410
Total Revenues	2,544,380	2,934,551	390,171
Expenditures:			
Current:			
General Government	769,825	772,297	(2,472)
Security of Persons and Property	1,555,750	1,526,013	29,737
Public Health and Welfare Services	3,500	3,419	81
Leisure Time Activities	199,575	192,229	7,346
Community Environment	0	0	0
Transportation	34,000	33,999	1
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	2,562,650	2,527,957	34,693
Excess of Revenue Over (Under) Expenditures	(18,270)	406,594	424,864
Other Financing Sources (Uses):			
Proceeds of Notes	0	0	0
Advance In	0	0	0
Advance Out	0	0	0
Operating Transfer In	0	0	0
Operating Transfer Out	(186,700)	(182,657)	4,043
Other Financing Sources (Uses)	(186,700)	(182,657)	4,043
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(204,970)	223,937	428,907
Fund Balance at Beginning of Year	261,577	261,577	0
Fund Balance at End of Year	$ 56,607	$ 485,514	$ 428,907

See accompanying notes to the financial statements.

Special Revenue Funds			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
$ 689,170	$ 806,894	$ 117,724	$ 0	$ 0	$ 0
263,600	269,640	6,040	0	0	0
762,309	814,081	51,772	0	2,878	2,878
30,000	32,096	2,096	4,400	9,665	5,265
0	0	0	0	0	0
116,400	183,640	67,240	0	0	0
0	0	0	0	0	0
0	1,107	1,107	0	0	0
0	0	0	0	0	0
0	32,008	32,008	0	0	0
1,861,479	2,139,466	277,987	4,400	12,543	8,143
182,759	167,157	15,602	0	0	0
485,388	439,106	46,282	0	0	0
0	0	0	0	0	0
11,575	11,304	271	0	0	0
713,417	673,660	39,757	0	0	0
667,341	621,516	45,825	0	0	0
1,100,334	732,854	367,480	0	0	0
0	0	0	39,383	39,383	0
0	0	0	13,693	13,693	0
3,160,814	2,645,597	515,217	53,076	53,076	0
(1,299,335)	(506,131)	793,204	(48,676)	(40,533)	8,143
0	0	0	0	0	0
45,200	0	(45,200)	0	0	0
(40,000)	(40,000)	0	0	0	0
147,500	184,906	37,406	43,243	43,243	0
(57,876)	(43,243)	14,633	0	0	0
94,824	101,663	6,839	43,243	43,243	0
(1,204,511)	(404,468)	800,043	(5,433)	2,710	8,143
1,424,900	1,424,900	0	14,917	14,917	0
$ 220,389	$ 1,020,432	$ 800,043	$ 9,484	$ 17,627	$ 8,143

(Continued)

CITY OF LONDON

Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis)
All Governmental Fund Types (Continued)

For the Year Ended December 31, 2003

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Income Taxes	$ 0	$ 0	$ 0
Property Taxes	0	0	0
Intergovernmental Revenue	0	0	0
Special Assessments	1,980	1,986	6
Charges for Services	0	0	0
Licenses and Permits	0	0	0
Investment Earnings	0	0	0
Fines and Forfeitures	0	0	0
Rentals	0	0	0
Other	0	0	0
Total Revenues	1,980	1,986	6
Expenditures:			
Current:			
General Government	0	0	0
Security of Persons and Property	0	0	0
Public Health and Welfare Services	0	0	0
Leisure Time Activities	0	0	0
Community Environment	0	0	0
Transportation	0	0	0
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	823,800	823,800	0
Interest and Fiscal Charges	20,595	20,595	0
Total Expenditures	844,395	844,395	0
Excess of Revenue Over (Under) Expenditures	(842,415)	(842,409)	6
Other Financing Sources (Uses):			
Proceeds of Notes	818,300	818,300	0
Advance In	0	0	0
Advance Out	0	0	0
Operating Transfer In	0	0	0
Operating Transfer Out	0	0	0
Other Financing Sources (Uses)	818,300	818,300	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(24,115)	(24,109)	6
Fund Balance at Beginning of Year	33,067	33,067	0
Fund Balance at End of Year	$ 8,952	$ 8,958	$ 6

See accompanying notes to the financial statements.

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
$ 2,360,000	$ 2,742,955	$ 382,955
707,600	748,117	40,517
1,027,709	1,170,130	142,421
36,380	43,747	7,367
52,200	42,632	(9,568)
155,900	232,066	76,166
50,000	46,757	(3,243)
18,100	19,724	1,624
3,600	9,250	5,650
750	33,168	32,418
4,412,239	5,088,546	676,307
952,584	939,454	13,130
2,041,138	1,965,119	76,019
3,500	3,419	81
211,150	203,533	7,617
713,417	673,660	39,757
701,341	655,515	45,826
1,100,334	732,854	367,480
863,183	863,183	0
34,288	34,288	0
6,620,935	6,071,025	549,910
(2,208,696)	(982,479)	1,226,217
818,300	818,300	0
45,200	0	(45,200)
(40,000)	(40,000)	0
190,743	228,149	37,406
(244,576)	(225,900)	18,676
769,667	780,549	10,882
(1,439,029)	(201,930)	1,237,099
1,734,461	1,734,461	0
$ 295,432	$ 1,532,531	$ 1,237,099

CITY OF LONDON

Combined Statement of Revenues, Expenses, and Changes in Fund Equity
All Proprietary Fund Types

For The Year Ended December 31, 2003

	Enterprise Funds
Operating Revenues:	
Charges for Services	$ 3,250,426
Other Operating Revenue	21,863
Total Operating Revenues	3,272,289
Operating Expenses:	
Personal Services	1,089,272
Contractual Services	781,897
Materials and Supplies	1,209,494
Depreciation	410,303
Total Operating Expenses	3,490,966
Operating Loss	(218,677)
Non-Operating Revenues and (Expenses):	
Investment Earnings	2,491
Interest and Fiscal Charges	(332,378)
Amortiation	(9,228)
Total Non-Operating Revenues (Expenses)	(339,115)
(Loss) Before Operating Transfers	(557,792)
Transfers In	60,000
Transfers Out	(62,989)
Net Loss	(560,781)
Retained Earnings at Beginning of Year	2,100,260
Retained Earnings at End of Year	1,539,479
Contributed Capital at Beginning of Year	1,813,940
Current Year Contributed Capital Depreciation	(42,981)
Contributed Capital at End of Year	1,770,959
Fund Equity at End of Year	$ 3,310,438

See accompanying notes to the financial statements.

CITY OF LONDON

Combined Statement of Cash Flows
All Proprietary Fund Types

For the Year Ended December 31, 2003

	Enterprise Funds
Cash Flows from Operating Activities:	
Cash Received from Customers	$ 3,396,435
Other Operating Receipts	21,900
Cash Payments to Suppliers for Goods and Services	(1,220,753)
Cash Payments to Employees	(1,134,749)
Cash Payments for Contractual Services	(781,014)
Net Cash Provided by Operating Activities	281,819
Cash Flows from Noncapital Financing Activities:	
Advances In	40,000
Transfers In	60,000
Transfers Out	(62,989)
Net Cash Provided by Noncapital Financing Activities	37,011
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(52,782)
Repayment of Capital Lease Obligations	(19,828)
Principal Payments on Debt	(482,121)
Interest Payments	(333,205)
Net Cash (Used for) Capital and Related Financing Activities	(887,936)
Cash Flows from Investing Activities:	
Interest Income	2,491
Net Cash Provided by Investing Activities	2,491
Net Decrease in Cash and Cash Equivalents	(566,615)
Cash and Cash Equivalents at Beginning of Year	2,899,401
Cash and Cash Equivalents at End of Year	$ 2,332,786
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating Loss	$ (218,677)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation Expense	410,303
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	121,273
Decrease in Materials and Supplies Inventory	4,138
Decrease in Unbilled Utility Billings Receivable	6,972
(Increase) in Prepaid Items	(15,059)
(Decrease) in Accounts Payable	(8,918)
Increase in Accrued Wages	1,722
(Decrease) in Landfill Post Closure Costs	(18,071)
(Decrease) in Compensated Absences Payable	(18,222)
Increase in Due to Others	16,358
Net Cash Provided by Operating Activities	$ 281,819

See accompanying notes to the financial statements.

NOTE 1: REPORTING ENTITY

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

A. Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all agencies, departments, and organizations making up the City (the primary government) and its potential component units consistent with Government Accounting Standards Board Statement No. 14, "The Financial Reporting Entity."

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the levying of taxes or the issuance of debt. The City does not have any component units.

B. Basis of Presentation - Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types - Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary and trust funds) are accounted for through governmental funds. The following are the City's governmental fund types:

General Fund - This fund is the operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

Debt Service Funds - These funds are used to account for the accumulation of resources for, and the payment of, general and special assessment long-term debt principal, interest and related costs.

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 those financed by proprietary funds and trust funds).

Proprietary Fund Type - Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following is the City's proprietary fund type:

Enterprise Funds - These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Fund Types - Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The following is the City's fiduciary fund type:

Agency Funds - These funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

Account Groups - To make 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 used to account for all general fixed assets of the City other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This account group accounts for all unmatured long-term obligations of the City that are not specific liabilities of the proprietary funds including special assessment debt for which the City is obligated in some manner.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of the general purpose financial statements are summarized below. The policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The City also applies Financial Accounting Standards Board Statements and Interpretations issued prior to November 30, 1989, to its proprietary activities unless they contradict or conflict with GASB pronouncements.

A. Measurement Focus and Basis of Accounting

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and agency funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the combined balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus all assets and all liabilities associated with the operations of these funds are included on the combined balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund types operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the general purpose financial statements. Basis of accounting relates to the timing of the measurements made.

All governmental fund types and agency funds are accounted for using the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current year or soon enough thereafter to be used to pay liabilities of the current year. The available period for the City is 31 days after year end.

Nonexchange 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 fiscal year in which the tax imposed takes place. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. (See Note 6.) Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: investment earnings, state-levied locally shared taxes (including gasoline tax, motor vehicle license tax, government state tax, and homestead and rollback), fines and forfeitures, income tax, hotel/motel taxes, and intergovernmental grants.

The City reports deferred revenue on its combined balance sheet. Deferred revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Current and delinquent property taxes and income taxes, state-levied shared taxes (including local government assistance, gasoline tax, homestead and rollback, and motor vehicle license tax), intergovernmental grants measurable as of December 31, 2003, whose availability is indeterminate and which are not intended to finance current period obligations, have been recorded as a receivable and deferred revenue. Levied special assessments are measurable and have been recorded as a receivable. Since all assessments are due outside of the available period, the entire amount has been deferred.

The measurement of focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. Principal and interest on general long-term obligations are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. The costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types. Revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred, if measurable. Unbilled service charges receivable are recognized as revenue at year end.

B. 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 appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, have been budgeted and appropriated, as legally required.

The legal level of budgetary control is at the function level within each department. Any budgetary modifications at this level may only be made by resolution of the City Council.

Tax Budget - At the Council meeting in June, the Mayor presents the annual operating 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 June 30 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each 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 will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the City Auditor determines, and the Budget Commission agrees that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2003.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the function level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. Council can amend appropriations at functional expense lines, through the passage supplemental ordinances. Management can amend appropriations below this level without Council approval. During the year, several supplemental appropriation measures were passed. None of these supplemental appropriations had any significant affect on the original appropriations. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Encumbrances - As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations at the fund, department, and object level. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds and are disclosed in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

C. Cash and Cash Equivalents

To improve cash management, cash received by the City is deposited in a pool in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through City records. Each funds' interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet. During 2003, investments were limited to overnight repurchase agreements, certificates of deposits, and federal government term notes. Except for nonparticipating investment contracts, investments are reported at fair value. Nonparticipating investment contracts such as repurchase agreements are reported at cost which approximates market. Investment procedures are restricted by the provisions of the Ohio Revised Code.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest income is distributed to the funds according to statutory requirements. Interest revenue earned during 2003 amounted to $71,045.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented in the combined balance sheet as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City treasury. See Note 4, Deposits and Investments.

For presentation on the combined balance sheet, and for purposes of the combined statement of cash flows, investments with an original maturity of three months or less and cash and investments in the cash management pool are considered to be cash equivalents. Investments with an original maturity of more than three months are reported as investments.

D. *Estimates*

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

E. *Inventory*

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when items are purchased and as expenses in the proprietary fund types when used. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which maintains that it does not constitute available spendable resources even though it is a component of net current assets.

F. *Prepaid Items*

Payments made to vendors for services that will benefit periods beyond December 31, 2003 are recorded as prepaid items.

G. *Fixed Assets and Depreciation*

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and related assets are reported in the General Fixed Assets Account

Group. Fund fixed assets are capitalized in the proprietary fund that reports the activity in which the asset is used.

All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical record exists. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful lives are not capitalized. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the useful lives of the related fixed assets.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the City.

Assets in the General Fixed Assets Account Group are not depreciated. Proprietary fund fixed assets are depreciated using the straight-line method over the following useful lives:

Buildings	20-30 years
Improvements other than buildings	15-30 years
Equipment and machinery	5-20 years
Sewer lines	40-50 years
Water lines	40-50 years

H. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Obligations Account Group. No expenditure is reported for these amounts. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

Employees earn vacation time at varying rates depending on the duration of their employment. The City does not require annual leave to be taken; however, vacation time may not accumulate in excess of three years.

The City uses the vesting method in determining the liability for sick leave recorded in the general long-term obligations account group.

The timing of future payments for vacation and sick leave is dependent on many factors and therefore not readily determinable. However, management believes the sufficient resources will be made available for the payment of vacation and sick leave when such payment becomes due.

I. Special Assessments

The City applies the provisions of Governmental Accounting Standards Board (GASB) Statement No. 6, *Accounting and Financial Reporting for Special Assessments*, in accounting for and reporting special assessments and related transactions. The City's special assessment bonds are secured by liens on assessed properties and are also backed by the full faith and credit of the City as additional security. Accordingly, they are accounted for and reported in the General Long-Term Obligations Account Group. The accumulation of resources for, and the payment of, principal and interest on these bonds is accounted for and reported in the Debt Service Fund.

J. Fund Equity

Reserves represent those portions of fund equity not available for appropriation or legally segregated for a specific future use. Contributed capital is recorded in proprietary funds that have received contributions from other funds. Contributions from developers or funds received from capital grants are recorded as non-operating revenue in proprietary funds. Reservations of fund balances are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure including amounts legally segregated for a specific future use. Fund balances are reserved for encumbrances, inventory, prepaid expenses, debt service, and loans receivable.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/ expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Accrued and Long-Term Liabilities

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and pension contributions are reported as a liability in the General Long-Term Obligations Account Group to the extent that they will not be paid with current expendable available financial resources. The liability for the pension contributions is included in "liability for prior service costs." Capital leases and bonds are recognized as a liability of the General Long-Term Obligations Account Group until due. Payments made more than thirty-one days after year-end are considered not to have been made with current available resources. The police and fire pension liability is recognized as a liability of the General Long-Term Obligations Account Group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary fund.

Under Ohio Law, a debt retirement fund may be created and used for the payment of all debt principal and interest. Generally accepted accounting principles (GAAP) require the allocation of the debt liability among the appropriate funds, and the General Long-Term Obligations Account Group, with principal and interest payments on matured general obligation bonds payable being reported in the debt service fund. To comply with GAAP reporting requirements, the City's debt retirement fund has been split among the appropriate funds and account group. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

M. Contributed Capital

Contributed capital represents donations by developers, contributions made by the City and assets whose construction was financed by special assessments. These assets are recorded at their fair market value on the date contributed and are not subject to repayment. Because the City, prior to 1991, had not prepared its financial statements in accordance with generally accepted accounting principals, contributed capital has been recorded at estimated amounts pertaining to years prior to 1989.

In general, it has been the policy of the City to construct and acquire capital assets used in operations of the enterprise funds with special assessments or through donations by developers. Thus, these assets are recorded as contributed capital in the accompanying combined financial statements. All other fund equity amounts pertaining to the proprietary funds are classified as retained earnings.

The reconciliation of changes in contributed capital is as follows:

Contributed Capital as of December 31, 2002	$ 1,813,940
Depreciation for the year ended December 31, 2003	(42,981)
Contributed Capital as of December 31, 2003	$ 1,770,959

N. Total Columns on General Purpose Financial Statements

Total columns on the General Purpose Financial Statements are captioned memorandum only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3: BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and Expendable Trust Fund, and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - Proprietary Fund Type and Nonexpendable Trust Funds are presented on the budgetary basis to provide a relevant comparison of actual results with the budget and to demonstrate compliance with the state statute. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

3. Outstanding year end encumbrances are treated as expenditure/expenses (budget) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP).

4. Proceeds from and principal payment on short-term note obligations are reported on the operating statement (budget) rather than on the combined balance sheet (GAAP).

5. The City pays short-term note debt from the debt service fund (budget) as opposed to the fund that received the proceeds (GAAP). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

6. Proprietary fund acquisition and construction of capital assets are reported on the operating statement (budget) rather than on the combined balance sheet (GAAP).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis.

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types and Expendable Trust Fund

	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	$ 58,277	$ 183,851	$ 2,710	$ (163,369)
Revenue accruals	164,308	157,017	0	0
Proceeds of notes	0	0	0	963,800
Debt principal	0	0	0	(823,800)
Expenditure accruals	54,238	(213,993)	0	0
Advance out	0	(40,000)	0	0
Transfer in	0	0	0	(740)
Encumbrances	(52,886)	(491,343)	0	0
Budget Basis	$ 223,937	$ (404,468)	$ 2,710	$ (24,109)

NOTE 4: DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Interim monies may be invested in the following obligations provided they mature or are redeemable within two years from the date of purchase:

1. United States Treasury Notes, Bills, Bonds, Notes, or any other obligation or security issued by the United States or any other obligation guaranteed as to principal or interest by the United States;

2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;

4. Bonds and other obligations of the State of Ohio, and;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that instruments in securities described in this division are made only through eligible institutions, and;

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

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

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

Deposits. At year-end, the carrying amount of the City's deposits was $218,404, and the bank balance was $349,797. Of the bank balance:

1. $116,000 was covered by federal depository insurance.

2. $233,797 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions' trust departments in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirement could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

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

	1	3	Value	Value
Repurchase Agreement	$ 0	$ 4,136,999	$ 4,136,999	$ 4,136,999
Federal Home Loan Mortgage Corporation	145,548	0	145,548	145,548
Total Investments	$ 145,548	$ 4,136,999	$ 4,282,547	$ 4,282,547

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

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

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	$ 4,355,403	$ 145,548
Investments which are part of a cash management pool:		
Repurchase Agreement	(4,136,999)	4,136,999
GASB Statement No. 3	$ 218,404	$ 4,282,547

NOTE 5: NOTE RECEIVABLE

On August 2, 1994, the City received a $500,000 promissory note from London Limited Partnership (the Partnership), an Ohio limited partnership formed to construct low income housing with Federal Financial Assistance granted to the City of London as well as funds, which the Partnership borrowed from a private lender. The note receivable began to accrue interest at a rate of 3% per annum on December 1, 1995 when the Partnership reached the permanent loan closing with the private lender who financed the remainder of the project. Interest will be deferred and will be due and payable only after payment of all the Partnership's operating expenses and all sums due to the private lender. The entire principal balance, $500,000 at December 31, 2003, and all unpaid interest, $136,057 will be due and payable on January 1, 2011. The note is secured by the related property. The note receivable is equally offset by a reservation of fund balance.

In 1999, the City entered into a $400,000, 4.25% note payable to Bank One Capital Markets, Inc. for the purpose of building an athletic complex for the London City Schools. An agreement was made between the City and the School stating that the School would be responsible for all payments of the principal and interest. In the event that the School should default, the City has the right to seize athletic gate receipts to fund the debt payments. As the City is the stated party liable for the debt, this note will remain on the City's books; however, it will be offset by a note receivable from the School. During 2003, the note receivable from the School was paid in full. The City received a $30,000 payment from the School and land valued at $15,000 reducing the receivable balance to $135,000. The City credited the School for the remaining $135,000 balance, since the School made payment on expenditures that were the City's financial responsibility.

In January 2003, the City loaned $15,000 to Old Londontown Ltd, an Ohio Limited Liability Company formed to purchase, rehabilitate, hold, rent, or lease historic real estate for historic preservation. Proceeds from the note will be used to revitalize buildings in the city of London downtown area. The note's interest rate is 4.25%. The note is secured by a mortgage held by the City against the property at 105 South Main Street, London, Ohio. During 2003, the City received $669 of principal payments and $573 of interest payments. The balance on the note at December 31, 2003 is $14,331. The note receivable is equally offset by a reservation of fund balance.

NOTE 6: PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the City. Real property taxes were levied after October 1, 2002, on the assessed value as of January 1, 2002, the lien date, and were collected in 2003. Assessed values are established by the State law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes received in 2003 attached as a lien on December 31, 2002, were levied after October 1, 2002, and are collected with real property taxes. Public utility property taxes were assessed on tangible personal property at 88% of the true value. 2003 tangible personal property taxes were levied after October 1, 2002, on the value listed as of December 31, 2001, and were collected in 2003. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2003 taxes were collected was $161,042,170. Real estate represented 78.7% ($126,740,188) of this total, public utility and general tangible personal property represented 21.3% ($34,301,982). The full tax rate for all City operations applied to taxable property for the year ended December 31, 2003, was $5.80 per $1,000 assessed valuation.

Real and public utility property taxes are payable annually or semi-annually. If paid annually, payment is due February 14. If paid semi-annually, the first payment is due February 14 with the remainder payable by June 20. Under certain circumstances, State statute permits earlier or later payment dates to be established.

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

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing districts their portions of the taxes collected.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility, and tangible personal property taxes which became measurable as of December 31, 2003. However, since these tax collections will not be received during the available period, nor are they intended to finance 2003 operations, the receivable is offset by a credit to deferred revenue.

NOTE 7: INCOME TAX

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

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

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

NOTE 8: RECEIVABLES

Receivables at December 31, 2003 consisted of taxes, accounts (billed and unbilled user charged services), special assessments, notes, and intergovernmental receivables arising from grants, entitlements and shared revenues. Taxes, accounts, special assessments, notes and intergovernmental receivables are deemed collectible in full.

A summary of intergovernmental receivables follows:

	Amount
General Fund:	
Estate tax	$ 12,031
Local government tax	114,658
State local government tax	21,924
Homestead and Rollback	25,012
Total General Fund	173,625

Special Revenue Funds:	
Permissive tax	61,226
Gasoline tax	57,337
Motor vehicle license tax and fees	94,887
Homestead and Rollback	15,018
Community Development Block Grant (CDBG)	37,000
Excise tax	28,692
Total Special Revenue Funds	294,160
Total	$ 467,785

NOTE 9: FIXED ASSETS AND DEPRECIATION

A summary of changes in the enterprise fund's fixed assets during 2003 is as follows:

	Balance 12/31/02	Additions	Deletions	Balance 12/31/03
Land	$ 198,626	$ 0	$ 0	$ 198,626
Buildings	1,463,265	0	0	1,463,265
Improvements other than buildings	5,325,582	0	0	5,325,582
Equipment and machinery	3,204,498	52,782	0	3,257,280
Water and sewer lines	4,845,430	0	0	4,845,430
Construction in progress	3,775	0	0	3,775
Total	15,041,176	52,782	0	15,093,958
Less: Accumulated depreciation	(8,452,044)	(453,284)	0	(8,905,328)
Net fixed assets	$ 6,589,132	$ (400,502)	$ 0	$ 6,188,630

A summary of changes in general fixed assets during 2003 is as follows:

	Balance 12/31/02	Additions	Deletions	Balance 12/31/2003
Land	$ 80,048	$ 163,541	$ 0	$ 243,589
Buildings	615,597	0	0	615,597
Improvements other than buildings	507,202	5,574	0	512,776
Equipment and machinery	2,551,110	75,657	0	2,626,767
Construction in progress	169,115	0	(169,115)	0
Total	$ 3,923,072	$ 244,772	$ (169,115)	$ 3,998,729

NOTE 10: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2003, the City contracted with several companies for various types of commercial insurance as follows:

Type of Risk	Maximum Coverage (in millions)	Deductible
Law enforcement liability	$1 per occurrence/aggregate	$10,000
Umbrella excess liability	$5 per occurrence/aggregate	$10,000
Public entity employment practices	$1 per offense/aggregate	$10,000
Public entity management liability	$1 per wrongful act/aggregate	$10,000

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

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

NOTE 11: DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS administers three separate pension plans: the Traditional Pension Plan, the Member-Directed Plan, and the Combined Plan.

The Traditional Pension Plan is a cost-sharing multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The Combined Plan is a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

PERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Benefits are established by

Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

For 2003, member and employer contribution rates were consistent across all three plans. Plan members are required to contribute 8.5% of their annual covered salary to fund pension obligations. The City is required to contribute 13.55%. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ended December 31, 2003, 2002 and 2001 were $239,505, $233,823 and $193,658, respectively. The full amount has been contributed for 2003, 2002 and 2001.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer public employee retirement system administered by the OP&F's Board of Trustees. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215.

Police and firefighters are required to contribute 10% of their annual covered salary to fund pension obligations and the City is required to contribute 19.5% for police and 24.0% for firefighters. Contributions are authorized by state statute. The City's contributions to the OP&F were $225,449 for the year ended December 31, 2003, $221,369 for 2002, and $225,341 for 2001. The full amount has been contributed for 2002 and 2001 and 70% has been contributed for 2003 with the remainder being reported as a liability within the General Long-Term Obligations Account Group.

NOTE 12: POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by state statute. The 2003 employer contribution rate was 13.55% of covered payroll; 5.00% was the portion that was used to fund health care for 2003.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually.

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

The number of active contributing participants was 364,881. The City's actual contributions for 2003, which were used to fund postemployment benefits were $88,378. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002 (the latest information available) were $10 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $18.7 billion and $8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The plan will also offer a spending account feature, enabling the benefit recipient to apply his or her allowance toward specific medical expenses, much like a Medical Spending Account.

In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "Choices" type cost cutting measures to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

B. *Ohio Police and Fire Pension Fund*

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2003. 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.

The City's actual contributions for 2003 that were used to fund postemployment benefits were $47,887 for police and $33,859 for fire. The OP&F's total health care expenses for the year ended December 31, 2002 (the latest information available) were $141,028,006 which was net of member contributions of $12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002 was 13,527 for police and 10,396 for firefighters.

NOTE 13: COMPENSATED ABSENCES

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

Vacation is accumulated based upon length of service as follows:

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

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

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

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

As of December 31, 2003, the accrued liability for unpaid compensated absences was $282,245 for all funds and account groups.

NOTE 14: LONG-TERM OBLIGATIONS

A summary of the long-term debt outstanding at December 31, 2003 is as follows:

	Balance 12/31/02	Principal Issued	Principal Retired	Balance 12/31/03
General obligation debt:				
1993, Ohio Public Works Loan	$ 160,596	$ 0	$ 13,383	$ 147,213
1994, 5.8% Pool Improvements Bonds	180,000	0	20,000	160,000
Total	$ 340,596	$ 0	$ 33,383	$ 307,213
1993, Special Assessment Bonds	$ 73,000	$ 0	$ 6,000	$ 67,000
Total	$ 73,000	$ 0	$ 6,000	$ 67,000
Enterprise Funds:				
General Obligation Bonds:				
1993, 5.25% Sanitary Sewer Improvement Bonds	$ 10,000	$ 0	$ 10,000	$ 0
General Obligation Bonds:				
1992, 4.86% Water Tower Replacement	135,000	0	135,000	0
Total	$ 145,000	$ 0	$ 145,000	$ 0

	Balance 12/31/02	Principal Issued	Principal Retired	Balance 12/31/03
O.W.D.A. Notes:				
1976, 5.50% loan #1188	$ 64,985	$ 0	$ 24,965	$ 40,020
1976, 5.50% loan #1213	10,939	0	5,307	5,632
1988, 7.65% loan #1688	3,196,104	0	224,317	2,971,787
1988, 7.86% loan #1689	375,542	0	26,096	349,446
2001, 4.14% loan #3314	1,530,250	0	56,436	1,473,814
Total	$5,177,820	$ 0	$ 337,121	$4,840,699

Annual debt service requirements to maturity for General Long-Term Obligation Account Group debt, including interest of $48,900 are:

Year	Total General Obligation	Total Special Assessment	Total
2004	$ 46,938	$ 9,518	$ 56,456
2005	45,488	9,202	54,690
2006	44,038	8,888	52,926
2007	42,588	9,572	52,160
2008	45,993	9,206	55,199
2009-2013	97,785	40,514	138,299
2013-2018	13,383	0	13,383
Total	$ 336,213	$ 86,900	$ 423,113

Annual debt service requirements to maturity for Enterprise Funds, including interest of $2,014,086 are:

Year	Total OWDA Loans
2004	$ 678,091
2005	657,911
2006	643,642
2007	643,644
2008	643,642
2009-2013	2,693,780
2014-2018	596,050
2019-2023	298,025
Total	$ 6,854,785

The Ohio Revised Code provides that total net general obligation debt of the City exclusive of certain exempt debt, shall never exceed 10.5% of the total assessed valuation of the City. In addition, the unvoted net debt of the City cannot exceed 5.5 % of the total assessed valuation. At December 31, 2003, the City had legal debt margin for total unvoted debt of $8,550,106 and a legal debt margin for total debt of $16,602,215.

The City has leased certain machinery and equipment under capital leases. The cost of these leased assets is $162,111, of which $103,414 is included in the enterprise fund and $58,697 is in the general fixed asset account group. During 2003, principal payments in the amount of $9,656 and $19,828 were applied to the lease obligation in the General Long-Term Obligation Account Group and enterprise fund, respectively. The total outstanding capital lease principal for all leases at year end was $75,667.

The following is a schedule by years of future minimum lease payments under capital leases for fiscal year ending December 31, 2003:

Year	General Long-Term Obligations Account Group
2004	$ 8,394
2005	8,394
Total minimum lease payments	16,788
Less amount representing interest	(1,344)
Present value of net minimum lease payments	$ 15,444

Year	Enterprise Funds
2004	$ 23,573
2005	23,572
2006	17,679
Total minimum lease payments	64,824
Less amount representing interest	(4,601)
Present value of net minimum lease payments	$ 60,223

Another component of the General Long-Term Obligations Account Group is compensated absences. Increases and decreases in accrued vacation and compensatory time are shown net, since it is impractical for the City to determine these amounts separately.

	Balance 12/31/02	Increase (Decrease)	Balance 12/31/03
Accrued vacation	$ 135,142	$ (11,604)	$ 123,538
Accrued sick	110,834	(42,905)	67,929
Accrued compensatory time	5,125	799	5,924
Total	$ 251,101	$ (53,710)	$ 197,391

NOTE 15: LANDFILL POSTCLOSURE CARE COSTS

The City of London landfill voluntarily closed in June 1989. The City utilized 45 acres for landfill purposes situated on a 280 acre city-owned farm. The 45 acres was a landfill from 1966 to 1989. The Ohio EPA approved the City's final closure plan in June 1990. The City has incurred closure costs of $328,464 of which $18,071 was incurred in 2003. The final closure plan required twelve groundwater-monitoring wells. The required number of tests per year has been decreasing since 1990. The City currently is required to test five down-gradient groundwater-monitoring wells, one up-gradient groundwater monitoring well and three surface sampling points semi-annually. The City will be required to test periodically as the EPA mandates until 2019. In accordance with GASB Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs, the City has recognized a liability of $280,789 at December 31, 2003 for the estimated future postclosure costs to be incurred. This estimate is based on the amount that it would cost to perform all remaining postclosure care in 2003. Actual cost in the future may be higher due to inflation, changes in technology, or changes in regulations.

The City does not restrict assets for the payment of postclosure care costs. Postclosure care costs are paid for with current available resources from the sanitation fund (enterprise fund).

NOTE 16: SHORT TERM NOTE PAYABLE

The following is a summary of bond anticipation note obligations for the year ended December 31, 2003:

	Balance 12/31/02	Principal Issued	Principal Retired	Balance 12/31/03
Bond Anticipation Note, 3.75%:	$ 823,800	$ 783,800	$ (823,800)	$ 783,800

This bond anticipation note was issued to repair and replace East High Street.

NOTE 17: SEGMENT INFORMATION

The City's enterprise funds account for the provision of water, sewer and sanitation services. The table below reflects in a summarized format, the more significant financial data relating to the enterprise funds of the City as of and for the year ended December 31, 2003.

	Water Funds	Sewer Funds	Sanitation Funds	Total Enterprise Funds
Operating revenues	$ 1,025,602	$ 1,492,082	$ 754,605	3,272,289
Operating expenses before depreciation expense	(1,122,387)	(1,312,178)	(646,098)	(3,080,663)
Depreciation expense	(142,837)	(216,136)	(51,330)	(410,303)
Operating income (loss)	(239,622)	(36,232)	57,177	(218,677)
Other non-operating income (expense)	(8,010)	1,273	0	(6,737)
Interest Expense	(65,768)	(266,610)	0	(332,378)
Operating transfers:				
In	60,000	0	0	60,000
Out	(446)	(27,295)	(35,248)	(62,989)
Net income (loss)	(253,846)	(328,864)	21,929	(560,781)
Current capital contributions net additions (deletions)	(42,981)	0	0	(42,981)
Property, Plant and Equipment: Additions	26,118	21,342	5,322	52,782
Net working capital	436,308	1,466,153	401,058	2,303,519
Total assets	7,229,604	1,097,699	518,020	8,845,323
Bonds and other long-term liabilities	1,473,817	3,366,882	341,012	5,181,711
Total equity (deficit)	5,569,849	(2,374,776)	115,365	3,310,438
Encumbrances outstanding at December 31, 2003	11,136	90,452	40,000	141,588

NOTE 18: CONTINGENCIES

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City at December 31, 2003.

B. Litigation

The City is a party to several legal proceedings. City management is of the opinion that ultimate disposition of these proceedings will not have a material effect, if any, on the financial condition of the City.

NOTE 19: INTERFUND RECEIVABLE/PAYABLE

During the normal course of operations, the City has numerous transactions among funds, most of which are accounted for as transfers among funds. An interfund receivable of $216,000 from the Water Capacity Fund and an interfund payable of $216,000 from the Water Replacements and Improvements Fund were eliminated from disclosure on the financial statements since these interfund balances were recorded within the water funds.

NOTE 20: FUND DEFICIT

Fund balances and retained earnings at December 31, 2003 included the following individual fund deficits:

	Deficit
Fund Balance:	
Special Revenue:	
Co-Insurance Fund	$ 1,147
Capital Projects:	
Capital Project Keny Fund	774,841
	$ 775,988
Retained Earnings:	
Enterprise:	
Water R & I Fund	$ 708,966
Sewer Fund	3,332,615
	$4,041,581

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

NOTE 21: RESTATEMENT OF FUND DEFICIT

Fund deficit at December 31, 2002 for the Capital Project Keny Fund was restated from ($ 601,472) to ($ 611,472). This decrease of $10,000 was due to the receipt of a note receivable payment on the December 31, 2002 financial statements which was misclassified as other revenue.

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Mayor and City Council
City of London, Ohio

We have audited the general-purpose financial statements of City of London, Ohio (the City), as of and for the year ended December 31, 2003, and have issued our report thereon dated September 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated September 30, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-001 and 2003-002.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, which we have reported to management of the City in a separate letter dated September 30, 2004.

This report is intended for the information of the Mayor and members of City Council, management, the Auditor of State of Ohio, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
September 30, 2004

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Mayor and City Council
City of London, Ohio

Compliance

We have audited the compliance of City of London, Ohio, (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2003. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Mayor and members of City Council, management, the Auditor of State of Ohio, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
September 30, 2004

City of London
Schedule of Federal Awards/Expenditures
December 31, 2003

Federal Grantor/Program Title	Federal CFDA Number	Award Amount	Award Disbursements
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed Through Ohio Department of Development			
Community Development Block Grant (A-T-01-141-1)	14.228	400,000	290,931
Community Development Block Grant (A-F-02-141-1)	14.228	58,000	10,000
Community Development Block Grant (A-C-02-141-1)	14.228	180,000	65,321
Community Housing Improvement Program (A-C-02-141-2)	14.239	375,000	-
Total Housing and Urban Development		1,013,000	366,252
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY			
Disaster Assistance	85.544	7,790	7,790
Total Federal Award Expenditures		1,020,790	374,042

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A—SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of City of London, Ohio's federal award programs. The schedule has been prepared on the cash basis of accounting.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505

CITY OF LONDON, OHIO
DECEMBER 31, 2003

1. SUMMARY OF AUDITORS' RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Was there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Was there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Was there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Was there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Major Programs (list):	U.S. Department of Housing and Urban Development, CFDA #14.239
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > $300,000 Type B: All others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

Finding Number	2003-001

The City should maintain effective management controls over tracking and reporting its fixed assets throughout all departments. During the audit, the City could not provide a comprehensive listing of fixed assets being reported on the financial statements. A computerized fixed asset inventory system was available for use by the City, however, the asset listing was not updated for current year activity and has not been maintained to provide adequate substantiation for the fixed asset amounts reported in the enterprise fund and general fixed asset account group. Instead, manual records are completed after the end of the year, which increases the risk that fixed asset additions and deletions will be overlooked or improperly recorded.

We recommend the City implement a comprehensive system to track fixed assets to ensure amounts reported in the financial reports are properly substantiated. This system should contain at least the following basic features:

- Record the historical cost of fixed assets by department or funding source
- Account for additions and deletions of fixed assets during the year
- Calculate depreciation of associated fixed assets
- Record the net book value of each fixed asset
- Ability to provide a wide range of management reports needed by the City
- Ability to substantiate the accuracy of the assets being reported in the system

In addition to providing assurance that fixed assets amounts are properly reported on the financial statements, a properly designed and implemented fixed asset system will provide the City with the following benefits:

- Adequate management information to City officials regarding assets currently owned by the City when capital acquisition decisions are being discussed.
- Adequate supporting documentation if an insurance claim must be filed regarding the loss of a fixed asset.
- A management control to protect assets from misappropriation or misuse.

During 2004, the City had a complete inventory appraisal conducted by an outside appraisal firm that will be used to provide the detailed information the City will input into the capital asset system. The City has decided what capital asset system to purchase and it anticipates having the entire fixed asset inventory system operational in calendar year 2005.

Finding Number	2003-002

Prior to the start of fieldwork for the fiscal year 2003 audit, the former City Auditor indicated she was suspicious of potential fraud involving the Law Director's office and the collection of delinquent tax payments. Based on the information provided a special audit was conducted outside of the scope of an audit required by 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.

A separate report was issued on June 22, 2004 disclosing in detail, the procedures performed and the results of those procedures. Those procedures did determine fraud had occurred, however, the financial impact of the fraud was not material to the financial statements as a whole.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

4. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

None

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CITY OF LONDON

MADISON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 13, 2005