

CITY OF LONDON, OHIO

General Purpose Financial Statements

December 31, 2002

with

Independent Auditors' Report



**Auditor of State
Betty Montgomery**

Mayor and Members of City 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, 2002 through December 31, 2002. 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

August 4, 2003

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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, 2002 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 at December 31, 2002, 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 June 10, 2003 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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
June 10, 2003

CITY OF LONDON, OHIO
 Combined Balance Sheet - All Fund Types and Account Groups
 December 31, 2002
 (with comparative totals for December 31, 2001)

	GOVERNMENTAL FUND TYPES			
	General	Special Revenue	Debt Service	Capital Projects
Assets:				
Pooled cash and investments	\$ 268,483	1,427,497	14,916	32,328
Deposits with fiscal agents	-	16,681	-	-
Receivables (net of allowances for uncollectibles):				
Taxes	1,065,022	746,934	-	-
Accounts	23,645	125	-	-
Accrued unbilled utilities	-	-	-	-
Accrued interest	-	-	-	-
Special assessment	-	17,355	86,930	6,708
Interfund receivable	-	-	-	-
Due from other governments	219,613	235,483	-	-
Note receivable	-	617,396	-	190,000
Prepaid expenses	42,340	12,606	-	-
Materials and supplies inventory	948	30,541	-	-
Deferred bond issuance costs (net of accumulated amortization)	-	-	-	-
Fixed assets (net, where applicable, of accumulated depreciation)	-	-	-	-
Other debits:				
Amounts available in debt service fund	-	-	-	-
Amounts to be provided for retirement of general long-term obligations	-	-	-	-
Total assets and other debits	\$ 1,620,051	3,104,618	101,846	229,036
Liabilities:				
Accounts payable	\$ 36,958	330,885	-	-
Due to others	-	-	-	-
Interfund payable	-	-	-	-
Undistributed money	-	-	-	-
Liability for prior service costs	-	-	-	-
Accrued wages and benefits	75,759	15,876	-	-
Compensated absences payable	-	-	-	-
Deferred revenue	973,016	715,521	86,930	6,708
Accrued interest payable	-	-	-	-
Landfill postclosure costs	-	-	-	-
Notes payable	-	-	-	823,800
Bonds payable, current	-	-	-	-
Bonds payable	-	-	-	-
Special assessment bonds with governmental commitments	-	-	-	-
Obligations under capital lease	-	-	-	-
Total liabilities	1,085,733	1,062,282	86,930	830,508
Equity and other credits:				
Investment in general fixed assets	-	-	-	-
Contributed capital	-	-	-	-
Retained earnings (deficit):				
Unreserved	-	-	-	-
Fund balances (deficit):				
Reserved for:				
Encumbrances	1,835	148,879	-	-
Materials and supplies inventory	948	30,541	-	-
Prepaid expenses	42,340	12,606	-	-
Note receivable	-	617,396	-	190,000
Debt service	-	-	14,916	-
Unreserved:				
Undesignated	489,195	1,232,914	-	(791,472)
Total equity and other credits	534,318	2,042,336	14,916	(601,472)
Total liabilities, equity and other credits	\$ 1,620,051	3,104,618	101,846	229,036

PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPE	ACCOUNT GROUPS		TOTALS (Memorandum Only)	
		General Fixed Asset	General Long-Term Obligation	2002	2001
Enterprise	Agency				
2,899,401	112,249	-	-	4,754,874	4,564,539
-	-	-	-	16,681	16,681
-	-	-	-	1,811,956	1,426,368
129,048	7,744	-	-	160,562	89,190
279,357	-	-	-	279,357	248,627
-	-	-	-	-	232
-	-	-	-	110,993	117,190
-	-	-	-	-	131,000
-	-	-	-	455,096	534,962
-	-	-	-	807,396	800,579
15,978	-	-	-	70,924	44,586
11,864	-	-	-	43,353	35,594
9,228	-	-	-	9,228	9,228
6,589,132	-	3,923,072	-	10,512,204	10,538,166
-	-	-	14,916	14,916	13,198
-	-	-	742,096	742,096	765,241
<u>9,934,008</u>	<u>119,993</u>	<u>3,923,072</u>	<u>757,012</u>	<u>19,789,636</u>	<u>19,335,381</u>
107,540	22,867	-	-	498,250	420,710
69,767	692	-	-	70,459	71,792
-	-	-	-	-	131,000
-	96,434	-	-	96,434	1,330
-	-	-	67,215	67,215	67,215
36,867	-	-	-	128,502	133,910
103,076	-	-	251,101	354,177	285,166
-	-	-	-	1,782,175	1,477,092
827	-	-	-	827	827
298,860	-	-	-	298,860	327,747
5,177,820	-	-	-	6,001,620	6,260,108
145,000	-	-	-	145,000	-
-	-	-	340,596	340,596	658,979
-	-	-	73,000	73,000	79,000
80,051	-	-	25,100	105,151	161,627
<u>6,019,808</u>	<u>119,993</u>	<u>-</u>	<u>757,012</u>	<u>9,962,266</u>	<u>10,076,503</u>
-	-	3,923,072	-	3,923,072	3,640,644
1,813,940	-	-	-	1,813,940	1,856,921
2,100,260	-	-	-	2,100,260	1,573,046
-	-	-	-	150,714	310,863
-	-	-	-	31,489	21,729
-	-	-	-	54,946	34,061
-	-	-	-	807,396	800,579
-	-	-	-	14,916	13,198
-	-	-	-	930,637	1,007,837
<u>3,914,200</u>	<u>-</u>	<u>3,923,072</u>	<u>-</u>	<u>9,827,370</u>	<u>9,258,878</u>
<u>9,934,008</u>	<u>119,993</u>	<u>3,923,072</u>	<u>757,012</u>	<u>19,789,636</u>	<u>19,335,381</u>

CITY OF LONDON, OHIO
 Combined Statement of Revenues, Expenditures, and Changes in Fund
 Balances - All Governmental Fund Types
 For the Year Ended December 31, 2002
 (with comparative totals for the Year Ended December 31, 2001)

	GOVERNMENTAL FUND TYPES				TOTALS (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects	2002	2001
	Revenues:					
Income taxes	\$ 1,327,313	1,069,585	-	-	2,396,898	2,302,106
Property taxes	423,884	270,359	-	-	694,243	688,636
Intergovernmental revenue	360,647	839,839	-	-	1,200,486	1,631,054
Special assessments	-	30,389	11,865	2,260	44,514	101,699
Charges for services	53,083	-	-	-	53,083	50,737
Fines, licenses and permits	58,506	117,696	-	-	176,202	251,765
Interest income	62,541	16,817	-	7,500	86,858	156,019
Miscellaneous income	8,718	15,384	-	-	24,102	60,231
Total revenues	2,294,692	2,360,069	11,865	9,760	4,676,386	5,242,247
Expenditures:						
Current:						
Security of persons and property	1,422,441	411,333	-	-	1,833,774	1,836,782
Public health services	2,416	-	-	-	2,416	44,592
Leisure time activities	194,401	27,228	-	-	221,629	179,641
Community environment	3,075	597,995	-	-	601,070	801,429
Basic utility services	-	-	-	-	-	2,007
Transportation	-	499,973	-	-	499,973	422,577
General government	712,132	146,701	-	-	858,833	789,537
Capital outlay	-	783,899	-	-	783,899	1,330,442
Debt Service:						
Principal retirement	-	-	39,383	-	39,383	116,291
Interest and fiscal charges	-	-	15,167	21,267	36,434	36,012
Other expenses	-	1,582	-	738	2,320	-
Total expenditures	2,334,465	2,468,711	54,550	22,005	4,879,731	5,559,310
Excess of revenues under expenditures	(39,773)	(108,642)	(42,685)	(12,245)	(203,345)	(317,063)
Other financing sources (uses):						
Sale of assets	3,232	-	-	-	3,232	3,060
Inception of capital lease	-	-	-	-	-	48,205
Transfers-In	-	906,190	44,403	-	950,593	882,585
Transfers-Out	(164,686)	(50,163)	-	(733,800)	(948,649)	(876,720)
Total other financing sources (uses)	(161,454)	856,027	44,403	(733,800)	5,176	57,130
Excess of revenues and other sources over (under) expenditures and other (uses)	(201,227)	747,385	1,718	(746,045)	(198,169)	(259,933)
Fund balance, beginning of year	735,545	1,294,951	13,198	144,573	2,188,267	2,448,200
Fund balance, end of year	\$ 534,318	2,042,336	14,916	(601,472)	1,990,098	2,188,267

See accompanying notes to the general purpose financial statements.

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CITY OF LONDON, OHIO
Combined Statement of Revenues, Expenses and Changes in Retained Earnings
Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types
For the Year Ended December 31, 2002

	General Fund			Special Revenue Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenue:						
Income taxes	\$ 1,280,000	1,324,460	44,460	1,011,625	1,041,599	29,974
Property taxes	443,800	423,884	(19,916)	270,000	270,359	359
Intergovernmental revenue	293,200	342,808	49,608	829,347	846,034	16,687
Special assessments	-	-	-	30,000	30,389	389
Charges for services	49,100	53,082	3,982	5,900	9,464	3,564
Fines, licenses and permits	58,050	49,197	(8,853)	78,125	108,264	30,139
Interest income	80,000	52,200	(27,800)	-	-	-
Miscellaneous	5,100	5,225	125	1,000	12,734	11,734
Total revenues	2,209,250	2,250,856	41,606	2,225,997	2,318,843	92,846
Expenditures:						
Current:						
Security of persons and property	1,496,313	1,428,430	67,883	479,160	440,764	38,396
Public health services	3,500	2,416	1,084	-	-	-
Leisure time activities	200,303	197,880	2,423	-	-	-
Community environment	2,140	1,427	713	709,220	492,299	216,921
Transportation	-	-	-	585,100	438,269	146,831
General government	775,131	739,951	35,180	172,993	149,256	23,737
Capital outlay	-	-	-	1,284,637	783,552	501,085
Debt service:	-	-	-	-	-	-
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	2,477,387	2,370,104	107,283	3,231,110	2,304,140	926,970
Excess of revenues over (under) expenditures	(268,137)	(119,248)	148,889	(1,005,113)	14,703	1,019,816
Other financing sources (uses):						
Other financing uses	-	-	-	(44,403)	(44,403)	-
Note proceeds	-	-	-	-	-	-
Proceeds from sale of assets	-	3,232	3,232	-	-	-
Operating transfers in	-	-	-	178,992	166,631	(12,361)
Operating transfers (out)	(168,400)	(164,686)	3,714	(79,429)	(71,660)	7,769
Total other financing sources (uses)	(168,400)	(161,454)	6,946	55,160	50,568	(4,592)
Excess of revenues and other sources over (under) expenditures and other (uses)	(436,537)	(280,702)	155,835	(949,953)	65,271	1,015,224
Fund balances, beginning of year	502,163	502,163	-	972,379	972,379	-
Prior year encumbrances appropriated	40,113	40,113	-	387,250	387,250	-
Fund balances, end of year	\$ 105,739	261,574	155,835	409,676	1,424,900	1,015,224

See accompanying notes to the general purpose financial statements.

	Debt Service Fund			Capital Projects Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$	-	-	-	-	-	-
	-	-	-	-	-	-
	6,385	11,866	5,481	-	2,260	2,260
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	27,499	27,499	-
	<u>6,385</u>	<u>11,866</u>	<u>5,481</u>	<u>27,499</u>	<u>29,759</u>	<u>2,260</u>
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	39,383	39,383	-	833,800	833,800	-
	<u>15,168</u>	<u>15,168</u>	<u>-</u>	<u>31,267</u>	<u>31,267</u>	<u>-</u>
	<u>54,551</u>	<u>54,551</u>	<u>-</u>	<u>865,067</u>	<u>865,067</u>	<u>-</u>
	<u>(48,166)</u>	<u>(42,685)</u>	<u>5,481</u>	<u>(837,568)</u>	<u>(835,308)</u>	<u>2,260</u>
	-	-	-	-	-	-
	-	-	-	823,800	823,800	-
	-	-	-	-	-	-
	44,403	44,403	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>44,403</u>	<u>44,403</u>	<u>-</u>	<u>823,800</u>	<u>823,800</u>	<u>-</u>
	(3,763)	1,718	5,481	(13,768)	(11,508)	2,260
	13,198	13,198	-	44,574	44,574	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>9,435</u>	<u>14,916</u>	<u>5,481</u>	<u>30,806</u>	<u>33,066</u>	<u>2,260</u>

CITY OF LONDON, OHIO
Combined Statements of Revenues, Expenses and Changes in Retained
Earnings - Proprietary Fund Type
For the Year Ended December 31, 2002
(with comparative totals for the Year Ended December 31, 2001)

	PROPRIETARY FUND TYPE	
	Enterprise	
	2002	2001
Operating revenues:		
Charges for services	\$ 3,382,502	2,986,262
Total operating revenues	<u>3,382,502</u>	<u>2,986,262</u>
Operating expenses:		
Personnel services	816,489	999,361
Contractual services	344,296	345,304
Depreciation and amortization	453,284	369,758
Other expenses	<u>939,925</u>	<u>292,852</u>
Total operating expenses	<u>2,553,994</u>	<u>2,007,275</u>
Operating income	<u>828,508</u>	<u>978,987</u>
Nonoperating revenues/(expenses):		
Interest income	10,064	30,302
Interest expense and fiscal charges	(374,576)	(429,048)
Special assessments	739	-
Gain (loss) on sale of fixed assets	-	(6,936)
Other nonoperating revenues	<u>21,442</u>	<u>19,195</u>
Total nonoperating revenues/(expenses)	<u>(342,331)</u>	<u>(386,487)</u>
Income before operating transfers	486,177	592,500
Operating transfers in	477,000	60,000
Operating transfers out	<u>(478,944)</u>	<u>(65,865)</u>
Net income	484,233	586,635
Add depreciation on fixed assets acquired with contributed capital	<u>42,981</u>	<u>52,413</u>
Increase in retained earnings	527,214	639,048
Retained earnings, beginning of year	<u>1,573,046</u>	<u>933,998</u>
Retained earnings, end of year	\$ <u>2,100,260</u>	<u>1,573,046</u>

See accompanying notes to the general purpose financial statements.

CITY OF LONDON, OHIO
 Combined Statement of Cash Flows - Proprietary Fund Type
 Year Ended December 31, 2002
 (with comparative totals for the Year Ended December 31, 2001)

	PROPRIETARY FUND TYPE	
	Enterprise	
	2002	2001
Cash flows from operating activities:		
Operating income	\$ 828,508	978,987
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	453,284	369,758
Effects of changes on operating assets and liabilities:		
Accounts receivable	(55,564)	(61,186)
Accrued unbilled utilities	(30,730)	(33,382)
Prepaid expenses	(5,453)	185
Materials and supplies inventory	2,001	(2,336)
Accounts payable	(31,808)	(194,351)
Landfill postclosure costs	(28,887)	(16,805)
Due from other governments	56,461	-
Accrued expenses	3,844	5,341
Compensated absences payable	21,379	6,424
Deferred revenue	-	(580)
Net cash provided by operating activities	<u>1,213,035</u>	<u>1,052,055</u>
Cash from noncapital financing activities:		
Operating transfers in	477,000	60,000
Operating transfers out	(478,944)	(65,865)
Nonoperating revenue	<u>22,181</u>	<u>19,195</u>
Net cash provided by noncapital financing activities	<u>20,237</u>	<u>13,330</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(144,894)	(1,077,820)
Proceeds from sale of fixed assets	-	1,510
Proceeds from OWDA loan	66,946	1,086,943
Repayment of notes and bonds	(455,434)	(404,458)
Interest payments	(374,576)	(429,051)
Repayment of capital lease obligations	<u>(18,813)</u>	<u>(4,550)</u>
Net cash (used) by capital and related financing activities	<u>(926,771)</u>	<u>(827,426)</u>
Cash from investing activities:		
Interest received	<u>10,064</u>	<u>30,302</u>
Net cash provided by investing activities	<u>10,064</u>	<u>30,302</u>
Net increase in pooled cash and investments	316,565	268,261
Pooled cash and investments, beginning of year	<u>2,582,836</u>	<u>2,314,575</u>
Pooled cash and investments, end of year	<u>\$ 2,899,401</u>	<u>2,582,836</u>
Noncash investing activities		
Loss on disposal of fixed asset	\$ -	<u>6,936</u>
Capital assets acquired through capital lease agreements	-	<u>103,415</u>
Donated waterlines and equipment received from developers	-	<u>431,600</u>

See accompanying notes to the general purpose financial statements.

CITY OF LONDON
Notes to the Financial Statements
December 31, 2002

1. Summary of Significant Accounting Policies:

The financial statements of the City of London, Ohio (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies are described below:

A. Reporting Entity

The City of London, Ohio 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.

The City provides various services for the community. These services include the following: police protection, fire protection, street maintenance, parks and recreation, building inspections, planning and zoning, public improvements, water and sewage treatment, trash collection, and general administrative services.

For financial reporting purposes, the City includes in this report all funds, account groups, agencies, boards, commissions, and departments in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 criteria for determining the entity and component units. Under the provisions of GASB Statement No. 14, the City of London is the primary government, since it is a special purpose government that has a separate elected governing body; functions as a separate legal entity; and is fiscally independent of other state and local governments. As used in GASB Statement No. 14, fiscally independent means that the City may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges, and issue debt. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data is combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. There are no blended or discretely presented component units at December 31, 2002.

B. Fund Accounting

The accounting policies and financial reporting practices of the City conform to generally accepted accounting principles for local governments as prescribed by the GASB. 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

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financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts that comprise assets, liabilities, fund equity, revenues and expenditures (expenses). An account group, on the other hand, 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.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

C. Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds.

The following are the City's governmental fund types:

General Fund - The general fund is the general operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund.

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

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

Capital Projects Fund - The capital projects fund is 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).

D. Proprietary Funds

Proprietary funds are used to account for the City's ongoing activities, which are similar to those often found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds). The City has no internal service funds.

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in manner similar to private business enterprises - where the intent of the

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governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has 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.

E. Fiduciary Funds

Fiduciary fund types include trust (expendable and nonexpendable) and agency funds. These funds 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. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

For 2002, the City has no trust fund types.

F. Account Groups

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term obligations. Since these assets and obligations are long-term, they are neither spendable resources nor require current appropriations.

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

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

G. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and agency funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the 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 operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type 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 financial statements. Basis of accounting relates to the timing of the measurements made.

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Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the City is thirty-one days after year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, includes income tax, property tax, grants, entitlements and donations. On an accrual basis, revenue from income tax is recognized in the fiscal year in which the tax imposed takes place and revenue from property tax is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange 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: income tax, hotel/motel taxes, state-levied locally shared taxes (including local government assistance, gasoline tax and vehicle license tax), intergovernmental grants, fines and forfeitures, and investment earnings.

The City reports deferred revenues in its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In a 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 tax, state-levied shared taxes (including local government assistance, gasoline tax, homestead/rollback and vehicle license tax), intergovernmental grants measurable as of December 31, 2002, 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 the available period, the entire amount has been deferred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt 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 in which they will be liquidated with available financial resources. Allocation of costs, such as depreciation and amortization, are not recognized in governmental funds.

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The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recognized when earned and become measurable and expenses are recognized when incurred, if measurable. Unbilled service charges receivables are recognized as revenue at year end.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the City applies all applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB Pronouncements.

As discussed in Note 11, the City applies GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs* in recording future landfill postclosure care costs.

H. Budgets

The City follows procedures prescribed by State law in establishing the budgetary data reflected in the financial statements as follows:

- (1) The City must submit information as is necessary to the County Budget Commission each year in lieu of a tax budget by the previous June 30 for the following year, January 1 through December 31.
- (2) The County Budget Commission certifies its actions by September 1 and issues an Official Certificate of Estimated Resources, (the "Certificate") limiting the maximum amount the City may expend from a given fund during the year to the estimated resources available.
- (3) About January 1, the Certificate is amended to reflect the actual unencumbered balances from the preceding year. The City must prepare its appropriations so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the initial or amended Certificate.
- (4) A temporary appropriation measure may be passed to control cash disbursements for the period January 1 through March 31. Before April 1, a permanent appropriation measure must be passed for the period January 1 through December 31. The budget identifies specific expenditure amounts by character for each division within each fund.
- (5) Unencumbered appropriations lapse at year-end and are reappropriated in the following year budget. The Ohio Revised Code provides that no contract, agreement or other obligation involving the expenditure of money shall be entered into unless the City Treasurer first certifies that the money required for such contract, agreement, obligation or expenditure is in the treasury, or is anticipated to come into the treasury, before the maturity of such contract.

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(6) All funds of the City have annual budgets legally adopted by the City Council.

The appropriations ordinance controls expenditures at the fund level (legal level of control). Council can amend the budget at functional expense lines, through the passage of supplemental ordinances. Management can amend appropriations below this level without Council approval. Supplemental appropriations to the original appropriations ordinance were made during the year as enacted by Council.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of money are recorded in order to reserve that portion of the applicable appropriation, is utilized by the City. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Year-end encumbrances are carried over to the following year and are not reappropriated. Note 16 provides a reconciliation of the budgetary and GAAP basis of accounting.

I. Cash and investments

To improve cash management, all cash received by the City is deposited into a central bank account. Monies for all funds are pooled in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented on the balance sheet as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2002, investments consisted of repurchase agreements and STAR Ohio.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The City had invested funds in the State Treasury Assets Reserves of Ohio (STAR Ohio) during fiscal year 2002. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2002.

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

Interest Income is distributed to the funds according to statutory requirements. Interest revenue earned during 2002 amounted to \$96,922.

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J. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method and are determined by physical count. Inventory consists of expendable supplies held for consumption. The consumption method is used to account for inventories. As such, inventories are recognized as expenditures when the goods are used. Reported inventories in the governmental fund types are equally offset by a fund balance reserve, which indicates they do not constitute "available spendable resources."

K. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2002 are recorded as prepaid items.

L. Fixed Assets and Depreciation

General fixed assets - General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. All purchased fixed assets are valued at cost where historical records are available or at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their fair market value on the date received.

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 and any interest in construction in progress is not capitalized.

Proprietary funds - Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost). Contributed fixed assets are recorded at fair market value at the date received. Depreciation is calculated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Life (Years)</u>
Buildings	20-30
Machinery and equipment	5-20
Improvements other than buildings	15-30
Water and sewer lines	40-50

M. 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

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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.

N. 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.

O. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Obligations Account Group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

P. Fund Equity

Prior to the adoption of GASB 33, contributed capital was recorded for proprietary funds, which have received contributions from developers, customers, or other funds. Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

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Q. 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, 2001	\$ 1,856,921
Depreciation for the year ended December 31, 2002	<u>(42,981)</u>
Contributed Capital as of December 31, 2002	\$ <u>1,813,940</u>

R. Interfund Transactions

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "interfund receivable" or "interfund payable" on the balance sheet.

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursement to a fund for expenditures/expenses initially made from it and that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund, and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

During the course of normal operations, the City has numerous transactions between funds, most of which are in the form of transfers of resources to provide services, construct assets and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as operating transfers.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers.

No residual equity transfers were made in 2002.

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S. Memorandum Only - Total Columns

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 changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

T. Comparative Data

Comparative total data for the prior year has been presented in the accompanying general purpose financial statements in order to provide an understanding of overall changes in the City's financial position and operations. However, comparative data (i.e., presentation of prior year totals by fund type) have not been presented in the general purpose financial statements, since their inclusion would make the statements unduly complex and difficult to read. Certain prior year comparative data has been reclassified to conform to current account classifications.

U. Insurance and Risk

The City is exposed to various risks of loss including employee health care costs and accidents, torts and legal judgments; theft, damage or destruction of assets, errors and omissions; natural disasters. Life insurance and vehicle insurance is purchased through commercial carriers. Judgments are administered through the various operating funds.

Unemployment compensation is administered by a State Agency, all costs are reimbursed by the City to the General Fund.

The City of London covers its risks of loss through commercial insurance with the following coverage:

<u>Type of Risk</u>	<u>Maximum Coverage</u> (in millions)	<u>Deductible</u>
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

2. Pooled Cash, Investments, and Deposits with Fiscal Agents:

The City maintains a cash and investment pool used by all funds except cash held by fiscal agents. Each fund type's portion of the pool is displayed on the combined balance sheet as "Pooled Cash and Investments." For the statement of cash flows, the proprietary fund type considers all highly liquid investments with purchased maturities of three months or less to be cash equivalents. Earnings on pooled cash and investments are allocated to the General Fund unless required by law to be allocated to another fund.

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Cash and Certificates of Deposit - at December 31, 2002, the carrying amount of all the City's deposits was \$265,533 and the bank balance was \$369,528. Of the bank balance, \$116,000 was insured by federal depository insurance and the remaining amount was collateralized with securities held by the financial institution or by its trust department or agent but not in the City's name, in accordance with Ohio Revised Code. Although all State statutory requirements for the deposit of money has been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by Federal Deposit Insurance Corporation.

Investment and Deposits with Fiscal Agents - The City's investment policies are governed by state statutes and city ordinances which authorize the city to invest in bonds or other obligations of the United States Treasury, agencies and instrumentalities, bonds of the State of Ohio, or bonds of any municipal corporation, village, county, township or other political subdivision of the State of Ohio. The City purchases investments only through member banks of the Federal Reserve System or broker-dealers registered with the U.S. Securities and Exchange Commission.

The City's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the city or its agent in the city's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its safekeeping department or agent but not in the City's Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

At December 31, 2002, the City had overnight repurchase agreements with a fair value of \$1,499,117 and was classified as a category 3 investments per criteria of GASB Statement No. 3. The carrying value of the STAR Ohio was \$3,006,905 at December 31, 2002.

The classification of cash and cash equivalents, and investments on the financial statements is based on criteria set forth in GASB No. 9, "Reported Cash Flows of Proprietary Fund Accounting." Cash equivalents are defined to include investments with original maturities of three months or less.

3. 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 of the Partnership's operating expenses and all sums due to the private lender. The entire principal balance, \$500,000 at December 31, 2002, and all unpaid interest, \$117,396 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

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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 2002, the City received a \$10,000 payment from the School reducing the receivable balance to \$190,000. No allowance is considered necessary on the note receivable from the School, as it is considered fully collectible.

4. Property Taxes:

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the City.

Real property taxes and public utility taxes are levied after October 1 on the assessed value listed as on the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value. A revaluation of all property is required to be completed every sixth year. The last revaluation was completed in 2002.

Real 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 attach a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. Tangible personal property taxes for unincorporated and single county businesses are due semiannually with the first payment due April 30 and the remainder payable by September 20. The due date for the entire taxes for inter-county businesses is September 20. The first \$10,000 of taxable value is exempt from taxation for each business by state law.

The assessed values for 2001, on which the 2002 tax collections were based, are as follows:

Real property:	
Residential/agricultural	\$ 72,001,060
Commercial/industrial	33,077,120
Tangible personal property:	
Public utilities and general	<u>29,838,890</u>
Total valuation	\$ <u>134,917,070</u>

The full tax rate applied to real property for the tax year ended December 31, 2002 was \$5.80 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$5.49 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$5.64 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The State of Ohio reimburses the amount of these homestead and rollback reductions to the City.

The Madison County Treasurer collects property taxes on behalf of the City and periodically remits to the City its portion of the taxes collected.

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Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of December 31, 2002. Although total property tax collections for the next year are measurable, they are not intended to finance current year operations. The receivable is offset therefore by a credit to deferred revenue.

5. Income Taxes:

The City levies a 1.0% income tax on substantially all income earned within the City. The tax is applied to gross salaries, wages and other personal service compensation. It also applies to net income of for-profit organizations conducting business within the City. In addition, residents of London are required to pay city income tax on income they earn outside the City.

Employers within the City are required to withhold income tax on employees' compensation and remit this tax at least quarterly. Corporations and other individual taxpayers pay estimated taxes 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.

6. Restatement of Fixed Assets:

The December 31, 2001 fixed asset balance was restated for the original cost of leases that were determined to be operating rather than capital leases, thereby reducing fixed assets in the General Fixed Assets Account Group:

	Balance <u>12/31/01</u>	Amount of <u>Restatement</u>	Restated Balance <u>12/31/01</u>
Land	\$ 80,048	-	80,048
Buildings	594,437	-	594,437
Equipment	2,472,855	(32,455)	2,440,400
Other	492,804	-	492,804
CIP	500	-	500
Total	\$ <u>3,640,644</u>	<u>(32,455)</u>	<u>3,608,189</u>

7. Fixed Assets:

A summary of changes in the General Fixed Assets Account Group during 2002 is as follows:

	Restated Balance <u>12/31/01</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/02</u>
Land	\$ 80,048	-	-	80,048
Buildings	594,437	21,160	-	615,597
Machinery & equipment	2,440,400	159,683	48,973	2,551,110
Other improvements	492,804	16,779	2,381	507,202
Construction-in-progress	500	<u>168,615</u>	-	<u>169,115</u>
Total general fixed assets	\$ <u>3,608,189</u>	<u>366,237</u>	<u>51,354</u>	<u>3,923,072</u>

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A summary of changes in the Enterprise funds fixed assets during 2002 is as follows:

	<u>Balance</u> <u>12/31/01</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/02</u>
Land	\$ 198,626	-	-	198,626
Buildings	1,368,734	94,531	-	1,463,265
Machinery & equipment	3,173,192	48,369	17,063	3,204,498
Improvements other than buildings	5,323,588	1,994	-	5,325,582
Water & sewer lines	4,845,430	-	-	4,845,430
Construction in progress	<u>3,775</u>	<u>-</u>	<u>-</u>	<u>3,775</u>
Total	14,913,345	144,894	17,063	15,041,176
Accumulated depreciation	<u>8,015,823</u>	<u>453,284</u>	<u>17,063</u>	<u>8,452,044</u>
Net	\$ <u>6,897,522</u>	<u>(308,390)</u>	<u>-</u>	<u>6,589,132</u>

8. Short Term Note Payable:

The following is a summary of bond anticipation note obligations for the year ended December 31, 2002:

	<u>Balance</u> <u>12/31/01</u>	<u>Principal</u> <u>Issued</u>	<u>Principal</u> <u>Retired</u>	<u>Balance</u> <u>12/31/02</u>
Bond Anticipation Note, 3.75%	<u>833,800</u>	<u>823,800</u>	<u>833,800</u>	<u>823,800</u>

9. Restatement of Capital Lease Payable

The December 31, 2001 capital lease obligation was restated for leases that were determined to be operating rather than capital leases in the General-Long Term Obligation Account Group:

	<u>Balance</u> <u>12/31/01</u>	<u>Amount of</u> <u>Restatement</u>	<u>Restated</u> <u>Balance</u> <u>12/31/01</u>
Capital Lease Payable	\$ <u>62,763</u>	<u>(26,153)</u>	<u>36,610</u>

CITY OF LONDON
Notes to the Financial Statements
December 31, 2002

10. Long-Term Obligations:

A summary of the long-term debt outstanding at December 31, 2002 is as follows:

	Balance <u>12/31/01</u>	Principal <u>Issued</u>	Principal <u>Retired</u>	Balance <u>12/31/02</u>
General obligation debt:				
1993, Ohio public works loan	\$ 173,979	-	13,383	160,596
1994, 5.8% Pool Improve- ments Bonds	<u>200,000</u>	<u>-</u>	<u>20,000</u>	<u>180,000</u>
Total	\$ <u>373,979</u>	<u>-</u>	<u>33,383</u>	<u>340,596</u>
1993, Special Assessment Bonds	\$ <u>79,000</u>	<u>-</u>	<u>6,000</u>	<u>73,000</u>
Total	\$ <u>79,000</u>	<u>-</u>	<u>6,000</u>	<u>73,000</u>
Enterprise funds:				
General Obligation Bonds -				
1993, 5.25% sanitary sewer improvement bonds	\$ 20,000	-	10,000	10,000
General Obligation Bonds -				
1992, 4.86% water tower replacement	\$ <u>265,000</u>	<u>-</u>	<u>130,000</u>	<u>135,000</u>
Total	\$ <u>285,000</u>	<u>-</u>	<u>140,000</u>	<u>145,000</u>
O.W.D.A. Notes:				
1976, 5.50% loan #1188	\$ 88,649	-	23,664	64,985
1976, 5.50% loan #1213	15,969	-	5,030	10,939
1988, 7.65% loan #1688	3,404,480	-	208,376	3,196,104
1988, 7.86% loan #1689	399,736	-	24,194	375,542
2001, 4.14% loan #3314	<u>1,517,474</u>	<u>66,946</u>	<u>54,170</u>	<u>1,530,250</u>
Total	\$ <u>5,426,308</u>	<u>66,946</u>	<u>315,434</u>	<u>5,177,820</u>

Annual debt service requirements to maturity for General Long-Term Obligation Account Group debt, including interest of \$62,591 are:

<u>Year</u>	Total General <u>Obligation</u>	Total Special <u>Assessment</u>	<u>Total</u>
2003	\$ 43,243	9,832	53,075
2004	46,938	9,518	56,456
2005-2009	222,360	45,705	268,065
2010-2014	66,915	31,676	98,591
2015-thereafter	-	-	-
Total	\$ <u>379,456</u>	<u>96,731</u>	<u>476,187</u>

CITY OF LONDON
Notes to the Financial Statements
December 31, 2002

Annual debt service requirements to maturity for Enterprise Funds, including interest of \$2,360,091 are:

<u>Year</u>	<u>Total Sanitary Sewer Bonds</u>	<u>Total Water Bonds</u>	<u>Total OWDA Loans</u>	<u>Total Enterprise Debt</u>
2003	\$ 10,526	138,710	678,089	827,325
2004	-	-	678,088	678,088
2005-2009	-	-	3,232,477	3,232,477
2010-2014	-	-	2,081,576	2,081,576
2015-thereafter	-	-	<u>863,445</u>	<u>863,445</u>
Total	\$ <u>10,526</u>	<u>138,710</u>	<u>7,533,675</u>	<u>7,682,911</u>

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, 2002, the City had legal debt margin for total unvoted debt of \$7,079,843 and a legal debt margin for total debt of \$13,825,696.

The City has leased certain machinery and equipment under capital leases. The cost of these leased assets is \$378,423, of which \$238,761 is included in the enterprise fund and \$139,662 is in the general fixed asset account group. During 2002, principal payments in the amount of \$6,712 and \$18,813 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 \$105,151.

The following is a schedule by years of future minimum lease payments under capital leases for Fiscal year ending December 31, 2002:

	<u>General Long Term Obligations Account Group</u>
2003	\$ 11,021
2004	8,396
2005	<u>8,393</u>
Total minimum lease payments	27,810
Less amount representing interest	<u>(2,710)</u>
Present value of net minimum lease payments	\$ <u>25,100</u>

CITY OF LONDON
Notes to the Financial Statements
December 31, 2002

	<u>Enterprise Funds</u>
2003	\$ 23,573
2004	23,573
2005	23,573
2006	<u>17,679</u>
Total minimum lease payments	88,398
Less amount representing interest	<u>(8,347)</u>
Present value of net minimum lease payments	\$ <u>80,051</u>

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.

	<u>Balance 12/31/02</u>	<u>Increase (Decrease)</u>	<u>Balance 12/31/02</u>
Accrued vacation	\$ 105,953	29,189	135,142
Accrued sick	80,312	30,522	110,834
Accrued compensatory time	<u>9,218</u>	<u>(4,093)</u>	<u>5,125</u>
Total	\$ <u>195,483</u>	<u>55,618</u>	<u>251,101</u>

11. 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 \$310,393 of which \$17,580 was incurred in 2002. 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 \$298,860 at December 31, 2002 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 2002. 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).

12. Defined Benefit Pension Plans:

Both the Police and Firemen's Disability and Pension Fund and the Public Employees Retirement System are reported using GASB Statement No. 27 "Accounting for Pensions by State and Local Governmental Employers". Substantially all City employees are covered by one of the two cost-

CITY OF LONDON
Notes to the Financial Statements
December 31, 2002

sharing multiple-employer defined benefit pension plans, namely, the Police and Firemen's Disability and Pension Fund or the Public Employees Retirement System of Ohio (PERS). Both funds provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

Public Employees Retirement System

The City of London participates in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a publicly available stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Retirement Board instituted a temporary employer contribution rate rollback for calendar year 2001. The Ohio Revised Code provides statutory authority for employee and employer contributions. Plan members are required to contribute 8.5% of their annual covered salary and the City's contribution rate for 2002 was 13.55% of covered payroll. The PERS law enforcement program was separated into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consists of sheriffs, deputy sheriffs and township police with a contribution rate of 10.1%. All other members of PERS law enforcement program have been placed in a newly named division and will continue to contribute 9%. The 2002 employer contribution rate for both law enforcement and public safety divisions was 16.7% of covered payroll. The City's contributions, representing 100% of employer contribution's for the periods ended December 31, 2002, 2001, and 2000 were \$233,823, \$193,658 and \$186,656, respectively.

Police and Firemen's Disability and Pension Fund

The City of London contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined pension plan. OP&F provides retirement and disability benefits, cost-of-living adjustments, and death benefits to plan member 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 statements and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to OP&F for the years ending December 31, 2002, 2001, and 2000 were \$221,369, \$225,341 and \$194,605, respectively, equal to the required contribution for each year.

13. Postemployment Benefits

Public Employees Retirement System

The Public Employees Retirement System (PERS) of Ohio provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health

CITY OF LONDON
Notes to the Financial Statements
December 31, 2002

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 post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units the rate was 13.55% of covered payroll; 5.0% was the portion that was used to fund health care for the year. The 2002 employer rate was 16.7% and 5.0% was used to fund both law enforcement and public safety divisions.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

Actuarial Review: The following assumptions and calculations were based on the System's latest Actuarial Review as of December 31, 2001.

Funding Method: An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability.

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

Investment Return: The investment assumption rate for 2001 was 8.0%.

Active Employee Total Payroll: An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from .50% to 6.30%.

Health Care: Health care costs were assumed to increase 4.00% annually.

The OPEBs are advance-funded on an actuarially determined basis. The number of active contributing participants was 402,041. The portion of City's contributions that were used to fund postemployment benefits was \$86,281. \$11.6 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2001. The actuarially accrued liability and the unfounded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 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 under OPERS 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.

CITY OF LONDON
Notes to the Financial Statements
December 31, 2002

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 their allowance toward specific medical expenses, much like a Medical Spending Account.

Police and Firemen's Disability and Pension Fund

The Ohio Police and Fire Pension Fund 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 persons. An eligible dependent child is any child under the age of eighteen whether or not he is attending school or under twenty-two if attending full-time or on a 2/3 basis. The Ohio Revised Code provides the authority allowing the OP&F's Board of Trustees to provide health care coverage and states that health care cost paid from the fund shall be included in the employer's contribution rate. The total police employer contribution is 19.5 percent of covered payroll and the total firemen's employer contribution rate is 24 percent of covered payroll.

Health care funding and accounting is on a pay-as-you go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.50% and 7.75% of covered payroll in 2001 and 2002, respectively. 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 statewide number of participants eligible to receive health care benefits as of December 31, 2001, the date of the last actuarial valuation available, were 13,174 for Police and 10,239 for Firefighters. The City's portion of current year contributions to fund post retirement benefits was \$48,251 for police pension payments and \$32,245 for fire pension payments. The fund's total health care expenses for the year ending December 31, 2001 was \$122,298,771, which was net of members' contributions of \$6,874,699.

14. 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:

<u>Employee Service</u>	<u>40 Hr/Wk Employee Hours Earned/Year</u>
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-

CITY OF LONDON
Notes to the Financial Statements
December 31, 2002

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' service who terminates employment or whose employment is terminated with the City (for other than disciplinary reasons) 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, 2002, the accrued liability for unpaid compensated absences was \$354,177 for all funds and account groups.

15. Deficit Fund Balance:

The Capital Projects – Keny Street Improvement Fund balance at December 31, 2002, was (\$601,472) as a result of transfers out of the Capital Project Funds that were not offset by other incoming transfers or revenue for this fund type.

The Sanitary Sewer Enterprise Fund balance at December 31, 2002, was (\$2,017,025) as a result of adjustments for accrued liabilities.

16. Budgetary Basis of Accounting:

The adjustments necessary to convert the results of operations for the year on the budget basis to GAAP bases are as follows:

	Excess of Revenues and Other Financing Services Over (Under) Expenditures and Other Financing Uses			
	Governmental Fund Types			
	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Project Funds</u>
Budget basis	\$(280,702)	65,271	1,718	(11,508)
Due to revenue	43,836	41,226	-	(9,999)
Due to expenditure	35,639	(164,571)	-	833,062
Other financing sources (uses)	<u>-</u>	<u>805,459</u>	<u>-</u>	<u>(1,557,600)</u>
GAAP basis	<u>\$ (201,227)</u>	<u>747,385</u>	<u>1,718</u>	<u>(746,045)</u>

CITY OF LONDON
Notes to the Financial Statements
December 31, 2002

17. Contingent Liabilities:

The City is involved in various lawsuits pertaining to matters, which are incidental to performing routine governmental and other functions. The City's management is of the opinion that the ultimate disposition of the claims and legal proceedings will not have a material adverse effect on the financial condition of the City.

Under the terms of federal grants, periodic audits are required and certain expenditures may be questioned as not appropriate under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. It is the opinion of management that any questioned costs will be resolved in favor of the City and that reimbursement, if any, will not have a material effect on the City's financial position.

18. Segment Information for Enterprise Funds:

The City maintains three enterprise funds, which provide water, sewer and sanitation services. Segment information for the year ended December 31, 2002 was as follows:

	<u>Water Funds</u>	<u>Sewer Funds</u>	<u>Sanitation Funds</u>	<u>Total Enterprise Funds</u>
Operating revenues	\$ 1,108,685	1,521,227	752,590	3,382,502
Operating expense before depreciation expense	804,578	620,688	675,444	2,100,710
Depreciation and amortization expense	185,818	216,136	51,330	453,284
Operating income	118,289	684,403	25,816	828,508
Special assessment taxes	-	739	-	739
Operating transfers:				
In	207,000	270,000	-	477,000
Out	(142,529)	(296,253)	(40,162)	(478,944)
Net income	105,674	395,391	(16,832)	484,233
Current capital contributions net additions (deletions)	(42,981)	-	-	(42,981)

CITY OF LONDON
Notes to the Financial Statements
December 31, 2002

18. Segment Information for Enterprise Funds (continued):

	<u>Water Funds</u>	<u>Sewer Funds</u>	<u>Sanitation Funds</u>	<u>Total Enterprise Funds</u>
Property Plant and equipment:				
Additions	103,045	40,879	970	144,894
Deletions	-	-	(17,063)	(17,063)
Net working capital	759,871	1,745,907	376,020	2,881,798
Total assets	7,700,225	1,674,335	559,448	9,934,008
Bonds and other long-term liabilities	1,665,253	3,483,680	407,798	5,556,731
Total equity (deficit)	\$ 5,861,676	(2,017,025)	69,549	3,914,200
Encumbrances outstanding at December 31, 2002	8,113	7,645	32,740	48,498

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 \$119,210 from the Water Fund and an interfund payable of \$119,210 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.

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, 2002, and have issued our report thereon dated June 10, 2003. 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*.

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. Our consideration of the internal control over financial reporting 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 misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting and its operation that we have reported to management in a separate letter dated June 10, 2003.

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
June 10, 2003

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, 2002. 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, 2002.

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
June 10, 2003

CITY OF LONDON, OHIO
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2002

	<u>Federal CFDA</u>	<u>Project Number</u>	<u>Awards</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development				
<i>Passed Through Ohio Department of Development</i>				
Community Development Block Grant	14.228	A-T-01-141-1	\$ 400,000	101,169
Community Development Block Grant	14.228	A-F-01-141-1	<u>57,000</u>	<u>54,200</u>
			457,000	155,369
Community Development Block Grant	14.239	A-C-00-141-1	245,000	67,965
Community Housing Improvement Program	14.239	A-C-00-141-2	<u>255,000</u>	<u>138,845</u>
			500,000	206,810
Total Federal Awards			\$ <u>957,000</u>	<u>362,179</u>

See notes to the schedule of expenditures of federal awards.

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, 2002

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)?	No
(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?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

4. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

None



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

CITY OF LONDON

MADISON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 26, 2003**