

CITY OF LONDON, OHIO

General Purpose Financial Statements

December 31, 2000

with

Independent Auditors' Report



STATE OF OHIO
OFFICE OF THE AUDITOR

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The Honorable Mayor and Members of City Council
City of London
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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, 2000 through December 31, 2000. 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.

JIM PETRO
Auditor of State

July 2, 2001

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CITY OF LONDON, OHIO

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
Independent 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, 2000 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 generally accepted auditing standards 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, 2000, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we also have issued our report dated June 14, 2001 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.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
June 14, 2001

CITY OF LONDON, OHIO
 Combined Balance Sheet - All Fund Types and Account Groups
 December 31, 2000
 (with comparative totals for December 31, 1999)

	GOVERNMENTAL FUND TYPES			
	General	Special Revenue	Debt Service	Capital Projects
Assets:				
Pooled cash and investments	\$ 492,146	991,513	11,049	37,441
Deposits with fiscal agents	-	13,980	-	-
Receivables (net of allowances for uncollectibles):				
Taxes	666,539	432,694	-	-
Accounts	17,109	2,156	-	-
Accrued unbilled utilities	-	-	-	-
Accrued interest	46,993	-	15	-
Special assessment	-	31,931	125,898	15,054
Interfund receivable	-	-	-	100,000
Due from other governments	19,436	66,161	-	-
Note receivable	-	584,385	-	210,000
Prepaid expenses	25,583	5,838	-	-
Materials and supplies inventory	1,861	32,522	-	-
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	\$ 1,269,667	2,161,180	136,962	362,495
Liabilities:				
Accounts payable	\$ 50,450	167,258	-	-
Due to others	-	-	-	-
Interfund payable	-	100,000	-	-
Liability for prior service costs	-	-	-	-
Accrued wages and benefits	54,540	14,900	-	-
Compensated absences payable	-	-	-	-
Deferred revenue	433,043	310,961	125,898	15,054
Accrued interest payable	-	-	-	-
Landfill postclosure costs	-	-	-	-
Notes payable, current	-	-	-	-
Notes payable	-	-	-	210,000
Bonds payable, current	-	-	-	-
Bonds payable	-	-	-	-
Special assessment bonds with governmental commitments	-	-	-	-
Obligations under capital lease	-	-	-	-
Total liabilities	538,033	593,119	125,898	225,054
Equity and other credits:				
Investment in general fixed assets	-	-	-	-
Contributed capital	-	-	-	-
Retained earnings (deficit):				
Unreserved	-	-	-	-
Fund balances (deficit):				
Reserved for:				
Encumbrances	9,712	116,647	-	-
Materials and supplies inventory	1,861	32,522	-	-
Note receivable	-	584,385	-	210,000
Debt service	-	-	11,064	-
Unreserved:				
Undesignated	720,061	834,507	-	(72,559)
Total equity and other credits	731,634	1,568,061	11,064	137,441
Total liabilities, equity and other credits	\$ 1,269,667	2,161,180	136,962	362,495

See accompanying notes to the general purpose financial statements.

PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPE	ACCOUNT GROUPS		TOTALS (Memorandum Only)	
		General Fixed Asset	General Long-Term Obligation	2,000	1999
Enterprise	Agency				
2,314,575	1,447	-	-	3,848,171	3,284,549
-	-	-	-	13,980	13,141
-	-	-	-	1,099,233	948,679
68,179	-	-	-	87,444	69,796
215,245	-	-	-	215,245	270,248
-	-	-	-	47,008	5,557
580	-	-	-	173,463	209,098
31,000	-	-	-	131,000	131,000
-	-	-	-	85,597	102,952
-	-	-	-	794,385	976,224
10,710	-	-	-	42,131	30,501
11,529	-	-	-	45,912	50,592
15,396	-	-	-	15,396	21,564
5,656,723	-	3,418,606	-	9,075,329	8,374,520
-	-	-	11,064	11,064	7,702
-	-	-	824,024	824,024	903,526
<u>8,323,937</u>	<u>1,447</u>	<u>3,418,606</u>	<u>835,088</u>	<u>16,509,382</u>	<u>15,399,649</u>
333,698	-	-	-	551,406	224,131
69,767	1,447	-	-	71,214	66,988
31,000	-	-	-	131,000	131,000
-	-	-	74,247	74,247	74,247
27,682	-	-	-	97,122	91,004
75,273	-	-	185,821	261,094	287,830
580	-	-	-	885,536	847,044
827	-	-	-	827	7,545
344,552	-	-	-	344,552	360,874
243,194	-	-	-	243,194	226,389
4,365,632	-	-	-	4,575,632	4,552,028
135,000	-	-	-	135,000	130,000
285,000	-	-	407,362	692,362	860,745
-	-	-	118,000	118,000	155,000
-	-	-	49,658	49,658	53,760
<u>5,912,205</u>	<u>1,447</u>	<u>-</u>	<u>835,088</u>	<u>8,230,844</u>	<u>8,068,585</u>
-	-	3,418,606	-	3,418,606	3,152,936
1,477,734	-	-	-	1,477,734	1,316,367
933,998	-	-	-	933,998	782,366
-	-	-	-	126,359	75,252
-	-	-	-	34,383	38,032
-	-	-	-	794,385	976,224
-	-	-	-	11,064	7,702
-	-	-	-	1,482,009	982,185
<u>2,411,732</u>	<u>-</u>	<u>3,418,606</u>	<u>-</u>	<u>8,278,538</u>	<u>7,331,064</u>
<u>8,323,937</u>	<u>1,447</u>	<u>3,418,606</u>	<u>835,088</u>	<u>16,509,382</u>	<u>15,399,649</u>

CITY OF LONDON, OHIO
 Combined Statement of Revenues, Expenditures, and Changes in Fund
 Balances - All Governmental Fund Types
 Year Ended December 31, 2000
 (with comparative totals for the Year Ended December 31, 1999)

	GOVERNMENTAL FUND TYPES				TOTALS (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects	2000	1999
	Revenues:					
Income taxes	\$ 1,262,446	1,013,165	-	-	2,275,611	2,046,299
Property taxes	387,144	173,097	-	-	560,241	489,280
Intergovernmental revenue	429,613	733,514	-	-	1,163,127	1,653,682
Special assessments	-	24,467	48,654	12,476	85,597	106,506
Charges for services	38,797	415	-	-	39,212	36,780
Fines, licenses and permits	77,947	193,376	-	-	271,323	150,098
Interest income	186,277	15,706	295	9,255	211,533	134,854
Miscellaneous income	12,605	624	-	-	13,229	76,264
Total revenues	<u>2,394,829</u>	<u>2,154,364</u>	<u>48,949</u>	<u>21,731</u>	<u>4,619,873</u>	<u>4,693,763</u>
Expenditures:						
Current:						
Security of persons and property	1,318,879	342,462	-	-	1,661,341	1,555,465
Public health services	43,570	-	-	-	43,570	35,758
Leisure time activities	160,695	-	-	-	160,695	168,174
Community environment	944	419,723	-	-	420,667	791,382
Basic utility services	-	3,621	-	-	3,621	2,657
Transportation	-	406,080	-	-	406,080	370,036
General government	661,176	159,058	-	-	820,234	646,747
Capital outlay	-	659,310	-	-	659,310	687,662
Debt Service:						
Principal retirement	1,891	138	70,383	9,255	81,667	88,383
Interest and fiscal charges	790	35	21,927	-	22,752	25,427
Total expenditures	<u>2,187,945</u>	<u>1,990,427</u>	<u>92,310</u>	<u>9,255</u>	<u>4,279,937</u>	<u>4,371,691</u>
Excess (deficit) revenues over (under) expenditures	<u>206,884</u>	<u>163,937</u>	<u>(43,361)</u>	<u>12,476</u>	<u>339,936</u>	<u>322,072</u>
Other financing sources (uses):						
Sale of assets	3,600	-	-	-	3,600	7,000
Inception of capital lease	20,636	2,315	-	-	22,951	-
Transfers-In	-	166,733	51,182	-	217,915	915,565
Transfers-Out	(164,415)	(46,723)	(4,459)	-	(215,597)	(912,908)
Total other financing sources (uses)	<u>(140,179)</u>	<u>122,325</u>	<u>46,723</u>	<u>-</u>	<u>28,869</u>	<u>9,657</u>
Excess (deficit) revenues and other sources over (under) expenditures and other (uses)	<u>66,705</u>	<u>286,262</u>	<u>3,362</u>	<u>12,476</u>	<u>368,805</u>	<u>331,729</u>
Fund balance, beginning of year	<u>664,929</u>	<u>1,281,799</u>	<u>7,702</u>	<u>124,965</u>	<u>2,079,395</u>	<u>1,747,666</u>
Fund balance, end of year	<u>\$ 731,634</u>	<u>1,568,061</u>	<u>11,064</u>	<u>137,441</u>	<u>2,448,200</u>	<u>2,079,395</u>

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
 Year Ended December 31, 2000

	General Fund			Special Revenue Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenue:						
Income taxes	\$ 1,161,500	1,249,590	88,090	891,200	979,695	88,495
Property taxes	359,000	387,144	28,144	151,000	173,097	22,097
Intergovernmental revenue	337,150	426,617	89,467	705,192	723,717	18,525
Special assessments	-	-	-	20,000	24,467	4,467
Charges for services	35,100	38,977	3,877	540	989	449
Fines, licenses and permits	54,150	63,548	9,398	117,120	191,246	74,126
Interest income	80,000	144,651	64,651	-	-	-
Miscellaneous	5,000	12,605	7,605	-	100	100
Total revenues	<u>2,031,900</u>	<u>2,323,132</u>	<u>291,232</u>	<u>1,885,052</u>	<u>2,093,311</u>	<u>208,259</u>
Expenditures:						
Current:						
Security of persons and property	1,408,346	1,323,920	84,426	355,976	325,176	30,800
Public health services	46,500	43,570	2,930	-	-	-
Leisure time activities	178,350	160,512	17,838	38,000	-	38,000
Community environment	1,850	944	906	499,712	435,197	64,515
Basic utility services	-	-	-	-	-	-
Transportation	-	-	-	540,866	421,635	119,231
General government	674,793	647,599	27,194	165,369	160,051	5,318
Capital outlay	-	-	-	941,731	736,904	204,827
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>2,309,839</u>	<u>2,176,545</u>	<u>133,294</u>	<u>2,541,654</u>	<u>2,078,963</u>	<u>462,691</u>
Excess (deficit) revenues over (under) expenditures	<u>(277,939)</u>	<u>146,587</u>	<u>424,526</u>	<u>(656,602)</u>	<u>14,348</u>	<u>670,950</u>
Other financing sources (uses):						
Note proceeds	-	-	-	-	-	-
Proceeds from sale of assets	-	3,600	3,600	-	-	-
Operating transfers in	-	-	-	170,460	166,733	(3,727)
Operating transfers (out)	(169,807)	(164,415)	5,392	(46,723)	(46,723)	-
Total other financing sources (uses)	<u>(169,807)</u>	<u>(160,815)</u>	<u>8,992</u>	<u>123,737</u>	<u>120,010</u>	<u>(3,727)</u>
Excess (deficit) revenues and other sources over (under) expenditures and other (uses)	<u>(447,746)</u>	<u>(14,228)</u>	<u>433,518</u>	<u>(532,865)</u>	<u>134,358</u>	<u>667,223</u>
Fund balances, beginning of year	467,312	467,312	-	600,732	600,732	-
Prior year encumbrances appropriated	8,423	8,423	-	124,108	124,108	-
Fund balances, end of year	<u>\$ 27,989</u>	<u>461,507</u>	<u>433,518</u>	<u>191,975</u>	<u>859,198</u>	<u>667,223</u>

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)
\$	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	43,956	48,655	4,699	-	12,476	12,476
	-	-	-	-	-	-
	-	470	470	-	-	-
	-	-	-	206,800	206,800	-
	<u>43,956</u>	<u>49,125</u>	<u>5,169</u>	<u>206,800</u>	<u>219,276</u>	<u>12,476</u>
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	416,800	416,800	-
	70,383	70,383	-	-	-	-
	<u>21,927</u>	<u>21,927</u>	-	-	-	-
	<u>92,310</u>	<u>92,310</u>	-	<u>416,800</u>	<u>416,800</u>	-
	<u>(48,354)</u>	<u>(43,185)</u>	<u>5,169</u>	<u>(210,000)</u>	<u>(197,524)</u>	<u>12,476</u>
	-	-	-	210,000	210,000	-
	-	-	-	-	-	-
	51,182	51,182	-	-	-	-
	<u>(4,459)</u>	<u>(4,459)</u>	-	-	-	-
	<u>46,723</u>	<u>46,723</u>	-	<u>210,000</u>	<u>210,000</u>	-
	(1,631)	3,538	5,169	-	12,476	12,476
	7,512	7,512	-	24,965	24,965	-
	-	-	-	-	-	-
	<u>5,881</u>	<u>11,050</u>	<u>5,169</u>	<u>24,965</u>	<u>37,441</u>	<u>12,476</u>

CITY OF LONDON, OHIO
 Combined Statements of Revenues, Expenses and Changes in Retained
 Earnings - All Proprietary Fund Types
 For the Year Ended December 31, 2000
 (with comparative totals for the Year Ended December 31, 1999)

	PROPRIETARY FUND TYPES	
	Enterprise	
	2000	1999
Operating revenues:		
Charges for services	\$ 2,772,195	2,942,399
Total operating revenues	<u>2,772,195</u>	<u>2,942,399</u>
Operating expenses:		
Personnel services	990,131	955,807
Contractual services	257,627	242,938
Depreciation and amortization	300,578	284,333
Other expenses	821,761	566,152
Total operating expenses	<u>2,370,097</u>	<u>2,049,230</u>
Operating income	<u>402,098</u>	<u>893,169</u>
Nonoperating revenues/(expenses):		
Interest income	36,172	22,741
Interest expense and fiscal charges	(358,114)	(378,971)
Special assessments	606	605
Gain (loss) on sale of fixed assets	3,909	(2,182)
Other nonoperating revenues	26,372	20,705
Other nonoperating expenses	(2,801)	(2,214)
Total nonoperating revenues/(expenses)	<u>(293,856)</u>	<u>(339,316)</u>
Income before operating transfers	108,242	553,853
Operating transfers in	205,000	205,000
Operating transfers out	<u>(207,318)</u>	<u>(207,657)</u>
Net income	105,924	551,196
Add depreciation on fixed assets acquired with contributed capital	<u>45,708</u>	<u>44,706</u>
Increase in retained earnings	151,632	595,902
Retained earnings, beginning of year	<u>782,366</u>	<u>186,464</u>
Retained earnings, end of year	\$ <u><u>933,998</u></u>	<u><u>782,366</u></u>

See accompanying notes to the general purpose financial statements.

CITY OF LONDON, OHIO
 Combined Statements of Cash Flows - All Proprietary Fund Types
 Year Ended December 31, 2000
 (with comparative totals for the Year Ended December 31, 1999)

	PROPRIETARY FUND TYPES	
	Enterprise	
	2000	1999
Cash flows from operating activities:		
Operating income	\$ 402,098	893,169
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	300,578	284,333
Effects of changes on operating assets and liabilities:		
Accounts receivable	(749)	(1,053)
Accrued unbilled utilities	55,003	(5,888)
Prepaid expenses	(3,955)	(1,254)
Materials and supplies inventory	1,031	(3,751)
Accounts payable	264,218	(2,140)
Landfill postclosure costs	(16,322)	(13,967)
Due to others	4,226	(98)
Accrued expenses	1,434	(23,340)
Compensated absences payable	(25,082)	(575)
Deferred revenue	(549)	(518)
Net cash provided by operating activities	<u>981,931</u>	<u>1,124,918</u>
Cash from noncapital financing activities:		
Operating transfers in	205,000	205,000
Operating transfers out	(207,318)	(207,657)
Nonoperating revenue	26,978	21,310
Nonoperating expense	(2,801)	(2,214)
Net cash provided by noncapital financing activities	<u>21,859</u>	<u>16,439</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(523,065)	(306,840)
Proceeds from sale of fixed assets	4,500	-
Proceeds from OWDA loan	456,798	-
Repayment of notes and bonds	(356,387)	(343,751)
Interest payments	(357,287)	(380,721)
Repayment of capital lease obligations	-	(6,703)
Net cash (used) by capital and related financing activities	<u>(775,441)</u>	<u>(1,038,015)</u>
Cash from investing activities:		
Interest received	36,172	22,741
Net cash provided by investing activities	<u>36,172</u>	<u>22,741</u>
Net increase in cash	264,521	126,083
Pooled cash and investments, beginning of year	<u>2,050,054</u>	<u>1,923,971</u>
Pooled cash and investments, end of year	<u>\$ 2,314,575</u>	<u>2,050,054</u>
Noncash investing activities		
Loss on disposal of fixed asset	\$ -	2,182
Supplemental disclosures:		
Interest paid	\$ 357,287	380,721

See accompanying notes to the general purpose financial statements.

CITY OF LONDON, OHIO
Notes to the General Purpose Financial Statements
December 31, 2000

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, 2000.

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

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operations. Fund accounting is designed to demonstrate legal compliance and to aid 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.

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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 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. 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 2000, 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 expendable trust 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

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fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The modified accrual basis of accounting is used by all governmental fund types, agency funds and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The availability period for the City is considered to be 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. 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.

Those revenues susceptible to accrual are property taxes, income taxes, special assessments, interest earnings, intergovernmental revenues, fines and forfeitures, and charges for services. Other revenues, including licenses and permits, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Propriety 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 9, 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.

The City reports deferred revenue on 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 subsequent periods, when both revenue recognition criteria are met, or when the City has legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Special assessment installments and notes receivable to be received in governmental funds are recorded as deferred revenue because they do not meet the availability criteria.

Property taxes measurable as of December 31, 2000, and delinquent property taxes, whose availability is indeterminate and which are not intended to finance the current year, have also been recorded as deferred revenue as further described in Note 4.

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

The appropriations ordinance controls expenditures at the object 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

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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 13 provides a reconciliation of the budgetary and GAAP basis of accounting.

I. Cash and investments

For investment purposes, the City pools all individual cash balances in a central bank account or in short-term cash equivalents. Individual fund balance integrity is maintained. All investments are stated at fair value, which approximates cost. The City considers savings, checking and overnight repurchase agreements, along with investments with original maturity of ninety (90) days or less to be cash and cash equivalents. Detailed information regarding all of the City's cash deposits and investments is provided in Note 2. The City has no investments that require gain or loss due to market value changes in accordance with GASB 31.

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, 2000 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.

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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

Note 6 provides annual activity on fixed assets.

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 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.

CITY OF LONDON, OHIO
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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

Contributed capital is 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.

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, 1999	\$ 1,316,367
Additions to contributed capital for year ended December 31, 2000	207,075
Depreciation for the year ended December 31, 2000	<u>(45,708)</u>
Contributed Capital as of December 31, 2000	\$ <u>1,477,734</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.

CITY OF LONDON, OHIO
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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 2000.

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 of London covers most of its risks of loss through commercial insurance. There were no significant reductions in insurance coverage on any risk during the past year. The City did not have any settlements that exceeded insurance coverage in the last three years.

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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.

Cash and Certificates of Deposit - at December 31, 2000, the carrying amount of all the City's deposits was \$3,862,151 and the bank balance was \$4,013,428. Of the bank balance, \$216,000 was insured by federal depository insurance and \$3,797,428 was collateralized with securities held by the financial institution or by its trust department or agent but not in the City's name.

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 name. The City held no investments at December 31, 2000, which meet the criteria of GASB 3.

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, 2000, and all unpaid interest, \$81,701, 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.

Note receivable in the amount of \$2,684 outstanding at December 31, 2000 was part of a downtown revitalization project. The amount is being paid by a property owner in the amount of \$119.05 per month.

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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 1996.

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 1999, on which the 2000 tax collections were based, are as follows:

Real property:	
Residential/agricultural	\$ 70,119,770
Commercial/industrial	28,460,150
Tangible personal property:	
Public utilities and general	<u>27,431,230</u>
Total valuation	\$ <u>126,011,150</u>

The full tax rate applied to real property for the tax year ended December 31, 1998 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 \$5.52 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$5.72 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.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of December 31, 2000. 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.

CITY OF LONDON, OHIO
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5. Income Taxes:

The City levies a 1.0% income taxes 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. Fixed Assets:

A summary of changes in the General Fixed Assets Account Group during 2000 is as follows:

	Balance at <u>12/31/99</u>	<u>Additions</u>	<u>Disposals</u>	Balance at <u>12/31/00</u>
Land	\$ 80,048	-	-	80,048
Buildings	485,465	57,328	12,771	530,021
Machinery & equipment	2,184,038	254,449	93,723	2,344,765
Other improvements	356,374	107,398	-	463,772
Construction-in-progress	<u>47,011</u>	<u>-</u>	<u>47,011</u>	<u>-</u>
Total general fixed assets	\$ <u>3,152,936</u>	<u>419,175</u>	<u>153,505</u>	<u>3,418,606</u>

A summary of changes in the Enterprise funds fixed assets during 2000 is as follows:

	Balance at <u>12/31/99</u>	<u>Additions</u>	<u>Disposals</u>	Balance at <u>12/31/00</u>
Land	\$ 140,782	15,558	-	156,340
Buildings	733,777	64,000	-	793,777
Machinery & equipment	2,469,991	44,208	9,868	2,504,331
Improvements other than buildings	4,851,060	183,576	-	5,045,636
Water & sewer lines	4,453,056	-	-	4,453,056
Construction in progress	<u>90,203</u>	<u>426,798</u>	<u>-</u>	<u>517,001</u>
Total	12,738,869	730,140	9,858	13,459,141
Accumulated depreciation	<u>7,517,285</u>	<u>294,410</u>	<u>9,277</u>	<u>7,802,418</u>
Net	\$ <u>5,221,584</u>	<u>435,730</u>	<u>591</u>	<u>5,656,723</u>

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7. Note Payable:

In 1999, the City entered into a \$400,000, 4.25% note payable to Bank One Capital Markets, Inc. for the purpose of renovating an athletic complex for the London City Schools (School). An agreement was made between the City and the School stating that the School would be responsible for all payments of 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. No allowance is considered necessary on the note receivable from the School, as it is considered fully collectible.

The note receivable is equally offset by a reservation of fund balance.

During 2000, the City made a principal payment of \$190,000 against the note. Therefore, the ending principal balance outstanding at December 31, 2000 was \$210,000. The City subsequently received a reimbursement for the principal and interest paid from the School, which reduced the note receivable amount reported accordingly.

8. Long-Term Obligations:

A summary of the long-term debt outstanding at December 31, 2000 is as follows:

	Balance at <u>12/31/99</u>	Principal <u>Issued</u>	Principal <u>Retired</u>	Balance at <u>12/31/00</u>
General obligation debt:				
1993, Ohio public works loan	\$ 200,745	-	13,383	187,362
1994, 5.8% Pool Improve- ments Bonds	<u>240,000</u>	<u>-</u>	<u>20,000</u>	<u>220,000</u>
Total	<u>\$ 440,745</u>	<u>-</u>	<u>33,383</u>	<u>407,362</u>
Special assessment debt:				
1991, 5.899% street improve- ment bonds	\$ 64,000	-	31,000	33,000
1993, 5.25% sanitary sewer improvement bonds	<u>91,000</u>	<u>-</u>	<u>6,000</u>	<u>85,000</u>
Total	<u>\$ 155,000</u>	<u>-</u>	<u>37,000</u>	<u>118,000</u>
Enterprise funds:				
General Obligation Bonds - 1993, 5.25% sanitary sewer improvement bonds	\$ 40,000	-	10,000	30,000
General Obligation Bonds - 1992, 4.86% water tower replacement	<u>510,000</u>	<u>-</u>	<u>120,000</u>	<u>390,000</u>
Total	<u>\$ 550,000</u>	<u>-</u>	<u>130,000</u>	<u>420,000</u>

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	Balance at <u>12/31/99</u>	Principal <u>Issued</u>	Principal <u>Retired</u>	Balance at <u>12/31/00</u>
O.W.D.A. Notes:				
1976, 5.50% loan #100	\$ 132,339	-	21,262	111,077
1976, 5.50% loan #130	25,255	-	4,519	20,736
1988, 7.65% loan #803	3,777,860	-	179,812	3,598,048
1988, 7.86% loan #816	442,963	-	20,796	422,167
2000, loan #3314	-	456,798	-	456,798
Total	\$ <u>4,928,417</u>	<u>456,798</u>	<u>226,389</u>	<u>4,608,826</u>

During 2000, the City entered into a loan agreement with the Ohio Water Development Authority for the City's water system. Proceeds are drawn down as funds are expended. As of December 31, 2000, the City received \$456,798 of proceeds from this loan. As the project is completed, the City will receive the remaining proceeds. The repayment of this debt is not scheduled to begin until January 1, 2002 or until the project is finished. Upon completion, the amortization schedule for debt repayment will be figured on the actual construction costs.

Annual debt service requirements to maturity for General Long-Term Obligation Account Group debt, including interest of \$96,381 are:

<u>Year</u>	Total General Obligation	Total Special Assessment	<u>Total</u>
2001	\$ 45,563	45,443	91,005
2002	44,403	10,148	54,551
2003-2007	222,295	47,011	269,306
2008-2012	130,395	42,352	172,747
2013-2014	<u>26,766</u>	<u>7,368</u>	<u>34,134</u>
Total	\$ <u>469,422</u>	<u>152,321</u>	<u>621,743</u>

Annual debt service requirements to maturity for Enterprise Funds (the 2000 OWDA loan is not included in the table below as the repayment terms have yet to be established), including interest of \$2,328,374 are:

<u>Year</u>	Total Sanitary Sewer Bonds	Total Water Bonds	Total OWDA Loans	Total Enterprise Debt
2001	\$ 11,576	142,503	558,800	712,879
2002	11,050	140,870	558,880	710,800
2003-2007	10,526	138,713	2,705,325	2,854,564
2008-2012	-	-	<u>2,622,162</u>	<u>2,622,161</u>
Total	\$ <u>33,152</u>	<u>422,086</u>	<u>6,445,167</u>	<u>6,900,404</u>

CITY OF LONDON, OHIO
Notes to the General Purpose Financial Statements
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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, 2000, the City had legal debt margin for total unvoted debt of \$6,930,613 and a legal debt margin for total debt of \$13,011,171.

The City has leased certain machinery and equipment under capital leases. The cost of these leased assets is \$292,769, of which \$135,347 is included in the enterprise fund and \$157,422 is in the general fixed asset account group. For the year ended December 31, 2000, the City entered into two separate agreements for copiers with principal payments totaling \$22,951, which has been recorded as an obligation in the general long term obligation account group. The total outstanding capital lease principal at year end is \$49,658.

The following is a schedule by years of future minimum lease payments under capital leases:

Fiscal year ending December 31:

	General Long Term Obligations Account <u>Group</u>
2001	\$ 29,264
2002	11,335
2003	8,707
2004 and 2005	<u>7,228</u>
Total minimum lease payments	56,534
Less amount representing interest	<u>6,876</u>
Present value of net minimum lease payments	\$ <u>49,658</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 at</u> <u>December 31, 1999</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Balance at</u> <u>December 31, 2000</u>
Accrued vacation	\$ 104,819	2,761	107,580
Accrued sick	81,357	(5,692)	75,665
Accrued compensatory time	<u>1,300</u>	<u>1,276</u>	<u>2,576</u>
Total	\$ <u>187,476</u>	<u>(1,655)</u>	<u>185,821</u>

CITY OF LONDON, OHIO
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9. 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 were landfilled from 1966 to 1989. The Ohio EPA approved the City's final closure plan in June 1990. The City has incurred closure costs of \$276,008 of which \$16,322 was incurred in 2000. 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 \$344,552 at December 31, 2000 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 2000. 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).

10. 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-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 2000. The rate rollback was 20% for state and local government divisions. 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 2000 was 10.84% of covered payroll. The City's contributions, representing 100% of employer contributions for the periods ended December 31, 2000, 1999, and 1998 were \$185,656, \$194,521, and \$178,560, respectively.

CITY OF LONDON, OHIO
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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, 2000, 1999 and 1998 were \$194,605, \$184,743 and \$170,845, respectively, equal to the required contribution for each year.

11. 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 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. The employer contribution rate was rolled back for the year 2000. For local government employer units the rate was 10.84% of covered payroll; 4.30% was the portion that was used to fund health care for the year.

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, 1999.

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 1999 was 7.75%.

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Active Employee Total Payroll: An annual increase of 4.75% 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 4.75% base increase, were assumed to range from 0.54% to 5.1%.

Health Care: Health care costs were assumed to increase 4.75% annually.

The OPEBs are advance-funded on an actuarially determined basis. The number of active contributing participants was 401,339. The portion of City's contributions that were used to fund postemployment benefits was \$77,196. \$10,805.5 million represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 1999. The actuarially accrued liability and the unfounded actuarial accrued liability, based on the actuarial cost method used, were \$12,473.6 million and \$1,668.1 million, respectively.

The Retirement Board enacted a temporary employer contribution rate rollback for calendar year 2000. The decision to rollback rates was based on the December 31, 1998 actuarial study, which indicated that actuarial assets exceeded actuarial liabilities. The temporary rate roll back was 20% for both state and local government divisions. The Board reallocated employer contributions from 4.20% to 4.30% at the beginning of the year to improve health care financing. The proportion of contributions dedicated to funding OPEB increased during the year for those reasons.

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 7.0% and 7.25% of covered payroll in 1999 and 2000, respectively. The allocation is 7.50% in 2001. 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, 1999, the date of the last actuarial valuation available, were 12,467 for Police and 9,807 for Firefighters. The City's annual contribution for 2000 that were used to fund postemployment benefits was \$43,027. The fund's total health care expenses for the year ending December 31, 1999 was \$95,004,633, which was net of members contributions of \$5,518,098.

CITY OF LONDON, OHIO
Notes to the General Purpose Financial Statements
December 31, 2000

12. 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-year accrual.

All employees earn sick leave at the rate of 4.6 hours for each eighty hours of work completed.

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, 2000, the accrued liability for unpaid compensated absences was \$261,094 for all funds and account groups.

13. 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:

CITY OF LONDON, OHIO
Notes to the General Purpose Financial Statements
December 31, 2000

Excess of Revenues and Other Financing Services Over (Under)
Expenditures and Other Financing Uses

	Governmental Fund Types			
	General <u>Fund</u>	Special Revenue <u>Funds</u>	Debt Service <u>Funds</u>	Capital Project <u>Funds</u>
Budget basis	\$ (14,228)	134,358	3,538	12,476
Due to revenue	71,697	61,053	(176)	(197,545)
Due to expenditure	(11,400)	88,536	-	407,545
Other financing sources (uses)	20,636	2,315	-	(210,000)
GAAP basis	\$ 66,705	286,262	3,362	12,476

14. 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.

15. 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, 2000 was as follows:

	Water <u>Funds</u>	Sewer <u>Funds</u>	Sanitation <u>Funds</u>	Total Enterprise <u>Funds</u>
Operating revenues	\$ 909,431	1,154,987	707,777	2,772,195
Depreciation and amortization expense	70,048	203,687	26,843	300,578
Other operating expense	1,028,779	503,480	537,260	2,069,519
Operating income (loss)	(189,396)	447,820	143,674	402,098
Special assessment taxes	-	606	-	606

CITY OF LONDON, OHIO
Notes to the General Purpose Financial Statements
December 31, 2000

	<u>Water Funds</u>	<u>Sewer Funds</u>	<u>Sanitation Funds</u>	<u>Total Enterprise Funds</u>
Operating transfers:				
In	105,000	100,000	-	205,000
Out	(45,955)	(125,934)	(35,429)	(207,318)
Net income (loss)	(147,646)	120,805	132,765	105,924
Current capital contributions net additions (deletions)	207,075	-	-	207,075
Property Plant and equipment:				
Additions	687,267	38,616	4,257	730,140
Deletions	1,181	8,687	-	9,868
Net working capital	288,818	1,184,425	336,827	1,810,070
Total assets	2,651,362	5,090,732	581,843	8,323,937
Bonds and other long- term liabilities	764,503	3,948,456	357,498	5,070,457
Total equity (deficit)	\$ 1,395,845	832,193	183,694	2,411,732

16. Interfund Receivable/Payable:

A summary of interfund transactions at December 31, 2000 consist of the following:

During the normal course of operations, the City has numerous transactions among funds, most of which are accounted for as transfers among funds.

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Special Revenue:		
Recaptured Home	\$ -	100,000
Capital Projects:		
Downtown Revitalization	100,000	-
Enterprise Funds:		
Water	-	31,000
Sewer	26,000	-
Sanitation	5,000	-
Total Interfund Receivable/Payable	\$ <u>131,000</u>	<u>131,000</u>

17. Compliance and Accountability – Fund Deficits:

The Community Development Block Grant Fund has a deficit fund balance of \$2,000. This deficit is due to expenditures that have been incurred during the current year and will be reimbursed in 2001.

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

We have audited the general-purpose financial statements of the City of London, Ohio (the City), as of and for the year ended December 31, 2000, and have issued our report thereon dated June 14, 2001. We conducted our audit in accordance with generally accepted auditing standards 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 June 14, 2001.

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 general-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose 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 that we have reported to management of the City in a separate letter dated June 14, 2001.

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

Clout, Schaefer, Hackett + C.
Springfield, Ohio
June 14, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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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
JULY 24, 2001