



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education
London City School District
Madison County
60 South Walnut Street
London, Ohio 43140

To the Board of Education:

We have audited the accompanying general purpose financial statements of the London City School District, Madison County, Ohio, (the District) as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type and non-expendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2002 on our consideration of the District'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.

We performed our audit to form an opinion on the general purpose financial statements of the District, taken as a whole. The accompanying schedule of federal awards receipts and expenditures is presented for 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. We subjected this information 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.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, sweeping initial "J" and a long, horizontal stroke extending to the right.

JIM PETRO
Auditor of State of Ohio

December 16, 2002

**London City School District
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2002**

	Governmental Fund Types				Proprietary Fund	Fiduciary	Account Groups		Totals
	General	Special	Debt	Capital	Fund Type	Fund Types	General	General	2002
		Revenue	Service	Projects	Enterprise	Trust and Agency	Fixed Assets	Long Term Debt	(Memorandum) (Only)
Assets and Other Debits:									
Equity in Pooled Cash and Investments	\$ 1,999,126	366,887	322,560	29,359,932	111,767	221,717	0	0	\$ 32,381,989
Taxes Receivable	5,746,926	0	1,842,170	0	0	0	0	0	7,589,096
Interfund Receivables	940	0	0	0	0	0	0	0	940
Due from Other Funds	0	0	0	0	0	223,631	0	0	223,631
Intergovernmental Receivables	9,829	18,637	0	0	20,031	0	0	0	48,497
Accounts Receivable	44,789	541	0	95,758	0	2,454	0	0	143,542
Supplies Inventory	0	0	0	0	1,096	0	0	0	1,096
Inventory for Resale	0	0	0	0	4,305	0	0	0	4,305
Property, Plant & Equipment	0	0	0	0	283,660	0	17,129,645	0	17,413,305
Accumulated Depreciation, Where Applicable	0	0	0	0	(202,238)	0	0	0	(202,238)
Amount Available in Debt Service Fund	0	0	0	0	0	0	0	1,056,680	1,056,680
Amount to be Provided for Retirement of General Long Term Debt	0	0	0	0	0	0	0	30,042,718	30,042,718
Total Assets and Other Debits	\$ 7,801,610	386,065	2,164,730	29,455,690	218,621	447,802	17,129,645	31,099,398	\$ 88,703,561

(Continued)

**London City School District
Combined Balance Sheet
All Fund Types and Account Groups, Continued
June 30, 2002**

	Governmental Fund Types				Proprietary	Fiduciary	Account Groups		Totals
	General	Special	Debt	Capital	Fund Type	Trust and	General	General	2002
		Revenue	Service	Projects	Enterprise	Agency	Fixed Assets	Long Term Debt	(Memorandum (Only))
Liabilities:									
Interfund Payables	\$ 0	940	0	0	0	0	0	0	\$ 940
Due to Other Funds	201,361	22,256	0	0	14	0	0	0	223,631
Intergovernmental Payable	11,395	2,247	0	0	14,275	357,792	0	101,217	486,926
Accounts Payable	88,876	3,025	0	462,173	0	38	0	0	554,112
Accrued Salaries and Benefits	1,360,110	160,225	0	0	37,414	0	0	0	1,557,749
Deferred Revenue	3,721,233	0	1,108,050	0	0	0	0	0	4,829,283
Due to Others	0	0	0	0	0	57,200	0	0	57,200
Bonds Payable	0	0	0	0	0	0	0	29,910,000	29,910,000
Notes Payable	0	0	0	0	0	0	0	205,000	205,000
Compensated Absences Payable	70,885	0	0	0	9,890	0	0	883,181	963,956
Total Liabilities	5,453,860	188,693	1,108,050	462,173	61,593	415,030	0	31,099,398	38,788,797
Fund Equity and Other Credits:									
Investment in General Fixed Assets	0	0	0	0	0	0	17,129,645	0	17,129,645
Retained Earnings	0	0	0	0	157,028	0	0	0	157,028
Fund Balances:									
Reserved for Encumbrances	23,739	16,810	0	4,158,822	0	0	0	0	4,199,371
Reserved for Contributions	0	0	0	0	0	16,965	0	0	16,965
Reserved for Future Appropriation	2,025,694	0	734,119	0	0	0	0	0	2,759,813
Unreserved Fund Balance	298,317	180,562	322,561	24,834,695	0	15,807	0	0	25,651,942
Total Fund Equity	2,347,750	197,372	1,056,680	28,993,517	0	32,772	0	0	32,628,091
Total Fund Balances/Retained Earnings and Other Credits	2,347,750	197,372	1,056,680	28,993,517	157,028	32,772	17,129,645	0	46,904,451
Total Liabilities, Fund Equity, and Other Credits	\$ 7,801,610	386,065	2,164,730	29,455,690	218,621	447,802	17,129,645	31,099,398	\$ 88,703,561

See Accompanying Notes to the General Purpose Financial Statements

London City School District
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Fund
Year Ended June 30, 2002

	Governmental Fund Types				Fiduciary	Totals
	General	Special Revenue	Debt Service	Capital Project	Expendable Trust	(Memorandum) (Only)
REVENUES:						
Taxes	\$ 5,552,867	0	1,604,689	0	0	\$ 7,157,556
Tuition	63,249	12,795	0	0	0	76,044
Earnings on Investments	210,749	0	0	852,086	0	1,062,835
Extracurricular Activities	27,920	139,901	0	0	0	167,821
Classroom Materials and Fees	1,111	0	0	0	0	1,111
Miscellaneous	209,213	99,036	0	19,175	27,652	355,076
Revenue from State Sources						
Unrestricted Grants-in-Aid	6,759,573	196	106,039	0	0	6,865,808
Restricted Grants-in-Aid	151,070	246,433	0	31,302	0	428,805
Revenue from Federal Sources						
Unrestricted Grants In Aid	40,308	0	0	0	0	40,308
Restricted Grants-in-Aid	0	733,032	0	0	0	733,032
Total Revenue	13,016,060	1,231,393	1,710,728	902,563	27,652	16,888,396
EXPENDITURES:						
Instruction						
Regular	5,819,048	98,111	0	58,422	0	5,975,581
Special	1,107,879	568,053	0	0	0	1,675,932
Vocational	265,633	7,079	0	0	0	272,712
Adult/Continuing Instruction	0	51,942	0	0	0	51,942
Supporting Services						
Pupils	509,904	13,626	0	0	0	523,530
Instructional Staff	519,296	178,611	0	1,397	0	699,304
Board of Education	62,213	0	0	0	0	62,213
Administration	1,384,005	11,708	0	2,420	0	1,398,133
Fiscal Services	331,123	0	0	113,598	0	444,721
Support Services-Business	56	0	0	3,905	0	3,961
Operation & Maintenance-Plant	1,284,860	0	0	58,673	0	1,343,533
Pupil Transportation	590,769	3,028	0	999	0	594,796
Central	104,386	28,730	0	2,500	0	135,616
Operation of Non-Instructional Services						
Food Service/ Community Services	0	129,145	0	27,055	0	156,200
Extracurricular Activities						
Academic & Subject Oriented	40,211	12,175	0	72,359	0	124,745
Sports Oriented	191,043	139,290	0	27,210	0	357,543
Co-Curricular Activities	83,927	49,216	0	0	30,299	163,442
Capital Outlay						
Site Acquisition	0	0	0	50,267	0	50,267
Site Improvement	0	0	0	187,314	0	187,314
Architecture & Engineering	0	0	0	807,871	0	807,871
Building Acq. & Construction	0	0	0	792,865	0	792,865
Building Improvement	0	0	0	1,079,434	0	1,079,434
Debt Service						
Repayment of Debt	0	0	31,522,531	0	0	31,522,531
Total Expenditures	12,294,353	1,290,714	31,522,531	3,286,289	30,299	48,424,186
Excess (Deficiency) of Revenues						
Over (Under) Expenditures	721,707	(59,321)	(29,811,803)	(2,383,726)	(2,647)	(31,535,790)
Other Financing Sources and Uses:						
Other Financing Sources						
Premium & Accrued Interest	0	0	528,289	322,012	0	850,301
Sale of Bonds	0	0	29,910,000	0	0	29,910,000
Sale & Loss of Assets	0	0	0	966,996	0	966,996
Transfers-In	13,140	12,579	366,348	1,000	0	393,067
Refund of Prior Years Expenditures	2,368	0	0	0	0	2,368
Other Financing Uses						
Transfer-Out	(384,150)	0	0	0	0	(384,150)
Net Other Financing Sources and Uses	(368,642)	12,579	30,804,637	1,290,008	0	31,738,582
Excess (Deficiency) of Revenues and Other Sources Over Expenditures						
Disbursements and Other Uses	353,065	(46,742)	992,834	(1,093,718)	(2,647)	202,792
Beginning Fund Balance	1,994,685	244,114	63,846	30,087,235	18,019	32,407,899
Ending Fund Balance	\$ 2,347,750	197,372	1,056,680	28,993,517	15,372	\$ 32,610,691

See Accompanying Notes to the General Purpose Financial Statements

London City School District
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
All Governmental Fund Types and Expendable Trust Funds- Continued
Year Ended June 30, 2002

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$ 5,424,362	5,615,314	190,952	0	0	\$ 0
Tuition	69,100	71,896	2,796	10,895	12,545	1,650
Earnings on Investment	236,665	199,851	(36,814)	0	0	0
Extracurricular Activities	28,900	27,920	(980)	130,952	131,612	660
Classroom Materials and Fees	550	330	(220)	0	0	0
Miscellaneous	195,765	178,734	(17,031)	93,426	99,163	5,737
State Unrestricted Grants-in-Aid	6,753,262	6,759,511	6,249	0	0	0
State Restricted Grants-in-Aid	137,319	151,070	13,751	226,602	245,433	18,831
Federal Unrestricted Grants-in-Aid	24,000	34,414	10,414	0	0	0
Federal Restricted Grants-in-Aid	0	0	0	784,058	768,677	(15,381)
Total Revenue	12,869,923	13,039,040	169,117	1,245,933	1,257,430	11,497
Expenditures:						
Regular Instruction	5,893,095	5,817,733	75,362	86,403	50,629	35,774
Special Instruction	1,103,210	1,095,973	7,237	647,388	555,690	91,698
Vocational Instruction	273,180	267,290	5,890	6,982	6,982	0
Adult/Continuing Instruction	0	0	0	54,844	52,924	1,920
Support Services-Pupils	511,896	507,490	4,406	28,516	21,111	7,405
Support Services-Instructional Staff	519,633	512,672	6,961	236,769	200,897	35,872
Support Services-Board of Education	65,420	64,368	1,052	0	0	0
Support Services-Administration	1,381,844	1,369,951	11,893	11,608	11,586	22
Fiscal Services	334,021	329,548	4,473	0	0	0
Support Services-Business	0	0	0	0	0	0
Operation & Maintenance-Plant	1,343,467	1,287,065	56,402	0	0	0
Support Services-Transportation	602,949	597,826	5,123	3,018	3,018	0
Support Services-Central	105,647	103,690	1,957	38,321	28,216	10,105
Food Service Operations	0	0	0	0	0	0
Community Services	0	0	0	183,218	141,550	41,668
Academic & Subject Oriented	45,266	39,866	5,400	18,996	12,175	6,821
Sports Oriented	196,221	193,116	3,105	152,541	141,953	10,588
Co-Curricular Activities	86,867	84,329	2,538	50,486	39,357	11,129
Site Acquisition	0	0	0	0	0	0
Site Improvement	0	0	0	0	0	0
Architecture & Engineering	0	0	0	0	0	0
Building Acquisition & Construction	0	0	0	0	0	0
Other Fac. Acq. & Construction	0	0	0	0	0	0
Repayment of Debt	0	0	0	0	0	0
Total Expenditures	12,462,716	12,270,917	191,799	1,519,090	1,266,088	253,002
Excess of Revenue Over (Under) Expenditures	407,207	768,123	360,916	(273,157)	(8,658)	264,499
Other Financing Sources (Uses):						
Premium & Accrued Interest	0	0	0	0	0	0
Sale of Bonds	0	0	0	0	0	0
Sale & Loss of Assets	0	500	500	0	0	0
Transfers-In	0	13,140	13,140	12,579	12,579	0
Advances-In	0	0	0	940	940	0
Refund of Prior Years Expenditures	4,417	3,917	(500)	0	0	0
Transfers-Out	(384,150)	(384,150)	0	0	0	0
Advances-Out	(940)	(940)	0	0	0	0
Refund of Prior Years Receipts	(4,427)	(4,427)	0	0	0	0
Total Other Sources (Uses)	(385,100)	(371,960)	13,140	13,519	13,519	0
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	22,107	396,163	374,056	(259,638)	4,861	264,499
Beginning Fund Balance	1,493,261	1,493,261	--	258,696	258,696	--
Prior Year Carry Over Encumbrances	31,897	31,897	--	84,106	84,106	--
Ending Fund Balance	\$ 1,547,265	1,921,321	374,056	83,164	347,663	\$ 264,499

(Continued)

London City School District
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
All Governmental Fund Types and Expendable Trust Funds- Continued
Year Ended June 30, 2002

	Debt Service Funds			Capital Project Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$ 860,901	870,570	9,669	0	0	\$ 0
Tuition	0	0	0	0	0	0
Earnings on Investment	0	0	0	750,000	757,112	7,112
Extracurricular Activities	0	0	0	0	0	0
Classroom Materials and Fees	0	0	0	0	0	0
Miscellaneous	0	0	0	0	18,390	18,390
State Unrestricted Grants-in-Aid	106,038	106,039	1	0	0	0
State Restricted Grants-in-Aid	0	0	0	31,302	31,302	0
Federal Unrestricted Grants-in-Aid	0	0	0	0	0	0
Federal Restricted Grants-in-Aid	0	0	0	0	0	0
Total Revenue	966,939	976,609	9,670	781,302	806,804	25,502
Expenditures:						
Regular Instruction	0	0	0	89,724	58,422	31,302
Special Instruction	0	0	0	0	0	0
Vocational Instruction	0	0	0	0	0	0
Adult/Continuing Instruction	0	0	0	0	0	0
Support Services-Pupils	0	0	0	0	0	0
Support Services-Instructional Staff	0	0	0	1,397	1,397	0
Support Services-Board of Education	0	0	0	0	0	0
Support Services-Administration	0	0	0	2,420	2,420	0
Fiscal Services	0	0	0	114,000	113,598	402
Support Services-Business	0	0	0	3,905	3,905	0
Operation & Maintenance-Plant	0	0	0	63,822	58,673	5,149
Support Services-Transportation	0	0	0	999	999	0
Support Services-Central	0	0	0	2,500	2,500	0
Food Service Operations	0	0	0	27,055	27,055	0
Community Services	0	0	0	0	0	0
Academic & Subject Oriented	0	0	0	72,359	72,359	0
Sports Oriented	0	0	0	27,210	27,210	0
Co-Curricular Activities	0	0	0	0	0	0
Site Acquisition	0	0	0	59,531	59,531	0
Site Improvement	0	0	0	2,301,812	2,300,658	1,154
Architecture & Engineering	0	0	0	1,691,172	1,691,172	0
Building Acquisition & Construction	0	0	0	25,941,599	1,931,977	24,009,622
Other Fac. Acq. & Construction	0	0	0	1,087,796	1,078,336	9,460
Repayment of Debt	31,522,531	31,522,531	0	0	0	0
Total Expenditures	31,522,531	31,522,531	0	31,487,301	7,430,212	24,057,089
Excess of Revenue Over (Under) Expenditures	(30,555,592)	(30,545,922)	9,670	(30,705,999)	(6,623,408)	24,082,591
Other Financing Sources (Uses):						
Premium & Accrued Interest	526,854	528,289	1,435	322,012	322,012	0
Sale of Bonds	29,910,000	29,910,000	0	0	0	0
Sale & Loss of Assets	0	0	0	966,996	966,996	0
Transfers-In	366,348	366,348	0	1,000	1,000	0
Advances-In	0	0	0	0	0	0
Refund of Prior Years Expenditures	0	0	0	0	0	0
Transfers-Out	0	0	0	0	0	0
Advances-Out	0	0	0	0	0	0
Refund of Prior Years Receipts	0	0	0	0	0	0
Total Other Sources (Uses)	30,803,202	30,804,637	1,435	1,290,008	1,290,008	0
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	247,610	258,715	11,105	(29,415,991)	(5,333,400)	24,082,591
Beginning Fund Balance	63,846	63,846	--	30,082,044	30,082,044	--
Prior Year Carry Over Encumbrances	0	0	--	5,492	5,492	--
Ending Fund Balance	\$ 311,456	322,561	11,105	671,545	24,754,136	\$ 24,082,591

(Continued)

London City School District
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis)
All Governmental Fund Types and Expendable Trust Funds- Continued
Year Ended June 30, 2002

	Expendable Trust Funds			Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	\$ 0	0	0	6,285,263	6,485,884	\$ 200,621
Tuition	0	0	0	79,995	84,441	4,446
Earnings on Investment	0	0	0	986,665	956,963	(29,702)
Extracurricular Activities	0	0	0	159,852	159,532	(320)
Classroom Materials and Fees	0	0	0	550	330	(220)
Miscellaneous	27,575	27,810	235	316,766	324,097	7,331
State Unrestricted Grants-in-Aid	0	0	0	6,859,300	6,865,550	6,250
State Restricted Grants-in-Aid	0	0	0	395,223	427,805	32,582
Federal Unrestricted Grants-in-Aid	0	0	0	24,000	34,414	10,414
Federal Restricted Grants-in-Aid	0	0	0	784,058	768,677	(15,381)
Total Revenue	27,575	27,810	235	15,891,672	16,107,693	216,021
Expenditures:						
Regular Instruction	0	0	0	6,069,222	5,926,784	142,438
Special Instruction	0	0	0	1,750,598	1,651,663	98,935
Vocational Instruction	0	0	0	280,162	274,272	5,890
Adult/Continuing Instruction	0	0	0	54,844	52,924	1,920
Support Services-Pupils	0	0	0	540,412	528,601	11,811
Support Services-Instructional Staff	0	0	0	757,799	714,966	42,833
Support Services-Board of Education	0	0	0	65,420	64,368	1,052
Support Services-Administration	0	0	0	1,395,872	1,383,957	11,915
Fiscal Services	0	0	0	448,021	443,146	4,875
Support Services-Business	0	0	0	3,905	3,905	0
Operation & Maintenance-Plant	0	0	0	1,407,289	1,345,738	61,551
Support Services-Transportation	0	0	0	606,966	601,843	5,123
Support Services-Central	0	0	0	146,468	134,406	12,062
Food Service Operations	0	0	0	27,055	27,055	0
Community Services	0	0	0	183,218	141,550	41,668
Academic & Subject Oriented	0	0	0	136,621	124,400	12,221
Sports Oriented	0	0	0	375,972	362,279	13,693
Co-Curricular Activities	41,599	30,295	11,304	178,952	153,981	24,971
Site Acquisition	0	0	0	59,531	59,531	0
Site Improvement	0	0	0	2,301,812	2,300,658	1,154
Architecture & Engineering	0	0	0	1,691,172	1,691,172	0
Building Acquisition & Construction	0	0	0	25,941,599	1,931,977	24,009,622
Other Fac. Acq. & Construction	0	0	0	1,087,796	1,078,336	9,460
Repayment of Debt	0	0	0	31,522,531	31,522,531	0
Total Expenditures	41,599	30,295	11,304	77,033,237	52,520,043	24,513,194
Excess of Revenue Over (Under) Expenditures	(14,024)	(2,485)	11,539	(61,141,565)	(36,412,350)	24,729,215
Other Financing Sources (Uses):						
Premium & Accrued Interest	0	0	0	848,866	850,301	1,435
Sale of Bonds	0	0	0	29,910,000	29,910,000	0
Sale & Loss of Assets	0	0	0	966,996	967,496	500
Transfers-In	0	0	0	379,927	393,067	13,140
Advances-In	0	0	0	940	940	0
Refund of Prior Years Expenditures	0	0	0	4,417	3,917	(500)
Transfers-Out	0	0	0	(384,150)	(384,150)	0
Advances-Out	0	0	0	(940)	(940)	0
Refund of Prior Years Receipts	0	0	0	(4,427)	(4,427)	0
Total Other Sources (Uses)	0	0	0	31,721,629	31,736,204	14,575
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(14,024)	(2,485)	11,539	(29,419,936)	(4,676,146)	24,743,790
Beginning Fund Balance	14,168	14,168	--	31,912,015	31,912,015	--
Prior Year Carry Over Encumbrances	3,500	3,500	--	124,995	124,995	--
Ending Fund Balance	\$ 3,644	15,183	11,539	2,617,074	27,360,864	\$ 24,743,790

See Accompanying Notes to the General Purpose Financial Statements

London City School District
Combined Statement of Revenues, Expenses, and Changes in Retained
Earnings/Fund Balance

All Proprietary Fund Types and Non-Expendable Trust Fund

Year Ended June 30, 2002

	Proprietary Fund Types	Fiduciary Fund Types	Totals (Memorandum) (Only)
	Enterprise Funds	Non- Expendable Trust Fund	
Operating Revenues:			
Food Service	\$ 303,755	0	\$ 303,755
Earning on Investments	0	613	613
Extracurricular Activities	0	0	0
Classroom Materials & Fees	67,473	0	67,473
Total Operating Revenue	<u>371,228</u>	<u>613</u>	<u>371,841</u>
Operating Expenses:			
Personal Services - Salary	171,140	0	171,140
Employee Benefits	81,968	0	81,968
Purchased Services	10,574	974	11,548
Supplies and Materials	240,655	0	240,655
Depreciation	6,185	0	6,185
Total Operating Expenses	<u>510,522</u>	<u>974</u>	<u>511,496</u>
Operating Income (Loss)	(139,294)	(974)	(140,268)
Non-Operating Revenues:			
Earnings On Investments	2,589	0	2,589
Sale & Loss of Assets	4,270	0	4,270
State Unrestricted Grants-In-Aid	8,772	0	8,772
Federal Unrestricted Grants-In-Aid	188,500	0	188,500
Total Non-Operating Revenues	<u>204,131</u>	<u>0</u>	<u>204,131</u>
Non-Operating Expenses			
Loss on disposal of Assets	(3,844)	0	(3,844)
Total Non-Operating Expenses	<u>(3,844)</u>	<u>0</u>	<u>(3,844)</u>
Net Income Before Operating Transfers	60,993	(361)	60,632
Operating Transfers In	4,223	0	4,223
Operating Transfers Out	(13,140)	0	(13,140)
Total Operating Transfers	<u>(8,917)</u>	<u>0</u>	<u>(8,917)</u>
Net Income (Loss)	52,076	(361)	51,715
Beginning Retained Earnings/Fund Balance	104,952	17,761	122,713
Retained Earnings/Fund Balance at End of Year	<u>\$ 157,028</u>	<u>17,400</u>	<u>\$ 174,428</u>

See Accompanying Notes to the General Purpose Financial Statements

London City School District
Combined Statement of Changes in Cash Flows
All Proprietary Fund Types and Non-Expendable Trust Fund
Year Ended June 30, 2002

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise Funds	Non- Expendable Trust Fund	
Cash Flows from Operating Activities:			
Operating Income (Loss)	\$ (139,294)	(974)	\$ (140,268)
Adjustment to Reconcile Operating Gain (Loss)			
To Net Cash used in Operating Activities:			
Commodities	37,155	0	37,155
Depreciation	6,185	0	6,185
Net (Increase) Decrease in Assets:			
Intergovernmental Receivable	(501)	0	(501)
Accounts Receivable	1,617	361	1,978
Inventory	(225)	0	(225)
Net Increases (Decreases) in Liabilities:			
Due to Other Funds	(11,909)	0	(11,909)
Intergovernmental Payable	13,862	0	13,862
Accrued Wages and Benefits	2,822	0	2,822
Compensated Absences	694	0	694
Total Adjustments	49,700	361	50,061
Net Cash Used in Operating Activities	(89,594)	(613)	(90,207)
Cash Flows from Noncapital Activities:			
Investment Earnings	2,589	613	3,202
Net Transfers with Other Funds	(8,917)	0	(8,917)
Grants from State Sources	8,772	0	8,772
Grants from Federal Sources	148,730	0	148,730
Net Cash Provided by Noncapital Financing Sources	151,174	613	151,787
Cash Flows from Capital Financing Activities:			
Acquisition of Capital Assets	(44,115)	0	(44,115)
Net Cash Used for Capital Financing Activities	(44,115)	0	(44,115)
Net Increase (Decrease) in Cash & Cash Equivalents	17,465	0	17,465
Cash and Cash Equivalents at Beginning of Year	94,302	16,965	111,267
Cash and Cash Equivalents at End of Year	<u>\$ 111,767</u>	<u>16,965</u>	<u>\$ 128,732</u>

See Accompanying Notes to the General Purpose Financial Statements

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002**

Note 1. Summary of Significant Accounting Policies

The financial statements of the London City School District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The District 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 District is a city district as defined by Section 3311.2 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

Average daily membership (ADM) as of October 1, 2000 was 2,098. The District employed 159 certified employees and 78 non-certificated employees. The District cooperates for services with the Madison County Educational Service Center, a separate entity, for curricular services.

The District provides regular, vocational and special instruction. The District also provides support services for the pupils, instructional staff, general and school administration, business and fiscal services, facilities acquisition and construction services, operation and maintenance of plant, student transportation, food services, extracurricular activities and non-programmed services.

The accompanying general purpose financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, in that the financial statements include all organizations, activities and functions for which the district is financially accountable. This report includes all activities considered by management to be part of the school by virtue of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards.

Section 2100 indicates that the reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity.

It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note. 1 Summary of Significant Accounting Policies (Continued)

Management believes the financial statements included in this report represent all of the funds of the District over which the District is financially accountable.

B. Fund Accounting

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

A fund is a separate accounting entity with a self-balancing set of accounts. 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.

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed. Governmental Fund Types are accounted for on a flow of current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources (revenues and other financing sources) and uses (expenditures and other financing uses) of "available spendable resources" during the period.

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

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

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

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

Proprietary Fund Types

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector. The following are the proprietary fund types:

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note. 1 Summary of Significant Accounting Policies (Continued)

Enterprise Funds - These funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises where the intent 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 where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. The following are the fiduciary fund types:

Expendable Trust Funds - These funds account for resources, including both principal and earnings, which must be expended according to the provision of a trust agreement. Expendable trust funds are accounted for in essentially the same manner as governmental funds.

Nonexpendable Trust Funds - These funds account for trust principal which may not be expended. Only interest earned on the principal may be used for trust operations. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds.

Agency Funds - These funds are purely custodial and thus do not involve measurement of results of operations.

Account Groups

Account Groups are financial reporting devices to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not affect expendable available financial resources. The following are the account groups:

General Fixed Assets Account Group - This account group is used to account for all of the District's fixed assets other than those accounted for in the Proprietary funds.

General Long-Term Debt Account Group - This account group is used to account for all of the District's long-term obligations other than those accounted for in the Proprietary Funds.

C. Measurement Focus/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 flow of current financial resources measurement focus. With this focus, only current assets and current liabilities are generally

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note. 1 Summary of Significant Accounting Policies (Continued)

included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the 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 assets. The District has elected, under GASB No. 20, to apply Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989 except those that conflict with a GASB pronouncement.

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.

The modified accrual basis of accounting is followed for the Governmental Fund Types, Expendable Trust and Agency Funds.

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

Non-exchange transactions, in which the School District receives value without directly giving equal value without directly giving equal in return, include property taxes, grants, entitlements and donations. On a accrual basis, revenue from property taxes is recognized in the fiscal year for 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 of the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note. 1 Summary of Significant Accounting Policies (Continued)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

D. Budget and Budgetary Accounting

All governmental and proprietary fund types are subject to annual expenditure budgets. The Board follows the procedures outlined below in establishing the expenditure budget data reported in the general purpose financial statements:

- 1) A Tax Budget of estimated cash receipts and disbursements is submitted to the County Auditor, as secretary of the County Budget Commission, by January 20th of each year, for the fiscal year commencing the following July 1st. The Board of Education normally adopts the Tax Budget at its regular board meeting in January.
- 2) The County Budget Commission certifies its actions to the District by March 1st. As part of this certification, the District receives the Official Certificate of Estimated Resources which states the projected receipts of each fund. During the month of July, this Certificate is amended to include any unencumbered balances from the preceding fiscal year.
- 3) An annual appropriation measure must be passed by the Board of Education by October 1st of each year for the period July 1st to June 30th. Unencumbered appropriations lapse at year-end and the encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Board of Education usually adopts three month temporary appropriations at its regular board meeting in June. The Annual Appropriation Resolution is usually adopted at the September regular board meeting. The appropriation measure may be amended or supplemented during the year as new information becomes available. Individual buildings and/or departments may transfer funds within their budgets upon review of the Treasurer. Appropriations may not exceed estimated resources and expenditures may not exceed appropriations in any fund.
- 4) The District prepares its budget on a basis of accounting that differs from generally accepted accounting principles (GAAP). The actual results of operations are presented in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types" in accordance with the budget basis of accounting.

The major differences between the budget basis of accounting and GAAP basis are that:

- a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b) Expenditures are recorded when encumbered (budget basis) as opposed to when the liability is incurred (GAAP basis);

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note. 1 Summary of Significant Accounting Policies (Continued)

- c) Encumbrances are recorded as the equivalent of expenditures (budget basis) as opposed to a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis); and
- d) For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

Encumbrances - As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded as the equivalent of expenditures on the budget basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet. During fiscal year 2002, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements, federal agency securities, commercial paper, banker acceptance notes, and certificates of deposit.

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

The District invested funds in 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 June 30, 2002.

For the District, all investment earnings accrue to the General Fund, Capital Project, Enterprise Fund and Non-Expendable Trust Funds as authorized by board resolution. Interest income earned in fiscal year 2002 totaled \$1,066,037 of which \$38,000 was assigned to the General Fund by other funds.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note. 1 Summary of Significant Accounting Policies (Continued)

For purposes of the combined 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 District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Taxes Receivable

The financial statements reflect taxes receivable as of June 30, 2002. GAAP permits the recognition of revenue from any property tax assessment in the fiscal period levied, provided the funds are "available." "Available" means then due, or past due and receivable within the current period or expected to be collected soon thereafter. While these taxes have been assessed, the majority are not due at June 30, 2002 and accordingly have been recorded as deferred revenue in the accompanying financial statements. Taxes that become delinquent remain recorded in deferred revenue until they are determined to be uncollectible.

G. Inventories

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventories are determined by physical count. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of the governmental fund type inventories are recorded as expenditures when purchased (purchase method) rather than when consumed. The District had no inventory for governmental funds at June 30, 2002. Inventories of proprietary funds consist of donated food, purchased food, and general supplies, and are expended when used.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recognized under the nonallocation method. The nonallocation method of prepayments and deferrals is consistent with the basic governmental concept that only expendable financial resources are reported by a specific governmental fund. Payments for the prepaid items or deferrals are fully recognized as an expenditure in the year of payment. Under the nonallocation method no asset for the prepayment or deferral is created, and no expenditure allocation to future accounting periods is required.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note. 1 Summary of Significant Accounting Policies (Continued)

I. 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. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The District does not possess any infrastructure.

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

Assets in the general fixed assets account group are not depreciated. Depreciation of equipment in the proprietary fund types is computed using the straight-line method over an estimated useful life of 5 to 20 years of the assets.

J. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds." Short-term interfund loans are classified as "interfund receivables/payables." At June 30, 2002, the District had \$940 in "Due to/from Other Funds."

K. Compensated Absences

The District accounts for compensated absences in accordance with GASB Statement No. 16. Sick leave and other compensated absences with similar characteristics are accrued as a liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note. 1 Summary of Significant Accounting Policies (Continued)

To calculate the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or class or group of employees will become eligible to receive termination payments. All employees with ten or more years of service were included in the calculation of the long-term compensated absences accrual amount.

Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met: 1.) The employees' rights to receive compensation are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee; and 2.) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

For governmental funds, the District records a liability for accumulated unused vacation and sick leave when earned. The current portion of these unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid.

The remainder is reported in the general long-term debt account group. In proprietary funds, compensated absences are expensed when earned with the amount reported as a fund liability.

L. Interfund Transactions

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

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Fund Balance Reserves

Reserved Fund Balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund Balances are reserved for encumbrances, contributions, and future appropriation. The reserve for future appropriation represents the amount of the property taxes available for advance and recognized as revenue. The District is prohibited by law from appropriating the advance, since it was not received for the current fiscal year. The reserve for contributions represents the principal for the Non-Expendable Trust Funds; these funds are held for investment. The unreserved portions of fund equity reflected for the Governmental Funds are available for use within the specific purposes of those funds.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note 1 Summary of Significant Accounting Policies (Continued)

N. Estimates

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

O. 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 cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 2. Budgetary Basis of Accounting

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

	Governmental Fund Types				
	General Fund	Special Revenue	Debt Service	Capital Project	Expendable Trust
GAAP Basis	\$ 353,065	(46,742)	992,834	(1,093,718)	\$ (2,647)
Increase (Decrease):					
Due to Revenues:					
Net Adjustments to Revenue Accruals	22,980	26,037	(734,119)	(95,759)	158
Due to Expenditures:					
Net Adjustments to Expenditure	23,436	24,626	0	(4,143,923)	(4)
Due to Other Sources/Uses	(3,318)	940	0	0	0
Budget Basis	<u>\$ 396,163</u>	<u>4,861</u>	<u>258,715</u>	<u>(5,333,400)</u>	<u>\$ (2,493)</u>

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note 3. Cash and Investments

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

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

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note 3. Cash and Investments (Continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*.

Deposits: At year end, the carrying amount of the District's deposits was \$14,887,637 and the bank balance was \$15,211,468. Of the balance, \$167,378 was covered by Federal Depository Insurance; and \$15,044,090 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments: The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District'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 District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. STAR Ohio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category			Fair Value
	1	2	3	
Repurchase Agreements	\$ 0	\$ 0	\$ 1,653,697	\$ 1,653,697
Federal Agency Securities		15,251,660	0	15,251,660
STAR Ohio		0	0	501,552
STAR Ohio Construction	\$ 0	0	0	87,443
Total Investments	\$ 0	\$ 15,251,660	\$ 1,653,697	<u>\$ 17,494,352</u>

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note 3. Cash and Investments (Continued)

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 32,381,989	\$ 0
Investments:		
Repurchase Agreement	(1,653,697)	\$ 1,653,697
Federal Agency Securities	(15,251,660)	15,251,660
STAR Ohio	(501,552)	501,552
STAR Ohio Construction	(87,443)	87,443
GASB Statement No. 3	<u>\$ 14,887,637</u>	<u>17,494,352</u>

Note 4. Property Tax

Property taxes are levied, assessed and collected on a calendar year basis. They include amounts levied against all real, public utility, and tangible personal property located in the District. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the Madison County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last triennial update for the District was completed in 1999, a sexennial reappraisal is scheduled for 2002. The next triennial update is scheduled for 2005. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31, (although the Madison County Auditor usually files for an extension in sending out tax bills so payment is then due by February 14th). If paid semi-annually, the first payment is usually due February 14, with the remainder payable June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before December 31 of that calendar year. Tangible personal property used in business (except for public utilities) is currently assessed for taxation purposes at 25% of its true value. Amounts paid by multi-county taxpayers may pay annually or semi-annually; the first payment is due April 30, with the remainder payable by September 28.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note 4. Property Tax (Continued)

Public utility real and public utility personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Madison County Treasurer collects property tax on behalf of the District and the Madison County Auditor remits the collected taxes to the District. Tax settlements are made each March and August for real property taxes and each June and October for personal property.

Taxes available for advance and recognized as revenue, but not received by the District prior to June 30, are reflected as a reservation of fund balance. The District is prohibited by law from appropriating the property taxes recognized as revenue in accordance with Ohio Revised Code Section 5705.35 since an advance of tax revenue was not received by the end of the fiscal year.

The full tax rate at the fiscal year ended June 30, 2002 for operations was \$37.30 per \$1,000 of assessed valuation. The assessed values of real and tangible personal property on which the fiscal year 2002 taxes were collected were as follows:

Real Property-Commercial/Industrial	\$	38,432,400
Real Property-Residential/Agricultural		147,506,460
Personal Property-General		26,841,190
Personal Property-Public Utilities		11,742,850
Total Assessed Value	\$	224,522,900

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note 5. Receivables

Receivables at June 30, 2002 consisted of taxes, accounts (miscellaneous), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current guarantee of Federal funds.

A summary of the principal items of Intergovernmental Receivables follows:

General Fund:	
Tuition	\$ 3,935
CAFS Reimbursement	<u>5,894</u>
Fund Total	9,829
Special Revenue:	
Title II-A Grant	3,402
OECN Subsidy	1,000
Able Grant	940
Title VIB Grant	<u>13,295</u>
Fund Total	18,637
Enterprise Fund:	
Lunchroom Program	<u>20,031</u>
Fund Total	<u>20,031</u>
Grand Total	<u><u>\$ 48,497</u></u>

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note 6. Fixed Assets

The following is a summary of the proprietary funds property, plant and equipment at June 30, 2001:

Furniture and Equipment	\$ 283,660
Less Accumulated Depreciation	<u>(202,238)</u>
Net Fixed Assets	<u><u>\$ 81,422</u></u>

The following is a summary of changes in the General Fixed Assets Account Group during the fiscal year 2002:

	General Fixed Assets June 30, 2001	Additions	Deletions	General Fixed Assets June 30, 2002
Land and Improvements	\$ 884,550	0	0	\$ 884,550
Buildings	6,623,695	8,771	0	6,632,466
Other Improvements	1,606,525	0	1,273	1,605,252
Furniture and Equipment	4,122,963	239,674	158,233	4,204,404
Vehicles	821,781	68,294	97,415	792,660
Construction in Progress	0	3,010,313	0	3,010,313
Total General Fixed Assets	<u><u>\$ 14,059,514</u></u>	<u><u>3,327,052</u></u>	<u><u>256,921</u></u>	<u><u>\$ 17,129,645</u></u>

Note 7. Defined Benefit Pension Plans

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001 (the latest information available), 4.2 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note 7. Defined Benefit Pension Plans (Continued)

members and employers are established and may be amended, up to statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$288,528, \$246,984 and \$244,008, respectively; 47.65 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$158,495 representing the unpaid contribution for fiscal year 2002, including the surcharge, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 2002, plan members are required to contribute 9.3 percent of their annual covered salaries. The District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000 (the latest information available), 6 percent was used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$1,028,088, \$948,096 and \$893,808, respectively; 83.33 percent has been contributed for fiscal year 2002, and 100 percent for fiscal years 2001 and 2000. \$171,348 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

Note 8. Postemployment Benefits

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001 (the latest information available), the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund, a decrease of 3.5 percent for fiscal year 2001. For the District, this amount equaled \$330,457 for fiscal year 2002.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note 8. Postemployment Benefits (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2001 (the latest information available), employer contributions to fund health care benefits were 9.8 percent of covered payroll, an increase of 1.3 percent for fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. For the District, the amount to fund health care benefits, including surcharge, during the 2002 fiscal year equaled \$216,201.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001, (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants receiving health care benefits.

Note 9. Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Only administrative and support personnel who are under a full year contract (260 days) are eligible for vacation time. The administrators are generally granted twenty days of vacation per year.

Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Any vacation time which is unused as of the employee's anniversary date is expired and not available for use in a subsequent year unless approved by the Superintendent. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

The classified personnel accumulate vacation based on the following schedule:

Years Service	Vacation Days
1-9	10 days
10-19	15 days
20 and beyond	20 days

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note 9. Compensated Absences (Continued)

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis. Maximum sick leave accumulation for classified employees is 255 days and for certified employees it is 295 days.

Employees who have been employed by the District for a minimum of ten consecutive years at the time of retirement are entitled to retirement severance pay. Severance pay is paid to an eligible retiring employee at his/her per diem rate of his/her annual salary at the time of retirement. Any employee receiving retirement severance pay shall be entitled to a dollar amount equivalent to one-fourth of all accumulated sick leave credited to that employee up to 65 days for certified employees and 51 for classified employees.

Note 10. Risk Management

A. General Risk

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers. General liability insurance is maintained in the amount of \$3,000,000 for each occurrence and \$5,000,000 in the aggregate.

The District maintains fleet insurance in the amount of \$2,000,000 for any one accident or loss. The District maintains replacement cost insurance on buildings and contents in the amount of \$31,191,881. Settled claims have not exceeded this commercial coverage in any of the past three years.

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The intent of the GRP is to achieve the benefit of a reduced premium for the school district by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the GRP.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note 10. Risk Management (Continued)

B. Health Insurance

Effective September 1997, the District changed from a self-insured program to a full indemnity program for health insurance coverage.

Note 11. Notes and Long-Term Debt

Debt Limitations:

The Ohio Revised Code (ORC) provides that the net debt of a school district, whether or not approved by the people, shall not exceed 9.0% of the total value of all property in the District as listed and assessed for taxation. In addition, the unvoted net debt of a school district cannot exceed .1% of the total assessed value of property. The District has no unvoted debt, the District's unvoted debt limit is \$214,168. The voted debt limit at June 30, 2002 is \$19,277,837.

Additionally, ORC provides in Section 133.06 (E) that school districts may qualify for Special Needs Status when issuance of bonds would cause the total debt to exceed the 9.0% direct debt limitation. The District, on February 12, 2001, requested that it be granted Special Needs Status by the State Superintendent of Public Instruction. This request was granted on March 8, 2002. Following the award of Special Needs Status, the District issued Bond Anticipation Notes in the amount of \$30,000,000 on June 21, 2002 with a maturity date of December 12, 2002.

A summary of changes in long-term obligations for the year ended June 30, 2002, are as follows:

	Balance			Balance
	July 1, 2001	Additions	Deletions	June 30, 2002
Intergovernmental Payable	\$ 92,403	101,217	92,403	\$ 101,217
Bonds/Notes Payable	30,000,000	29,910,000	30,000,000	29,910,000
Energy Notes Payable	325,000	0	120,000	205,000
Capital Leases Payable	14,069	0	14,069	0
Compensated Absences Payable	892,228	883,181	892,228	883,181
	<u>\$ 31,323,700</u>	<u>30,894,398</u>	<u>31,118,700</u>	<u>\$ 31,099,398</u>

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note 11. Notes and Long-Term Debt (Continued)

The annual maturities of the Energy Conservation Notes as of June 30, 2002, and related interest payments are as follows:

Year	Principal	Interest	Payment
2003	50,000	10,380	60,380
2004	50,000	7,855	57,855
2005 and thereafter	105,000	8,135	113,135
	<u>\$ 205,000</u>	<u>26,370</u>	<u>\$ 231,370</u>

General Obligation Bonds: The District issued School Improvement and Classroom Facilities Bonds on October 16, 2001, in the amount of \$29,910,000 an average interest rate of 4.92 percent. The purpose of these bonds is to pay the local share of school construction under the State of Ohio Classroom Facilities Assistance Program for constructing, furnishing and equipping a educational facilities and for the repayment of bond anticipation notes issued for this project. The maturity date of the bonds is December, 2029.

The annual maturities of the general obligation bonds as of June 30, 2002, and related interest payments are as follows:

	Principal	Interest	Payment
FY 2003	\$ 200,000	1,387,025	\$ 1,587,025
FY 2004	555,000	1,378,303	1,933,303
FY 2005	625,000	1,363,501	1,988,501
FY 2006	700,000	1,344,895	2,044,895
FY 2007	930,000	1,319,922	2,249,922
FY 2008	1,025,000	1,287,850	2,312,850
FY 2009	1,130,000	1,249,802	2,379,802
FY 2010	1,410,000	1,202,742	2,612,742
FY 2011	1,545,000	1,146,177	2,691,177
FY2012 & Thereafter	21,790,000	8,901,506	30,691,506
	<u>\$29,910,000</u>	<u>20,581,723</u>	<u>\$ 50,491,723</u>

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note 12. Segments of Enterprise Activities

Key financial data for the District's Enterprise Funds for the year ended June 30, 2002, are as follows:

	Lunchroom Fund	Uniform School Supplies Fund	Total
Operating Revenues	\$ 303,756	67,472	\$ 371,228
Operating Expenses:			
Depreciation	(6,185)	0	(6,185)
Other Expenses	(437,373)	(66,964)	(504,337)
Total Operating Expenses	<u>(443,558)</u>	<u>(66,964)</u>	<u>(510,522)</u>
Operating Income (Loss)	(139,802)	508	(139,294)
Non Operating Revenues:			
Earnings on Investments	2,589	0	2,589
State and Federal Grants	197,272	0	197,272
Sale of Assets	4,270	0	4,270
Loss on Disposal of Assets	(3,844)	0	(3,844)
Net Transfers In and Out	0	(8,917)	(8,917)
Net Income (Loss)	<u>\$ 60,485</u>	<u>(8,409)</u>	<u>\$ 52,076</u>
Net Working Capital	<u>\$ 75,606</u>	<u>0</u>	<u>\$ 75,606</u>
Total Assets	<u>\$ 218,621</u>	<u>0</u>	<u>\$ 218,621</u>
Total Retained Earnings	<u>\$ 157,028</u>	<u>0</u>	<u>\$ 157,028</u>

Note 13. Jointly Governed Organizations

Metropolitan Educational Council (MEC) - MEC is a not for profit educational council whose primary purpose and objective is to contribute to the educational services available to school districts in Franklin County and surrounding areas by cooperative action membership. The governing board consists of a representative from each of the Franklin County districts. Districts outside of Franklin County are associate members and each county selects a single district to represent them on the governing board. MEC is its own fiscal agent. The District does not have an ongoing financial interest in or ongoing financial responsibility for MEC.

Central Ohio Joint Vocational School - The Central Ohio Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Central Ohio Joint Vocational School, Treasurer, at 7877 U.S. route 42 NE, Plain City, Ohio 43064.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note 14. Contingencies

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2002.

B. Litigation

The Board of Education, the superintendent and two former employees are subject to litigation proceedings. In all, there are three separate litigation proceedings pending which are all covered by the District's liability insurance. These pending matters are incidental and not related to District performing routine governmental and other functions. Based on the status of this pending legal proceeding, it is the opinion of management that the ultimate resolution of such will not have a material effect on the District's financial statements.

Note 15. School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." .

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

Note 16. Statutory Reserves

The following table shows the set-aside and changes for the fiscal year:

	Textbook Acquisition	Capital Acquisition
Set aside Cash Balance as of June 30, 2001	\$ (5,097)	\$ 0
Current Year Set-Aside Requirement	250,864	250,864
Qualifying Disbursements	<u>(275,122)</u>	<u>(370,334)</u>
Cash Balance Carried Forward to FY2003	<u>\$ (29,355)</u>	<u> </u>

Although the District had qualifying expenditures for capital maintenance during the year that reduced the set-aside amounts below zero, this extra amount may not be used to reduce the set-aside requirements of future years. However, the amount spend on textbooks can be carried forward to reduce the set-aside requirements of future years.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2002
(Continued)**

Note 17. Fund Deficits

Fund balances at June 30, 2002, included the following individual fund deficits:

After Care	\$	(53)
Career Education	\$	(107)
Summer School	\$	(6,840)
Eisenhower Grant	\$	(8,597)

The fund deficits resulted from the conversion to generally accepted accounting principles and adjustments for accrued liabilities. The District is aware of the deficits and will take the necessary steps to alleviate them. The deficits result from revenue being insufficient to cover expenditures on the modified accrual basis of accounting. The general fund is liable for any deficit and provides operating transfers when cash is required, not when accruals occur.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2002**

Federal Grantor; PASS-THROUGH GRANTOR; Program Title	Pass-Through Grantor Number	Federal CFDA #	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. Department of Agriculture</u>						
<i>Passed Through Ohio Dept. of Education:</i>						
Child Nutrition Cluster:						
Food Distribution		10.550	\$0	\$37,155	\$0	\$37,667
National School Breakfast	044255-05PU-2002	10.553	12,798	0	12,798	0
National School Lunch	044255-LLP4-2002	10.555	135,434	0	135,434	0
Total U.S. Dept. of Agriculture - Child Nutrition Cluster			148,232	37,155	148,232	37,667
<u>U.S. Department of Education</u>						
<i>Passed Through Ohio Dept. of Education</i>						
Adult Education State Grant Program	044255-ABS1-2002	84.002	48,111	0	88,347	0
Title I, Grants to Local Educational Agencies	044255-C1-S1-2000/2001	84.010	416,416	0	368,623	0
Safe and Drug Free Schools - and Communities	044255-DR-S1-2002	84.186	6,497	0	11,469	0
Title VI-R Class-Size Reduction	044255-CR-S1-2002	84.340	83,372	0	76,433	0
Eisenhower Professional Development Grant	044255-MS-S1-2000/2001	84.281	12,171	0	10,409	0
Innovative Education Program Strategies	045476-C2-S1-2001/2002	84.298	9,125	0	8,265	0
Goals 2000 - State and Local Education Systemic Improvement	044255-G2-S2/S8/SP-2001/2002	84.276	0	0	19,636	0
Special Education Cluster						
Special Education Grants to States	044255-6B-SF-2000/2001	84.027	178,833	0	169,081	0
Special Education - Preschool Grants	045476-PG-S1-2001	84.173	11,152	0	12,558	0
Total Special Education Cluster			189,985	0	181,639	0
Total U.S. Department of Education			765,677	0	764,821	0

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2002
(Continued)**

Federal Grantor; PASS-THROUGH GRANTOR; Program Title	Pass-Through Grantor Number	Federal CFDA #	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. Department of Health and Human Services</u>						
<i>Passed through Ohio Department of Jobs and Family Services</i>						
English as a Second Language	0455255-RIS1- 2002	93.576	3,000	0	3,000	0
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program		93.778	34,414	0	34,414	0
Total U. S. Department of Health and Human Services			37,414	0	37,414	0
Total Federal Awards			\$951,323	\$37,155	\$950,467	\$37,667

See Accompanying Notes to this Schedule.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS
RECEIPTS AND EXPENDITURES
JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with state grants. It is assumed federal monies are expended first. At June 30, 2002, the District had no significant food commodities in inventory.

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**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street
Columbus, Ohio 43215
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Board of Education
London City School District
Madison County
60 South Walnut Street
London, Ohio 43140

To the Board of Education:

We have audited the general purpose financial statements of the London City School District, Madison County, Ohio, (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated December 16, 2002. 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 District'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 District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a certain other matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 16, 2002.

London City School District
Madison County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of management, the Board of Education, 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.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

JIM PETRO
Auditor of State of Ohio

December 16, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR
FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Board of Education
London City School District
Madison County
60 South Walnut Street
London, Ohio 43140

We have audited the compliance of the London City School District, Madison County, Ohio, (the District) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to its major federal program for the year ended June 30, 2002. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

Compliance

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 occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District'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 on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the District 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 District'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.

**Internal Control Over Compliance
(Continued)**

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 and use of management, the Board of Education, 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.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

JIM PETRO
Auditor of State of Ohio

December 16, 2002

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>Un(d)(1)(ii)</i>	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under § .510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Programs (list):</i>	Title I- CFDA #84.010
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A > \$300,000 Type B – all other programs
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2002
(Continued)**

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

LONDON CITY SCHOOL DISTRICT
MADISON COUNTY

SCHEDULE OF PRIOR AUDIT FINDING
JUNE 30, 2002

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-10649-001	Free/Reduced Lunch Reporting (Federal Nutrition Cluster)	Yes	Corrected. District implemented recommendation to maintain roster of individual student receiving free/reduced lunches.



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LONDON CITY SCHOOL DISTRICT

MADISON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 9, 2003**