



**LONDON ACADEMY
MADISON COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

LONDON ACADEMY
MADISON COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

London Academy
Madison County
60 South Walnut Street
London, Ohio 43140

To the Board of Directors:

We have audited the accompanying basic financial statements of the London Academy, Madison County, Ohio, (the Academy), a component unit of London City School District, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 financial statements referred to above present fairly, in all material respects, the financial position of the Academy, as of June 30, 2007, and the changes in its financial position and its cash flows 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 March 17, 2008, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

March 17, 2008

**LONDON ACADEMY
MADISON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007
(Unaudited)**

The discussion and analysis of the financial performance of the London Academy, provides an overview of the Academy's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance; readers should also review the notes to the basic financial statements and the basic financial statements to enhance their understanding of the Academy's performance.

- Net assets increased \$534,504.
- Operating revenues accounted for \$1,236,721 in revenue.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. These statements are organized so the reader can understand the financial position of the London Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of net assets represents the basic statement of position for the Academy. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

Reporting the Academy as a Whole

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2007?" The statement of net assets and the statement of revenues, expenses, and change in net assets answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net assets and change in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Financial Analysis

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.

The following tables represent the Academy's condensed financial information derived from the statement of net assets and the statement of revenues, expenses, and changes in net assets.

Table 1 provides a summary of the Academy's net assets for fiscal year 2007 compared to 2006:

| | <u>2007</u> | <u>2006</u> |
|---------------------|------------------|------------------|
| Assets | | |
| Current Assets | \$1,039,855 | \$618,574 |
| Capital Assets | <u>39,935</u> | <u>54,104</u> |
| Total Assets | <u>1,079,790</u> | <u>672,678</u> |
| Liabilities | | |
| Current Liabilities | <u>300,000</u> | <u>427,392</u> |
| Net Assets | | |
| Invested in Capital | | |
| Assets | 39,935 | 54,104 |
| Restricted | 78,827 | 0 |
| Unrestricted | <u>661,028</u> | <u>191,182</u> |
| Total Net Assets | <u>\$779,790</u> | <u>\$245,286</u> |

Current Assets increased mainly due to an increase in cash and cash equivalents which was caused by an increase in enrollment in 2007 as compared to 2006. Current Liabilities decreased in 2007 compared to 2006 mainly due to a decrease in money owed to London City School District for personnel services provided by the District.

Table 2 shows the change in net assets for fiscal year 2007 compared to 2006.

| | <u>2007</u> | <u>2006</u> |
|--------------------------------|-------------------------|-------------------------|
| Operating Revenue: | | |
| Foundation Payments | \$1,236,721 | \$857,489 |
| Other Revenue | <u>0</u> | <u>4,986</u> |
| Total Operating Revenues | 1,236,721 | 862,475 |
| Operating Expenses: | | |
| Purchased Services | 747,000 | 930,207 |
| Depreciation | 14,169 | 14,169 |
| Salaries | 85,188 | 0 |
| Benefits | <u>20,211</u> | <u>0</u> |
| Total Operating Expenses | <u>866,568</u> | <u>944,376</u> |
| Operating Loss | 370,153 | (81,901) |
| Non-Operating Revenues: | | |
| Investment Earnings | 25,454 | 4,723 |
| State and Federal Grants | <u>138,897</u> | <u>213,815</u> |
| Total Non-Operating Revenues | 164,351 | 218,538 |
| Change in Net Assets | 534,504 | 136,637 |
| Net Assets Beginning of Year | <u>245,286</u> | <u>108,649</u> |
| Net Assets Ending of Year | <u><u>\$779,790</u></u> | <u><u>\$245,286</u></u> |

This is the fifth year of operation for the Academy. Foundation payments increased from the prior year due to an increase in enrollment in 2007 as compared to 2006. Federal grants decreased mainly due to the last portion of the Community School grant of \$150,000 received in 2006.

An analysis of operating activities in 2007 demonstrates receipts for operating activities exceeding payments.

Purchased services, made up of mainly professional and technical services, comprise 86 percent of operating expenses. The dependence upon state foundation revenues for operating activities is apparent. Foundation payments represented the majority of the operating revenue of the Academy.

Budget

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy. The Academy has developed a five-year projection that is reviewed periodically by the Board of Directors. Fiscal year 2007 revenues and expenses varied significantly from corresponding projections included on the five-year projection. The main cause of the revenue increase variation was due to increased enrollment. The main cause of the expense decrease variation was due to decreased actual purchases of supplies, materials, and capital outlay.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the Academy had \$39,935 invested in furniture and equipment. Table 3 shows 2007 Capital Asset balances compared to 2006.

| | <u>2007</u> | <u>2006</u> |
|-------------------------|-----------------|-----------------|
| Furniture and Equipment | <u>\$39,935</u> | <u>\$54,104</u> |

The decrease in capital assets from the prior year is due to current year depreciation expense exceeding current year additions.

See Note 5 to the basic financial statements for further details on the Academy's capital assets.

Debt

At June 30, 2007, the Academy had no debt.

Other Information

Management is currently unaware of any known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact Mr. Britt Lewis, Treasurer of London Academy, 60 South Walnut Street, London, Ohio 43140.

London Academy
Statement of Net Assets
June 30, 2007

| | <u>London Academy</u> |
|---------------------------------|---------------------------|
| Assets: | |
| Cash and Cash Equivalents | \$962,957 |
| Receivables: | |
| Intergovernmental | <u>76,898</u> |
| Total Current Assets | <u>1,039,855</u> |
| Depreciable Capital Assets, Net | <u>39,935</u> |
| Total Assets | <u>1,079,790</u> |
| Liabilities: | |
| Current Liabilities: | |
| Due to Primary Governments | <u>300,000</u> |
| Total Current Liabilities | <u>300,000</u> |
| Net Assets: | |
| Invested in Capital Assets | 39,935 |
| Restricted for: | |
| Other Purposes | 78,827 |
| Unrestricted | <u>661,028</u> |
| Total Net Assets | <u><u>\$779,790</u></u> |

See accompanying notes to the basic financial statements

London Academy
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2007

| | <u>London Academy</u> |
|------------------------------|---------------------------|
| Operating Revenues: | |
| Foundation Payments | <u>\$1,236,721</u> |
| Total Operating Revenues | <u>1,236,721</u> |
| Operating Expenses: | |
| Purchased Services | 747,000 |
| Depreciation | 14,169 |
| Salaries | 85,188 |
| Benefits | <u>20,211</u> |
| Total Operating Expenses | <u>866,568</u> |
| Operating Income | <u>370,153</u> |
| Non-Operating Revenues: | |
| Investment Earnings | 25,454 |
| Federal Grants | 133,897 |
| State Grants | <u>5,000</u> |
| Total Non-Operating Revenues | <u>164,351</u> |
| Change in Net Assets | 534,504 |
| Net Assets Beginning of Year | <u>245,286</u> |
| Net Assets End of Year | <u><u>\$779,790</u></u> |

See accompanying notes to the basic financial statements

London Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

| | London Academy |
|--|-------------------|
| Cash Flows from Operating Activities: | |
| Cash Received from School Foundation | \$1,236,721 |
| Cash Payments to Employees | (105,399) |
| Cash Payments to Suppliers | (872,681) |
| | <hr/> |
| Net Cash Provided (Used) by Operating Activities | 258,641 |
| | <hr/> |
| Cash Flows from Noncapital Financing Activities: | |
| Non-Operating Grants Received | 111,718 |
| | <hr/> |
| Net Cash Provided (Used) by Noncapital Financing Activities | 111,718 |
| | <hr/> |
| Cash Flows from Investing Activities: | |
| Earnings on Investments | 25,454 |
| | <hr/> |
| Net Cash Provided (Used) by Cash Flows from Investing Activities | 25,454 |
| | <hr/> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 395,813 |
| | <hr/> |
| Cash and Cash Equivalents Beginning of Year | 567,144 |
| | <hr/> |
| Cash and Cash Equivalents End of Year | 962,957 |
| | <hr/> <hr/> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | |
| Operating Income | 370,153 |
| Adjustments: | |
| Depreciation | 14,169 |
| Changes in Assets & Liabilities: | |
| Increase (Decrease) in Payables | (125,681) |
| | <hr/> |
| Net Cash Provided (Used) by Operating Activities | \$258,641 |
| | <hr/> <hr/> |

See accompanying notes to the basic financial statements

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**LONDON ACADEMY
MADISON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

London Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status. The Academy's objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. It is to be operated in cooperation with the public schools to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. The Academy, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was approved for operation under a contract with the London City School District (the Sponsor). The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration.

The Academy operates under the direction of a five-member (four voting members) Board of Directors made up of:

- (a) Three persons employed and serving in administrator positions within the London City School District, which positions have been identified by the London City School District Board of Education. Each of the foregoing administrators serves on the Board of Directors in his/her official capacity as a representative of the London City School District Board of Education and its interests.
- (b) One person who is neither an officer nor employee of the London City School District who shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy. Such person has been elected by the London City School District Board of Education.

- (c) The Academy's Treasurer as a non-voting ex officio member who is also the London City School District Treasurer and serves the Board of Directors in his official capacity as a representative of the London City School District Board of Education and its interests.

Therefore, the Academy is a component unit of the London City School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the London Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

A. Enterprise Accounting

The Academy uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. Operating statements present increases and decreases in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when earned and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five year projection, which is to be updated annually.

D. Cash and Cash Equivalents

Cash held by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2007, the Academy had no investments.

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Foundation payments are recognized as operating revenues in the accounting period in which they are earned and become measurable.

Grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

F. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy reported restricted net assets at fiscal year end for state and federal grant cash balances. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first, then unrestricted resources as they are needed.

G. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

H. 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.

NOTE 3 – DEPOSITS

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

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

Inactive deposits are public deposits that the Board has identified as not required for use within the current five 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 by which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

The Academy has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy's fiscal agent or a qualified trustee by the financial institution as security for repayment, or by collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least on hundred five percent of the deposits being secured.

NOTE 4 – PAYABLE

Payables at June 30, 2007, consisted of Due to Primary Government in the amount of \$300,000, which was due to London City School District for payment for personnel services provided by London City School District to the Academy. All payables are considered payable in full.

NOTE 5 – CAPITAL ASSETS

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of five hundred dollars. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

The Academy’s only capital asset class is furniture and equipment and is depreciated using the straightline method over a useful life of 5 years.

A summary of capital assets at June 30, 2007 follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------|------------------|---------------------------|
| <i>Capital Assets being Depreciated:</i> | | | | |
| Furniture and Equipment | \$70,843 | \$0 | \$0 | \$70,843 |
| Less Accumulated Depreciation: | | | | |
| Furniture and Equipment | <u>16,739</u> | <u>14,169</u> | <u>0</u> | <u>30,908</u> |
| Capital Assets, Net | <u>\$54,104</u> | <u>(\$14,169)</u> | <u>\$0</u> | <u>\$39,935</u> |

NOTE 6 – RISK MANAGEMENT

PROPERTY AND LIABILITY

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries and natural disasters. For fiscal year 2007, the Academy contracted with an insurance provider to provide insurance in the following coverage:

Commercial general liability: \$2,000,000 general aggregate limit with a \$1,000,000 single occurrence limit. The Academy maintains replacement cost insurance on business personal property in the amount of \$5,000. Settled claims have not exceeded this commercial coverage since the Academy’s inception. There has been no reduction in coverage from the prior year.

NOTE 7 – FISCAL AGENT AND PAYMENTS TO SPONSOR

The sponsorship agreement states that the Treasurer of the London City School District shall serve as the Chief Financial Officer (Treasurer) of the Academy.

The Treasurer of London City School District shall perform the following functions while serving as the Treasurer of the Academy:

- A. Maintain the financial records of the Academy in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;
- B. Comply with the policies and procedures regarding internal financial control of the Academy;
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

The Academy shall pay to Sponsor such other amounts as are mutually agreed, including fees for any services provided to the Academy by the Sponsor.

NOTE 8 - RELATED PARTY TRANSACTION

The Academy is a component unit of the London City School District. The Academy and the Sponsor entered into a 5-year sponsorship agreement on July 15, 2002 whereby terms of the sponsorship were established. Pursuant to this agreement, the Sponsor's treasurer serves as the Academy's fiscal officer.

Also, the Academy is required annually to pay to the Sponsor, from funding provided to the Academy by the Ohio Department of Education pursuant to Section 3314.03(C) of the Ohio Revised Code, such amounts as are mutually agreed, including fees for any services to the Academy by the Sponsor.

In fiscal year 2007, the Academy paid \$300,000 to London City School District. This represents payment for personnel services provided by London City Schools to the Academy. The District also provides property and liability insurance to the Academy.

NOTE 9 – CONTINGENCIES

A. Grants

The Academy 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

B. Litigation

On May 14, 2001 a lawsuit challenging the constitutionality of charter schools (Ohio Federation of Teachers (OFT) vs. Ohio Board of Education, et al and State ex rel. Page vs. State of Ohio) was filed in the Franklin County Common Pleas Court. Oral arguments were heard in the fall of 2005 and the Ohio Supreme Court announced its decision on October 25, 2006 upholding the constitutionality of charter schools; in effect, ending the dispute.

NOTE 10 – PURCHASED SERVICES

For the period July 1, 2006 through June 30, 2007, purchased services expenses were \$747,000, consisting of payments to the London City Schools of \$700,000 for professional and technical services, and other vendors in the amount of \$47,000.

Purchased services also included payments for personnel services provided by London City Schools to the Academy in the amount of \$105,399. This entire amount is included as a Due to primary government at June 30, 2007.

NOTE 11 – OHIO DEPARTMENT OF EDUCATION ENROLLMENT REVIEW

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted.

NOTE 12 – TAX EXEMPT STATUS

The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's nonprofit status. The Academy is an approved tax exempt organization under § 501(c)(3) of the Internal Revenue Code.

NOTE 13 - PENSION PLANS

SCHOOL EMPLOYEE RETIREMENT SYSTEM

The Academy 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 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$2,040 \$3,540 and \$0 respectively; 100 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

STATE TEACHERS RETIREMENT SYSTEM

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$2,784, \$5,111, and \$0 respectively; 100 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

SOCIAL SECURITY SYSTEM

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2007, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), 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 Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$199 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Fund was \$4.1 billion. For the year ended June 30, 2007, net health care costs paid by STRS were \$265,558,000 and STRS had 122,934 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$484.

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 the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2007 were \$127,615,614. At June 30, 2007, SERS had net assets available for payment of health care benefits of \$386.4 million. SERS has 55,818 participants eligible to receive benefits.

NOTE 15 – SUBSEQUENT EVENT

On February 21, 2008, the Ohio Department of Education (ODE) issued a letter to the London City School District (the Academy's sponsor), indicating that ODE is reviewing the Academy's organizational structure for compliance with provisions of Ohio Revised Code Section 3314. The impact of the ODE review, if any, on London Academy cannot presently be determined.

On March 18, 2008, the Academy entered into a service agreement with London City School District under which the Academy will transfer substantially all amounts received to the District for consideration for services performed. The agreement will run through June 30, 2009. Contact Britt Lewis, Treasurer of London City School District and London Academy to obtain a copy of this agreement.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

London Academy
Madison County
60 South Walnut Street
London, Ohio 43140

To the Board of Directors:

We have audited the financial statements of London Academy, Madison County, Ohio, (the Academy), a component unit of the London City School District, as of and for the year ended June 30, 2007, and have issued our report thereon dated March 17, 2008. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: Finding number 2007-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above as finding number 2007-001 is also a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the Academy's management in a separate letter dated March 17, 2008.

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit Academy's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the management, the Board of Directors, and London City School District. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

March 17, 2008

LONDON ACADEMY
MADISON COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2007

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

FINDING NUMBER 2007-001

Financial Statement Adjustments – Significant Deficiency/Material Weakness

Sound financial reporting is the responsibility of the Treasurer and the Board of Directors and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following audit adjustments were made to the June 30, 2007 financial statements:

1. Entry to reduce amount due to London City School District from \$700,000 to \$300,000, and to reclassify from 'intergovernmental payable' to 'due to primary government'.
2. Reclassification of \$105,399 from purchased services expense to payroll and benefits.
3. Entry to increase intergovernmental receivable by \$14,723, and to reclassify \$62,175 of deferred revenue to intergovernmental revenue.
4. Entry to reclassify \$78,827 of unrestricted net assets to restricted for other purposes.

In addition to the adjustments noted above, the following audit adjustments and reclassifications were inconsequential to the overall financial statements of the Academy and were not posted to the June 30, 2007 financial statements.

1. Entry to accrue an intergovernmental payable of \$20,440 due to a refund owed to the Ohio Department of Education.
2. Entry to increase accounts payable by \$6,426 due to expenditures incurred but not accrued.
3. Entry to reduce capital assets by \$9,427 due to misstatements identified.

The adjustments and reclassifications identified above should be reviewed by the Treasurer and the report conversion team to ensure that similar errors are not reported on financial statements in subsequent years. In addition, we recommend the Academy adopt procedures for the review of the activity posted to the accounting records and subsequent financial statements.

Officials' Response: We will work with the conversion team to ensure proper Generally Accepted Accounting Principles are addressed in the future.



Mary Taylor, CPA
Auditor of State

LONDON ACADEMY

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
MAY 20, 2008**