

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of London City School District, Madison County, Ohio, (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the governmental activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of London City School District, Madison County, Ohio, as of June 30, 2007, and the respective changes in financial position thereof 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 District'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 Discussion & Analysis and the budgetary comparison for the General Fund is not a required part of the basic financial statements but are 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 them.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is required by the 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 basic financial statements. We subjected the Federal Awards Receipts and Expenditures Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 17, 2008

LONDON CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2007
(Unaudited)

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

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets increased \$310,255 from 2006.
- General revenues accounted for \$18,935,364 in revenue or 82% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,047,450 or 18% of total revenues of \$22,982,814.
- The District had \$22,672,559 in expenses related to governmental activities; \$4,047,450 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$18,935,364 were also used to provide for these programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consist of four parts – management's discussion and analysis (this section), the basic financial statements, notes to the basic financial statements and required supplementary information. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide a more detailed look at financial activities.

The *Statement of Net Assets* and *Statements of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. The District's major funds are the General Fund and the Debt Service Fund.

Government-wide Financial Statements

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, “How did we do financially during 2007?” The Government-wide Financial Statements answers 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 takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the District’s *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include the District’s property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Government-Wide Financial Statements, the District consists of one activity:

- Governmental Activities – Most of the District’s programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities, and interest and fiscal charges.

Fund Financial Statements

The analysis of the District’s major funds is presented in the Fund Financial Statements (see Table of Contents). Fund financial reports provide detailed information about the District’s major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District’s most significant funds.

The District has two kinds of funds:

Governmental Funds Most of the District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

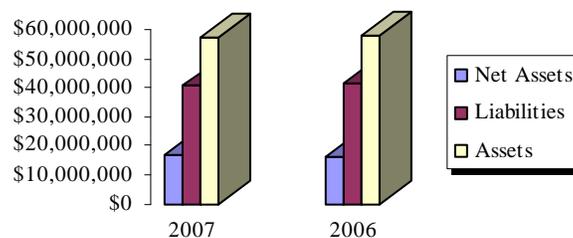
Fiduciary Funds The District’s fiduciary funds consist of an agency fund and a private purpose trust fund. We exclude these activities from the District’s other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

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

	Governmental Activities	
	2007	2006 Restated
Assets		
Current Assets	\$14,878,092	\$14,190,636
Capital Assets	42,594,454	44,086,004
Total Assets	57,472,546	58,276,640
Liabilities		
Long-Term Liabilities	29,551,263	30,188,035
Other Liabilities	11,162,511	11,640,088
Total Liabilities	40,713,774	41,828,123
Net Assets		
Invested in Capital		
Assets, Net of Debt	13,129,796	14,079,389
Restricted	2,211,789	2,271,403
Unrestricted	1,417,187	97,725
Total Net Assets	\$16,758,772	\$16,448,517



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$16,758,772.

At year-end, capital assets represented 74.1% of total assets. Capital assets include land, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2007, was \$13,129,796. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,211,789, represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current and other assets increased mainly due to an increase in Equity in Pooled Cash and Investments, which was a result of the District holding a larger bank balance as compared to prior year. Long-term liabilities decreased mainly due to the District continuing to make payments on their long-term debt obligations.

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

Table 2
Changes in Net Assets

	Governmental Activities	
	2007	2006 Restated
Revenues		
Program Revenues:		
Charges for Services	\$1,574,760	\$1,360,932
Operating Grants	2,304,710	2,412,745
Capital Grants	167,980	79,972
General Revenue:		
Income Tax	2,433,533	452,315
Property Taxes	7,660,552	9,223,519
Grants and Entitlements	8,388,079	7,566,868
Other	453,200	1,294,907
Total Revenues	<u>22,982,814</u>	<u>22,391,258</u>
Program Expenses:		
Instruction	13,236,478	13,494,493
Support Services:		
Pupil and Instructional Staff	1,423,485	1,345,960
General and School Administrative, and Fiscal	1,942,951	2,367,046
Operations and Maintenance	2,080,527	2,215,894
Pupil Transportation	716,026	829,517
Central	179,202	211,797
Operation of Non-Instructional Services	853,448	787,325
Extracurricular Activities	743,440	804,270
Interest and Fiscal Charges	1,497,002	2,227,991
Total Expenses	<u>22,672,559</u>	<u>24,284,293</u>
Change in Net Assets	310,255	(1,893,035)
Beginning Net Assets	<u>16,448,517</u>	<u>18,341,552</u>
Ending Net Assets	<u><u>\$16,758,772</u></u>	<u><u>\$16,448,517</u></u>

Of the total governmental activities revenues of \$22,982,814, \$4,047,450 is from program revenue. This means that the government relies on general revenues to fund the majority of the cost of services provided to the citizens. Of those general revenues, \$7,660,552 (40%) comes from property tax levies and \$8,388,079 (44%) is from state and federal funding. This District's operations are reliant upon its property tax levy and the state's foundation program.

The District had an increase in income tax revenue because the District established an income tax on January 1, 2006 and only collected 6 months of income tax revenue in fiscal year 2006 as opposed to a full year of collections in fiscal year 2007. Interest and fiscal charges decreased from the prior year due to the District refunding of two debt issues in fiscal year 2006.

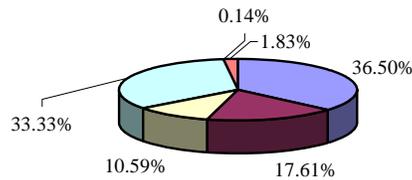
Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general and debt service purposes, and unrestricted grants and entitlements comprised 69.8% of the District’s revenues for governmental activities.

The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus Ohio districts do not receive additional property tax revenue from increases in appraisal values and must regularly return to the voters to maintain a constant level of service. Property taxes made up 33.3% of revenue for governmental activities for the District in fiscal year 2007.

<u>Revenue Sources</u>	<u>2007</u>	<u>Percent of Total</u>
General Grants	\$8,388,079	36.50%
Program Revenues	4,047,450	17.61%
Income Tax	2,433,533	10.59%
Property Tax	7,660,552	33.33%
Investment Earnings	32,781	0.14%
Other Revenues	420,419	1.83%
	<u>\$22,982,814</u>	<u>100.00%</u>



Instruction comprises 58% of governmental program expenses. Support services expenses were 28% of governmental program expenses. All other expenses including interest expense were 14%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006 Restated
Instruction	13,236,478	13,494,493	(\$10,361,918)	(\$11,040,378)
Support Services:				
Pupil and Instructional Staff	1,423,485	1,345,960	(1,236,585)	(1,110,131)
General and School Administrative, and Fiscal	1,942,951	2,367,046	(1,941,000)	(2,361,733)
Operations and Maintenance	2,080,527	2,215,894	(2,077,567)	(2,165,894)
Pupil Transportation	716,026	829,517	(691,528)	(732,733)
Central	179,202	211,797	(159,610)	(188,316)
Operation of Non-Instructional Services	853,448	787,325	(91,107)	19,415
Extracurricular Activities	743,440	804,270	(568,792)	(622,883)
Interest and Fiscal Charges	1,497,002	2,227,991	(1,497,002)	(2,227,991)
Total Expenses	<u>\$22,672,559</u>	<u>\$24,284,293</u>	<u>(\$18,625,109)</u>	<u>(\$20,430,644)</u>

The District's Major Funds

The District has two major governmental funds: the General Fund and Debt Service Fund. Assets of the general fund comprised \$10,419,722 (71%) and the debt service fund comprised \$3,552,269 (24%) of the total \$14,610,811 governmental funds assets.

General Fund: Fund balance at June 30, 2007 was \$1,077,163. The primary reasons for the increase in fund balance were increases in taxes revenue.

Debt Service Fund: Fund balance at June 30, 2007 was \$1,965,130. The primary reasons for the increase in fund balance were increases in intergovernmental revenue.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal 2007, the District amended its general fund budget several times, however none were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the budget in an attempt to deal with changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$17,454,055, compared to original budget estimates of \$16,704,030. Of the \$750,025 difference, most was due to a conservative estimate for taxes and intergovernmental revenue.

The District's ending unobligated cash balance was \$738,294.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$42,594,454 invested in land, buildings and improvements, and equipment. Table 4 shows fiscal 2007 balances compared to fiscal 2006:

Table 4
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2007	2006
Land	\$884,550	\$884,550
Buildings and Improvements	40,578,260	42,176,925
Equipment	1,131,644	1,024,529
Total Net Capital Assets	<u>\$42,594,454</u>	<u>\$44,086,004</u>

The decrease in capital assets was due to depreciation expense exceeding current fiscal year additions.

See Note 7 for additional information on the District's capital assets.

Debt

At June 30, 2007, the District had bonds and leases outstanding. Table 5 summarizes debt outstanding.

Table 5
Outstanding Debt, at Year End

	Governmental Activities	
	2007	2006
Bond and Refunding	\$10,955,000	\$11,885,000
London 2006 Refunding Series 2001		
Current Interest Bonds	7,010,000	7,160,000
London 2006 Refunding Series 2001		
Capital Appreciation Bonds	999,955	999,955
Accretion of Interest	190,495	0
London 2006 Refunding Series 2001		
Current Interest Bonds	6,620,000	6,730,000
London 2006 Refunding Series 2001		
Capital Appreciation Bonds	909,909	909,909
Accretion of Interest	222,655	0
Premium on 2006 Refunding Series 2001	707,853	752,094
Premium on 2006 Refunding Series 2001	637,622	665,386
Capital Lease	216,129	0
Total Long-Term Debt	<u>\$28,469,618</u>	<u>\$29,102,344</u>

See Note 14 for additional information on the District's debt.

For the Future

In June of 2005, the State legislature passed House Bill 66. House Bill 66 phases out the tax on tangible personal property of general business, telephone, and telecommunications companies, and railroads. The tax on general business and railroad property began being phased out in 2006 and will be eliminated by 2009. The tax on telephone and telecommunication property will begin being phased out in 2009 and will be eliminated by 2011. The tax is being phased out by reducing the assessment rate on the property each year. In the first five years, school districts are being reimbursed fully for the lost revenue; in the following seven years, the reimbursements are phased out.

The uncertainty of the methods of state funding, available local tax resources, and the District's facility challenges require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

The District has committed itself to financial excellence. With careful planning and monitoring of the District's finances and state and local financial support, the District's management is confident that the District can continue to provide a quality education for our students and provide a secure financial future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Britt Lewis, Treasurer at London City School District, 60 South Walnut Street, London, Ohio 43140 or e-mail at britt.lewis@london.k12.oh.us.

London City School District
Statement of Net Assets
June 30, 2007

	Governmental Activities	Component Unit
Assets:		
Equity in Pooled Cash and Investments	\$5,073,337	\$962,957
Restricted Cash and Investments	161,972	0
Receivables:		
Taxes	7,541,724	0
Accounts	135	0
Intergovernmental	199,347	76,898
Income Taxes	1,299,144	0
Due From Component Unit	300,000	0
Deferred Bond Issuance Costs	299,435	0
Inventory	2,998	0
Nondepreciable Capital Assets	884,550	0
Depreciable Capital Assets, Net	41,709,904	39,935
Total Assets	57,472,546	1,079,790
Liabilities:		
Accounts Payable	146,007	0
Accrued Wages and Benefits	2,583,343	0
Accrued Interest Payable	90,037	0
Unearned Revenue	7,348,124	0
Due to Primary Government	0	300,000
Tax Anticipation Notes Payable	995,000	0
Long-Term Liabilities:		
Due Within One Year	1,568,278	0
Due In More Than One Year	27,982,985	0
Total Liabilities	40,713,774	300,000
Net Assets:		
Invested in Capital Assets, Net of Related Debt	13,129,796	39,935
Restricted for:		
Special Revenue	103,318	0
Debt Service	1,882,793	0
Capital Projects	63,706	0
Set-Aside	161,972	0
Other Purposes	0	78,827
Unrestricted	1,417,187	661,028
Total Net Assets	\$16,758,772	\$779,790

See accompanying notes to the basic financial statements

London City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2007

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction:				
Regular	\$10,582,275	\$1,038,830	\$245,420	\$154,100
Special	2,365,992	4,623	1,309,605	0
Vocational	257,219	0	32,025	0
Other	30,992	0	89,957	0
Support Services:				
Pupil	467,042	0	7,294	0
Instructional Staff	956,443	0	179,606	0
General Administration	67,899	0	0	0
School Administration	1,416,671	0	1,951	0
Fiscal	458,381	0	0	0
Operations and Maintenance	2,080,527	2,960	0	0
Pupil Transportation	716,026	0	10,618	13,880
Central	179,202	283	19,309	0
Operation of Non-Instructional Services	853,448	353,416	408,925	0
Extracurricular Activities	743,440	174,648	0	0
Interest and Fiscal Charges	1,497,002	0	0	0
Total Governmental Activities	22,672,559	1,574,760	2,304,710	167,980
Component Unit:				
London Academy	\$866,568	\$0	\$138,897	\$0

General Revenues:
Income Taxes
Property Taxes Levied for:
 General Purposes
 Debt Service Purposes
Grants and Entitlements not Restricted to Specific Programs
Payment in Lieu of Taxes
Investment Earnings
Refunds and Reimbursements
Other Revenues

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year, Restated

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets	Component Unit
Governmental Activities	London Academy
(\$9,143,925)	\$0
(1,051,764)	0
(225,194)	0
58,965	0
(459,748)	0
(776,837)	0
(67,899)	0
(1,414,720)	0
(458,381)	0
(2,077,567)	0
(691,528)	0
(159,610)	0
(91,107)	0
(568,792)	0
(1,497,002)	0
(18,625,109)	0
0	(727,671)
2,433,533	0
5,721,177	0
1,939,375	0
8,388,079	1,236,721
177,753	0
32,781	25,454
11,259	0
231,407	0
18,935,364	1,262,175
310,255	534,504
16,448,517	245,286
\$16,758,772	\$779,790

London City School District
Balance Sheet
Governmental Funds
June 30, 2007

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$2,671,732	\$1,965,130	\$436,475	\$5,073,337
Restricted Cash and Investments	161,972	0	0	161,972
Receivables:				
Taxes	5,954,585	1,587,139	0	7,541,724
Accounts	135	0	0	135
Intergovernmental	0	0	199,347	199,347
Income Taxes	1,299,144	0	0	1,299,144
Interfund	32,154	0	0	32,154
Due From Component Unit	300,000	0	0	300,000
Inventory	0	0	2,998	2,998
Total Assets	10,419,722	3,552,269	638,820	14,610,811
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	60,574	0	85,433	146,007
Accrued Wages and Benefits	2,287,412	0	295,931	2,583,343
Compensated Absences	44,988	0	0	44,988
Interfund Payable	0	0	32,154	32,154
Deferred Revenue	5,954,585	1,587,139	199,347	7,741,071
Tax Anticipation Notes Payable	995,000	0	0	995,000
Total Liabilities	9,342,559	1,587,139	612,865	11,542,563
Fund Balances:				
Reserved for Encumbrances	169,144	0	46,302	215,446
Reserved for Inventory	0	0	2,998	2,998
Reserved for Set-Aside	161,972	0	0	161,972
Unreserved, Undesignated, Reported in:				
General Fund	746,047	0	0	746,047
Special Revenue Funds	0	0	(91,084)	(91,084)
Debt Service Funds	0	1,965,130	0	1,965,130
Capital Projects Funds	0	0	67,739	67,739
Total Fund Balances	1,077,163	1,965,130	25,955	3,068,248
Total Liabilities and Fund Balances	\$10,419,722	\$3,552,269	\$638,820	\$14,610,811

See accompanying notes to the basic financial statements

London City School District
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 June 30, 2007

Total Governmental Fund Balance		\$3,068,248
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		42,594,454
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	193,600	
Intergovernmental	<u>199,347</u>	
		392,947
In the statement of net assets interest payable is accrued when incurred, whereas in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(90,037)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Compensated Absences	<u>(1,036,617)</u>	
		(1,036,617)
Deferred bond issuance cost associated with long-term liabilities are not reported in the funds.		299,435
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(28,469,658)</u>
Net Assets of Governmental Activities		<u>\$16,758,772</u>

See accompanying notes to the basic financial statements

London City School District
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$8,221,209	\$2,016,175	\$0	\$10,237,384
Revenue in lieu of taxes	177,753	0	0	177,753
Tuition and Fees	466,456	0	0	466,456
Investment Earnings	32,200	0	154,681	186,881
Intergovernmental	8,573,329	449,412	1,629,198	10,651,939
Extracurricular Activities	33,673	0	141,258	174,931
Charges for Services	1,000,000	0	353,416	1,353,416
Other Revenues	130,024	0	115,602	245,626
Total Revenues	18,634,644	2,465,587	2,394,155	23,494,386
Expenditures:				
Current:				
Instruction:				
Regular	8,779,283	0	244,225	9,023,508
Special	1,485,265	0	893,326	2,378,591
Vocational	261,620	0	0	261,620
Other	0	0	30,405	30,405
Support Services:				
Pupil	462,549	0	3,591	466,140
Instructional Staff	675,808	0	189,490	865,298
General Administration	67,899	0	0	67,899
School Administration	1,431,618	0	2,160	1,433,778
Fiscal	461,350	0	0	461,350
Operations and Maintenance	1,778,137	0	310,435	2,088,572
Pupil Transportation	748,017	0	0	748,017
Central	165,727	0	14,761	180,488
Operation of Non-Instructional Services	6,802	0	827,659	834,461
Extracurricular Activities	412,921	0	231,503	644,424
Capital Outlay	219,386	0	0	219,386
Debt Service:				
Principal Retirement	3,257	1,190,000	0	1,193,257
Interest and Fiscal Charges	65,590	1,088,115	0	1,153,705
Total Expenditures	17,025,229	2,278,115	2,747,555	22,050,899
Excess of Revenues Over (Under) Expenditures	1,609,415	187,472	(353,400)	1,443,487
Other Financing Sources (Uses):				
Issuance of Capital Leases	219,386	0	0	219,386
Total Other Financing Sources (Uses)	219,386	0	0	219,386
Net Change in Fund Balance	1,828,801	187,472	(353,400)	1,662,873
Fund Balances Beginning of Year	(751,638)	1,777,658	379,355	1,405,375
Fund Balances End of Year	\$1,077,163	\$1,965,130	\$25,955	\$3,068,248

See accompanying notes to the basic financial statements

London City School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2007

Net Change in Fund Balance - Total Governmental Funds \$1,662,873

Amounts reported for governmental activities in the
 statement of activities are different because:

Governmental funds report capital asset additions as expenditures.

However, in the statement of activities, the cost of those assets is
 allocated over their estimated useful lives as depreciation
 expense. This is the amount of the difference between capital
 asset additions and depreciation in the current period.

Capital assets used in governmental activities	308,252	
Depreciation Expense	<u>(1,799,802)</u>	(1,491,550)

Revenues in the statement of activities that do not provide
 current financial resources are not reported as revenues in
 the funds.

Delinquent Property Taxes	(143,300)	
Intergovernmental	54,731	
Charges for Services	<u>(423,003)</u>	(511,572)

Repayment of bond principal is an expenditure in the
 governmental funds, but the repayment reduces long-term
 liabilities in the statement of net assets. 1,193,257

In the statement of activities interest expense is accrued when incurred,
 whereas in governmental funds an interest expenditure is reported
 when due. 4,182

Some expenses reported in the statement of activities do not require the
 use of current financial resources and therefore are not reported as
 expenditures in governmental funds.

Compensated Absences	19,930	
Amortization of Bond Issuance Cost	(6,294)	
Amortization of Bond Premium	71,965	
Bond Accretion	<u>(413,150)</u>	(327,549)

Proceeds from debt issues are an other financing source in the funds,
 but a debt issue increases long-term liabilities in the statement
 of net assets. (219,386)

		<hr/>
Change in Net Assets of Governmental Activities		<u><u>\$310,255</u></u>

See accompanying notes to the basic financial statements

London City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$0	\$53,440
Investments	17,190	0
Total Assets	<u>17,190</u>	<u>\$53,440</u>
Liabilities:		
Accounts Payable	0	235
Due to Other Governments	0	569
Due to Students	0	52,636
Total Liabilities	<u>0</u>	<u>\$53,440</u>
Net Assets:		
Held in Trust	<u>17,190</u>	
Total Net Assets	<u>\$17,190</u>	

See accompanying notes to the basic financial statements

London City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2007

	Private Purpose Trust
Additions:	
Investment Earnings	\$845
Total Additions	845
Deductions:	
Scholarships	621
Total Deductions	621
Change in Net Assets	224
Net Assets Beginning of Year	16,966
Net Assets End of Year	\$17,190

See accompanying notes to the basic financial statements

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**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The London City School District (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, 2006 was 2,158. The District employed 159 certified employees and 78 non-certificated employees. The District cooperates for services with the Champaign - 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.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financials are not misleading. The primary government of the District consists of all funds, department, boards, and agencies that are not legally separate from the District. For London City School District, this includes general operations, food service, preschool, community services, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and if (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization, or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes.

The component unit on the government-wide financial statements identifies the financial data of the District's discretely presented component unit, London Academy. It is reported separately to emphasize that it is legally separate from the District.

London Academy - London Academy (Academy) is a legally separate not-for-profit served by an appointed five-member Board of Directors. The Academy, under a contractual agreement with the London City School District, provides comprehensive educational programs of high quality, tied to state and national standards, which can be delivered to students in the K - 12 populations entirely through distance learning technologies. It is operated in cooperation with the District 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, and others, including home schooled students. The District elects three persons employed and serving in administrator positions within the District, one member who is neither an officer nor employee of the District who is a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy, and one member who is neither an officer nor employee of the District. Therefore, the Academy is reflected as a component unit of the London City School District. London Academy operates on a fiscal year ending June 30. Separately issued financial statements can be obtained from London Academy, 60 South Walnut Street, London, Ohio 43140.

The District also participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan, an insurance purchasing pool, and with the Metropolitan Educational Council (MEC), the Central Ohio Joint Vocational School District, and the Central Madison Joint Recreation District, jointly governed organizations, and with the London Public Library, a related organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds and the District's component unit.

The statement of net assets presents the financial condition of the governmental activities as well as the District's component unit at fiscal year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the District's component unit and for each function program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Accounting

Fund Financial Statements

Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund and the Debt Service Fund are the District's only major governmental funds:

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

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

The other governmental funds of the District account for grants and other resources, and capital projects of the District whose uses are restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private purpose trust which accounts for a program that provides scholarships to students. The District has two Agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District has a student managed activity agency fund which accounts for assets and liabilities generated by student managed activities. The District also has a district agency fund which accounts for assets and liabilities generated by the District agency activities.

Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the Statement of Net Assets. The Statement of Activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reflects on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is reported using the economic resources measurement focus.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include income and property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: grants, investment earnings, tuition, and student fees.

Deferred Revenue

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, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as unearned revenue. Grant entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Unearned Revenue

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

Expenditures/Expenses

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

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.

Equity in Pooled Cash and Investments

During fiscal year 2007, investments were limited to money market funds. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Non-participating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2007 amounted to \$32,200; and Other Governmental Funds, \$154,681.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity 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 that are not purchased from the pool are reported as investments.

Inventory

Inventories are presented at cost on a first in, first out basis and are expensed/expensed when used. Inventory consists of food held for resale and consumable supplies.

Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside for textbooks.

Capital Assets

The District's only capital assets are general capital assets used in governmental activities. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All 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 District maintains a capitalization threshold of three thousand dollars (\$3,000). The District 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. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets, other than land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	15 - 50 years
Equipment	5 - 20 years
Vehicles	8 years
Textbooks	6 years

Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of Statement No 16. of the Governmental Accounting Standards Board, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with ten or more years of service were considered expected to become eligible to retire in accordance with GASB 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Of the District's \$2,211,789 in restricted net assets, none were restricted by enabling legislation.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventory, set-asides, and encumbrances.

The reserve for set-aside represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as interfund "receivables/payables". These amounts are eliminated in the governmental activities columns of the statement of net assets.

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided are not eliminated in the process of consolidation.

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 on the financial statements and accompanying notes. Actual results may differ from those estimates.

3. ACCOUNTABILITY

Accountability

At June 30, 2007, the following funds had a deficit fund balances, which were created by the application of accounting principles generally accepted in the United States of America. The General Fund is liable for any deficits in these funds and provides transfers when cash is required.

<u>Fund</u>	<u>Deficit</u>
Special Revenue Funds:	
Special Education	\$100,249
Title I	95,297
Drug-Free Schools	4,228
IDEA Preschool	3,685
Improving Teacher Quality	29,297

4. EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the District into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.

- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2007, \$4,565,161 of the District's bank balance of \$4,765,161 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

Investments

As of June 30, 2007, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighed Average Maturity (Years)</u>
Collateralized Mortgage Obligation	\$928,018	0.00
Portfolio Weighted Average Maturity		0.00

Interest rate risk - In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the District’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest credit quality rating issued by nationally recognized statistical rating organizations. The District’s investments in Collateralized Mortgage Obligations were rated AAA by Standard and Poor’s and Fitch ratings and Aaa by Moody’s Investment Service.

Concentration of credit risk – The District’s investment policy allows investments in Federal Agencies or Instrumentalities. The District has invested 100% in Collateralized Mortgage Obligations.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District’s securities are either insured and registered in the name of the District or at least registered in the name of the District.

5. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the District's fiscal year runs from July through June. First-half tax distributions are received by the District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2007 represent the collection of calendar year 2006 taxes. Real property taxes for 2007 were levied after April 1, 2006, on the assessed values as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20.

Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2007 were levied after April 1, 2006, on the assessed values as of December 31, 2005, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2007 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes for 2007 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually.

If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The tangible personal property tax will phase out over a four-year period starting with tax year 2006 and ending with no tax due in 2009. This phase-out applies to most businesses and includes furniture and fixtures, machinery and equipment and inventory. New manufacturing and equipment first reportable on the 2006 and subsequent year returns is not subject to the personal property tax.

The District receives property taxes from Madison County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivables represent delinquent taxes outstanding and real property, personal property and public utility taxes which became measurable at June 30, 2007. Delinquent property taxes collected within 60 days are included as a receivable and tax revenue as of June 30, 2007. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is available to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2007 taxes were collected are:

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$261,073,270
Public Utility Personal	9,702,770
Tangible Personal Property	<u>26,497,180</u>
Total	<u>\$297,273,220</u>

Income Tax

The District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2006, and is a continuous levy. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

6. RECEIVABLES

Receivables at June 30, 2007, consisted of property taxes, accounts (tuition and student fees), intergovernmental, income taxes, and interfund. 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 year guarantee of federal funds.

7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$884,550	\$0	\$0	\$884,550
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	50,154,062	0	0	50,154,062
Equipment	649,589	219,386	5,607	863,368
Vehicles	861,124	88,866	0	949,990
Textbooks	856,372	0	0	856,372
Totals at Historical Cost	53,405,697	308,252	5,607	53,708,342
Less Accumulated Depreciation:				
Buildings and Improvements	7,977,137	1,598,665	0	9,575,802
Equipment	293,016	44,976	5,607	332,385
Vehicles	615,470	60,640	0	676,110
Textbooks	434,070	95,521	0	529,591
Total Accumulated Depreciation	<u>9,319,693</u>	<u>1,799,802</u>	<u>5,607</u>	<u>11,113,888</u>
Governmental Activities Capital Assets, Net	<u>\$44,086,004</u>	<u>(\$1,491,550)</u>	<u>\$0</u>	<u>\$42,594,454</u>

Depreciation expense was charged as follows:

Instruction:	
Regular	\$1,493,487
Support Services:	
Pupil	195
Instructional Staff	86,114
School Administration	17,921
Operations and Maintenance	1,646
Pupil Transportation	62,169
Operation of Non-Instructional Services	13,121
Extracurricular Activities	125,149
Total Depreciation Expense	<u>\$1,799,802</u>

8. INTERFUND TRANSACTIONS

The District had the following interfund receivables/payables outstanding at June 30, 2007:

	Interfund	
	<u>Receivable</u>	<u>Payable</u>
General Fund	\$32,154	\$0
Other Governmental Funds	<u>0</u>	<u>32,154</u>
Total All Funds	<u>\$32,154</u>	<u>\$32,154</u>

The General Fund provided advances to other funds for the provision of cash flow resources until grant or other monies due to these funds were collected.

9. RISK MANAGEMENT

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 \$1,000,000 for each occurrence and \$13,000,000 in the aggregate.

The District maintains fleet insurance in the amount of \$1,089,000 for any one accident or loss. The District maintains replacement cost insurance on buildings and contents in the amount of \$54,971,234.

Settled claims have not exceeded this commercial coverage in any of the past three years. During the fiscal year, management of the District decided to make changes in insurance carriers and corresponding coverages were modified as deemed necessary by the District.

Workers' Compensation

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 (OSBA). The Executive Director of 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 & Co. provides administrative, cost control and actuarial services to the GRP.

10. DEFINED BENEFIT PENSION PLANS

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 43215-3476, or by calling toll free (800) 878-5823 or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$344,772, \$338,076, and \$319,932, respectively; 96% has been contributed for fiscal year 2007 and 100% for fiscal year 2006 and 2005.

STATE TEACHERS RETIREMENT SYSTEM

The District participates in 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 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090 or by visiting the STRS website 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% 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 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 disability benefits. 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% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2007, 2006, and 2005 were \$1,113,000, \$1,075,572 and \$1,115,748, respectively; 96% has been contributed for fiscal year 2007 and 100% for fiscal year 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 have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

11. POST EMPLOYMENT 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-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits included hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provision 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 benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 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 Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$79,500 for the fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Reserve 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 Ohio were \$265,558,000 and STRS Ohio 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, disability, and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based upon years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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. 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. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$84,223.

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 annual health care expenses. Expenses for health care for the fiscal year ended 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 approximately 55,818 participants currently receiving health care benefits.

12. EMPLOYEE BENEFITS

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:

<u>Years Service</u>	<u>Vacation Days</u>
1-9	10 days
10-19	9-15 days
20 and beyond	20 days

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 260 days and for certified employees it is 300 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 75 for classified employees.

Health Care Benefits

The District participates in a full indemnity program for health insurance and life insurance coverage.

13. NOTES PAYABLE

Activity related to the District's tax anticipation notes payable is presented below:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance July 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30</u>
Tax Anticipation	5.75%	6/01/05	12/01/10	\$1,210,000	\$0	\$215,000	\$995,000

The note is shown as a liability on the fund financial statements in the fund which received the proceeds. The proceeds were used for capital improvements.

The annual maturities of the tax anticipation notes as of June 30, 2007, and related interest payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Tax Anticipation Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$230,000	\$51,950	\$281,950
2009	240,000	38,438	\$278,438
2010	255,000	24,207	\$279,207
2011	270,000	8,438	\$278,438
Total	\$995,000	\$123,033	\$1,118,033

14. LONG-TERM OBLIGATIONS

A summary of changes in long-term obligations for the year ended June 30, 2007, are as follows:

	Interest Rate	Issue Date	Maturity Date	Beginning Balance	Issued	Retired	Ending Balance	Due In One Year
Governmental Activities:								
General Obligation Bonds:								
Bond and Refunding - Series 2001	4.92%	10/16/01	12/1/29	\$11,885,000	\$0	\$930,000	\$10,955,000	\$1,025,000
London Refunding Series 2006								
Current Interest Bonds	3.5%-4.0%	1/5/06	12/1/22	7,160,000	0	150,000	7,010,000	130,000
London Refunding Series 2006								
Capital Appreciation Bonds	10.15%	1/5/06	12/1/14	999,955	0	0	999,955	0
Accretion of Interest				0	190,495	0	190,495	0
London Refunding Series 2005								
Current Interest Bonds	3.0%-4.35%	10/13/05	12/1/29	6,730,000	0	110,000	6,620,000	115,000
London Refunding Series 2006								
Capital Appreciation Bonds	10.33%	1/5/06	12/1/15	909,909	0	0	909,909	0
Accretion of Interest				0	222,655	0	222,655	0
Premium on Refunding Series 2006		1/5/06	6/30/23	752,094	0	44,241	707,853	0
Premium on Refunding Series 2001		10/16/01	6/30/30	665,386	0	27,724	637,662	0
Total General Obligation Bonds				29,102,344	413,150	1,261,965	28,253,529	1,270,000
Capital Leases	4.63%	5/12/07	5/12/12	0	219,386	3,257	216,129	40,071
Total Long-Term Debt				29,102,344	632,536	1,265,222	28,469,658	1,310,071
Compensated Absences				1,085,691	230,132	234,218	1,081,605	258,207
Total Governmental Activities								
Long-Term Liabilities				\$30,188,035	\$862,668	\$1,499,440	\$29,551,263	\$1,568,278

General obligation bonds will be paid from the debt service fund. Capital leases will be paid out of the General Fund. Compensated absences will be paid from the general and special revenue funds.

Principal and interest requirements to retire debt outstanding at year end are as follows:

Fiscal Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$1,270,000	\$1,000,455	\$2,270,455	\$0	\$0	\$0
2009	1,385,000	954,244	\$2,339,244	0	0	0
2010	1,670,000	898,771	\$2,568,771	0	0	0
2011	1,815,000	833,056	\$2,648,056	0	0	0
2012	1,965,000	759,150	\$2,724,150	0	0	0
2013-2017	7,505,000	2,099,913	\$9,604,913	1,909,864	3,030,136	4,940,000
2018-2022	2,885,000	1,567,710	\$4,452,710	0	0	0
2023-2027	3,560,000	925,585	\$4,485,585	0	0	0
2028-2030	2,530,000	167,310	\$2,697,310	0	0	0
Total	\$24,585,000	\$9,206,194	\$33,791,194	\$1,909,864	\$3,030,136	\$4,940,000

15. PRIOR YEAR DEFEASANCE OF DEBT

In prior years, the District defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the District's financial statements. On June 30, 2007, \$15,945,000 of bonds outstanding are considered defeased.

16. CAPITAL LEASES

During 2007, the District entered into a lease for copy machines. The lease expires in 2012.

The above leases meet the criteria of capital leases as defined by statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. The gross amount of assets acquired under capital leases is \$219,386.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of fiscal year end.

Fiscal Year Ending June 30	Long-Term Debt
2008	\$49,236
2009	49,236
2010	49,236
2011	49,236
2012	45,133
Total Minimum Lease Payments	242,077
Less: Amount Representing Interest	(25,948)
Present Value of Minimum Interest Payments	<u>\$216,129</u>

17. SET-ASIDES

The District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials, and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2007.

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Reserve Balance as of June 30, 2006	\$20,517	(\$29,513,741)
Current Year Set-aside Requirement	315,554	315,554
Qualified Disbursements	<u>(174,099)</u>	<u>(559,000)</u>
Set-aside Reserve Balance as of June 30, 2007	<u>\$161,972</u>	<u>(\$29,757,187)</u>
Restricted Cash as of June 30, 2007	<u>\$161,972</u>	

18. JOINTLY GOVERNED ORGANIZATION

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. MEC provides computer services to the District.

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, 7877 U.S. Route 42 South, Plain City, Ohio 43064.

Central Madison Joint Recreation District - The Central Madison Joint Recreation District is a newly approved taxing entity with purposes to create recreational facilities in Madison County.

19. RELATED ORGANIZATION

London Public Library - The District is not involved in the budgeting process or operational management of the Library, nor does it subsidize or finance its operations. The selection of directors and approval of the annual budget by the District is conducted only to comply with statutory requirements.

20. CONTINGENCIES

Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure 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, 2007.

Litigation

The Board of Education, the Superintendent and one 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 these pending legal proceedings, it is the opinion of management that the ultimate resolution of such will not have a material effect on the District's financial statements.

21. LONDON ACADEMY

As indicated in Note 1 to the basic financial statements, the following disclosures are made on behalf of the London Academy.

The London Academy (the Academy) prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental nonprofit organizations. The preparation of the financial statements requires the use of estimates made by management.

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 and 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.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Academy's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2007, \$907,563 of the Academy's bank balance of \$1,007,563 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Academy's name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

22. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was required due to an identification of an accounting change in recording due from component unit. This restatement had the following effect on net assets at June 30, 2006:

	Governmental <u>Activities</u>
Net assets as previously reported	\$16,025,514
Restatements	<u>423,003</u>
Net assets, restated at June 30, 2006	<u>\$16,448,517</u>

23. SUBSEQUENT EVENT

On March 18, 2008, London 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, 3009. Contact Britt Lewis, Treasurer of London City School District and London Academy to obtain a copy of this Agreement.

REQUIRED SUPPLEMENTARY INFORMATION

London City School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2007

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$7,016,595	\$7,331,646	\$7,331,646	\$0
Revenue in lieu of taxes	170,115	177,753	177,753	0
Tuition and Fees	446,412	466,456	466,456	0
Investment Earnings	30,816	32,200	32,200	0
Intergovernmental	8,204,921	8,573,329	8,573,329	0
Extracurricular Activities	32,226	33,673	33,673	0
Other Revenues	802,945	838,998	838,998	0
Total Revenues	16,704,030	17,454,055	17,454,055	0
Expenditures:				
Current:				
Instruction:				
Regular	8,560,878	8,650,886	8,650,886	0
Special	1,533,520	1,448,374	1,448,374	0
Vocational	276,173	256,186	256,186	0
Support Services:				
Pupil	417,895	472,238	472,238	0
Instructional Staff	582,795	650,384	650,384	0
General Administration	101,468	90,533	90,533	0
School Administration	1,733,718	1,449,108	1,449,108	0
Fiscal	481,320	465,073	465,073	0
Operations and Maintenance	2,066,494	1,834,202	1,834,202	0
Pupil Transportation	850,539	894,750	894,750	0
Central	186,836	193,647	193,647	0
Operation of Non-Instructional Services	442,148	422,892	422,892	0
Debt Service:				
Principal Retirement	215,000	215,000	215,000	0
Interest and Fiscal Charges	64,744	64,744	64,744	0
Total Expenditures	17,513,528	17,108,017	17,108,017	0
Excess of Revenues Over (Under) Expenditures	(809,498)	346,038	346,038	0
Other financing sources (uses):				
Advances In	107,649	112,483	112,483	0
Advances (Out)	0	(34,961)	(34,961)	0
Total Other Financing Sources (Uses)	107,649	77,522	77,522	0
Net Change in Fund Balance	(701,849)	423,560	423,560	0
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	314,734	314,734	314,734	0
Fund Balance End of Year	(\$387,115)	\$738,294	\$738,294	\$0

See accompanying notes to the required supplementary information.

LONDON CITY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2007

1. BUDGETARY PROCESS

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations resolution and the certificate of estimated resources which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Board. The legal level of control has been established by Board at the fund, function, and object level of expenditures. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2007.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Board during the year.

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statement for the general fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$1,828,801
Net Adjustment for Revenue Accrual	(1,208,505)
Net Adjustment for Expenditure Accruals	139,438
Net Adjustment for Other Sources Accruals	(141,864)
Encumbrances	<u>(194,310)</u>
Budget Basis	<u>\$ 423,560</u>

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LONDON CITY SCHOOL DISTRICT
MADISON COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	N/A	10.550	\$0	\$43,532	\$0	\$43,532
Nutrition Cluster:						
National School Breakfast Program	05-PU 2007	10.553	43,051	0	43,051	0
Total National School Breakfast Program			43,051	0	43,051	0
National School Lunch Program	LL-P4-2007	10.555	200,664	0	200,664	0
Total National Lunch Program			200,664	0	200,664	0
Total Nutrition Cluster			243,715	0	243,715	0
TOTAL U.S. DEPARTMENT OF AGRICULTURE			243,715	43,532	243,715	43,532
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Adult Education - Basic Grants to States						
Adult Education - Basic Grants to States	AB-S1-2006	84.002	5,705	0	25,199	0
Adult Education - Basic Grants to States	AB-S1-2007	84.002	67,466	0	65,785	0
Total Adult Education - Basic Grants to States			73,171	0	90,984	0
Title I Grants to Local Educational Agencies						
Title I Grants to Local Educational Agencies	C1-S1 - 2006	84.010	80,802	0	84,608	0
Title I Grants to Local Educational Agencies	C1-S1 - 2007	84.010	315,186	0	343,138	0
Total Title 1 Grants to Local Educational Agencies			395,988	0	427,746	0
Special Education Cluster:						
Special Education Grants to States	6B-SF - 2006	84.027	99,340	0	164,479	0
Special Education Grants to States	6B-SF - 2007	84.027	385,851	0	381,396	0
Total Special Education Grants to States			485,191	0	545,875	0
Special Education - Preschool Grant	PG-S1 - 2006	84.173	18,794	0	20,138	0
Special Education - Preschool Grant	PG-S1 - 2007	84.173	13,410	0	13,479	0
Total Special Education - Preschool Grant			32,204	0	33,617	0
Total Special Education Cluster			517,395	0	579,492	0
Safe and Drug-Free Schools State Grants	DR-S1 - 2007	84.186	945	0	5,173	0
State Grants for Innovative Educational Program Strategies						
State Grants for Innovative Educational Program Strategies	C2-S1 - 2006	84.298	23	0	1,306	0
State Grants for Innovative Educational Program Strategies	C2-S1 - 2007	84.298	4,481	0	3,568	0
Total State Grants for Innovative Educational Program Strategies			4,504	0	4,874	0
Education Technology State Grants						
Education Technology State Grants	TJ-S1 - 2006	84.318	424	0	424	0
Education Technology State Grants	TJ-S1 - 2007	84.318	431	0	0	0
Total Education Technology State Grants			855	0	424	0
Comprehensive School Reform Demonstration						
Comprehensive School Reform Demonstration	RF-CC-2006	84.332	15,379	0	21,544	0
Comprehensive School Reform Demonstration	RF-CC-2007	84.332	81,239	0	74,082	0
Total Comprehensive School Reform Demonstration			96,618	0	95,626	0
English Language Acquisition Grants						
English Language Acquisition Grants	T2-S1-2006	84.365	3,422	0	4,887	0
English Language Acquisition Grants	T2-S1-2007	84.365	6,102	0	6,102	0
Total English Language Acquisition Grants			9,524	0	10,989	0
Improving Teacher Quality State Grants						
Improving Teacher Quality State Grants	TR-S1 - 2006	84.367	11,687	0	22,158	0
Improving Teacher Quality State Grants	TR-S1 - 2007	84.367	108,921	0	103,930	0
Total Improving Teacher Quality State Grants			120,608	0	126,088	0
<i>Passed Through Madison County Department of Family and Children:</i>						
Adult Education - Basic Grants to States	AB-S1-2007	84.002	4,968	0	4,968	0
TOTAL U.S. DEPARTMENT OF EDUCATION			1,224,576	0	1,346,364	0
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of Health and Human Service:</i>						
Refugee and Emigrant Assistance Discretionary Grant	RI-S1-2003	93.576	0	0	44	0
Refugee and Emigrant Assistance Discretionary Grant	RI-S1-2004	93.576	0	0	6	0
Refugee and Emigrant Assistance Discretionary Grant	RI-S1-2005	93.576	0	0	9	0
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			0	0	59	0
Totals			\$1,468,291	\$43,532	\$1,590,138	\$43,532

The accompanying notes to this schedule are an integral part of this schedule.

**LONDON CITY LOCAL SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – FOOD DONATION PROGRAM

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

NOTE D – TRANSFERS DUE TO ODE ADMINISTRATIVE ACTION

The District made a \$3,904 transfer from the 2005 grant award to the 2006 grant award during fiscal year 2007 for its Adult Education Grant (CFDA #84.002). This was due to the revised Comprehensive Continuous Improvement Plan Strategy (CCIP) as of July 2002 which is an attempt to promote consistency between fiscal periods and allows local agencies to manage one Ohio Department of Education project at a time, and eliminates refunds to the Ohio Department of Education.

NOTE E – SCHOOLWIDE PROGRAM

The District currently operates a school-wide program for their Title I fund in the Elementary schools.



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

To the Board of Education:

We have audited the financial statements of governmental activities,, each major fund, and the aggregate discretely presented component unit and remaining fund information of the London City School District, Madison County, Ohio, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements 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 District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District'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 certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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 District'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 District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 through 2007-004.

Internal Control over Financial Reporting (continued)

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District'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, of the significant deficiencies described above we believe finding numbers 2007-001 and 2007-002 are also material weaknesses.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated March 17, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the District'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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-003.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 17, 2008.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

March 17, 2008



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Board of Education:

Compliance

We have audited the compliance of 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 apply to each of its major federal programs for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 London City School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the 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 directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as finding 2007-005 and 2007-006 to be significant deficiencies.

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings, we consider finding 2007-006 to be a material weakness.

We also noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated March 17, 2008.

The District's responses to the findings we identified are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

March 17, 2008

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster CFDA#10.553 & 10.555 Title I CFDA# 84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2007-001

Financial Statement and Federal Schedule Adjustments – Significant Deficiency/Material Weakness

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

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

LONDON CITY SCHOOL DISTRICT
MADISON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(continued)

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

FINDING NUMBER 2007-001 (Continued)

Financial Statement Adjustments – Significant Deficiency/Material Weakness (continued)

1. Entry to reduce taxes receivable by \$1,901,000 for the General Fund and \$713,900 for the Debt Service Fund to cash, for advances on property taxes received. Fund Balance - Reserved for Property Tax Advances were also reduced for each fund.
2. Entry to reclassify \$700,000 of other revenues to charges for services related to the London Academy contract.
3. To reduce taxes receivable by \$540,378 in the General Fund and \$206,148 in the Debt Service Fund for homestead and rollback receipts improperly accrued as taxes receivable.
4. Additional amounts due from London Academy to the General Fund of \$300,000. Additional amounts due as well at 6/30/06 which caused a beginning fund balance adjustment in the Statement of Activities/Governmental Activities of \$423,003.
5. Entry to adjust inter-fund receivable from other Governmental funds for \$ 73,333. Increase inter-fund receivable for the General fund for \$ 27,916. Decrease inter-fund payable from other Governmental funds for \$ 45,417.

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

1. To increase cash and tax revenue for the Debt Service fund for \$7,393 since monies were cash in bank but not posted as revenue.
2. Additional intergovernmental receivables of \$44,162 for the Core Fund (499).
3. Entry to include \$11,185 of delinquent taxes receivable for the Debt Service fund.
4. Reduction of Long Term Debt for Accretion Bonds of \$101,055 due to overstatement.

The following misstatements were identified related to the federal awards receipts and expenditures schedule:

1. Reclassification of \$51,047 of receipts and expenditures from the School Breakfast Program to the National School Lunch Program within the Child Nutrition Cluster.
2. Change to reduce Title I receipts by \$27,891.
3. Change to reduce Title IV receipts by \$4,228.

The Federal Awards Receipts and Expenditures Schedule was adjusted to correct the above errors.

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 or federal schedule in subsequent years. In addition, we recommend the District adopt procedures for the review of the activity posted to the accounting records and subsequent financial statements and federal schedule.

Officials' Response and Corrective Action Plan: We will work with the conversion team to ensure proper Generally Accepted Accounting Principals are addressed in the future. We will address the federal schedule by only including properly coded cash receipts and expenditures as well as donated commodities.

Anticipated Completion Date: November 30, 2008
Responsible Contact Person: Britt Lewis, Treasurer

LONDON CITY SCHOOL DISTRICT
MADISON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(continued)

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

FINDING NUMBER 2007-002

Cash reconciling items – Significant Deficiency/Material Weakness

When monthly bank reconciliations are performed, the total of fund balances for all funds on the District's accounting system should agree to the total reconciled cash balance with the bank and investment balances taking into consideration outstanding checks and deposits. Although differences may arise during this process, any differences should be retained on bank reconciliations until they can be resolved.

Reconciliations were performed each month by the Treasurer; however, in the months of October 2006, January 2007 and June 2007 the District made adjusting entries to its accounting system so that its book balance would agree with the bank balance. The three occurrences reduced fund balance by seven hundred dollars (\$700). These adjustments are reflected in the financial statements.

We recommend the Treasurer retain any reconciling items on the monthly bank reconciliation continuously until they can be researched and appropriately resolved.

Officials' Response:

The District did not respond to this finding.

FINDING NUMBER 2007-003

Maintaining Records – Non-Compliance/Significant Deficiency

Ohio Rev. Code Section 149.351 provides, in part, that all records that are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by Ohio Rev. Code Sections 149.38 through 149.42.

The following records could not be located during the audit:

Transaction Cycle	Description	# missing items
Lunchroom Revenue	Pre-payment worksheets 10/30/06 – 11/3/06	5
High School Basketball Candy Sales	Accountability worksheets.	1
High School Athletic Entry Fees	Fee contracts, accountability worksheets.	2
High School Cheer Clinic	Accountability worksheets, pre-numbered receipts.	1

The District was unable to locate the records above. However, the activity for lunchroom revenue was tested using alternative audit procedures. Refer to Finding 2007-004 regarding extracurricular receipts.

We recommend the District establish procedures for maintaining supporting documentation for all financial activity.

LONDON CITY SCHOOL DISTRICT
MADISON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(continued)

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

FINDING NUMBER 2007-003

Maintaining Records – Non-Compliance/Significant Deficiency (continued)

Officials' Response:

We will establish new procedures for maintaining supporting documentation concerning lunch room revenues, candy sales, athletic entry fees, and clinics. We have addressed the athletic entry fees and lunch room revenues.

FINDING NUMBER 2007-004

Student Activity Policies and Procedures – Significant Deficiency

The London City School District Bylaws and Policies Section 6152 indicates that student fees and monies shall be returned to the Treasurer with an accurate accounting of all transactions. Section 6630 of the Policy indicates that the Athletic Fund shall be audited annually and administered under the appropriate accounting controls. Section 6610 of the Policy requires that records be maintained of the receipt and disbursement of all such monies in accounts according to the activity involved. Furthermore, Section 6610 also states that the Superintendent shall implement administrative guidelines which will ensure that all student activity funds are managed, recorded, and deposited in accordance with law and sound fiscal practice.

There was no evidence that fundraiser accountability worksheets were used for the London High School basketball candy sales and cheer clinic. Additionally, the Athletic Director enters into contracts with other school districts for London High School activity entry fees. During fiscal year 2007, there was no evidence that the Director used contracts or worksheets to record entry fee receipts. Additionally, duplicate receipts were not utilized for any of these activities.

The lack of effective policies could result in errors or irregularities to occur and not be detected in a timely manner by management. The lack of fundraiser and fee accountability worksheets could lead to incomplete deposits and/or receipts, improperly posted receipts, and the potential for theft without timely detection by management. Furthermore, the lack of pre-numbered receipts or accountability forms reduces management's ability to determine completeness over these receipts.

We recommend that all Student Activity Advisors maintain and reconcile each activity worksheet back to the cash collected. The Treasurer should review these worksheets to determine if the amount collected appears reasonable based on the number of students participating and the fee. We also recommend that Student Activity fees and fundraisers be administered in accordance with the London City School District Bylaws and Policies. We recommend that the Superintendent go to the Auditor of State website and apply Guidelines for Developing Policies for Student Activity Programs to enhance student activity policies already in place.

Officials' Response:

We will establish new procedures for maintaining supporting documentation concerning lunch room revenues, candy sales, athletic entry fees, and clinics. We have addressed the athletic entry fees and lunch room revenues.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2007-005
CFDA Title and Number	10.553 – School Breakfast Program. 10.555 – National School Lunch Program
Federal Award Number / Year	044255-05-PU-2007 044255-LL-P4-2007
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	The Ohio Department of Education

Child Nutrition Program federal reimbursement – Significant Deficiency

The Child Nutrition Program requires the District to have sufficient internal controls related to claims for reimbursement. The District should establish internal controls which ensure the accuracy of lunch counts prior to the submission of the monthly claim for reimbursement. At a minimum, these internal controls shall include an on-site review of the lunch counting and claiming system employed by each school within the jurisdiction of the school food authority; comparisons of daily free, reduced price and paid lunch counts against data which will assist in the identification of lunch counts in excess of the number of free, reduced price and paid lunches served each day to children eligible for such lunches; and a system for following up on those lunch counts which suggest the likelihood of lunch counting problems.

As a result of our examination of claims for reimbursement, we noted differences in the District’s meal counts submitted with its claims for reimbursement aggregating to a total net error in reimbursements of \$125 (\$636 projected).

Month	Number of Meals Over/(Under) Reported		
	Full Price	Free	Reduced
October	17	(25)	0
November	18	(16)	19
February	16	(15)	1
April	(23)	(17)	2
Total Errors - Net Meals Reported	28	(73)	22

While the District had internal controls in place, those controls were not functioning properly to identify errors in meal counts prior to submission for reimbursement. Although the errors above are not material, the lack of effective monitoring controls could result in a future misstatement which may be more than inconsequential.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007
(continued)**

Child Nutrition Program federal reimbursement – Significant Deficiency

We recommend the District enhance food service reimbursement controls to ensure accurate meal counts are submitted for reimbursement; this will improve the District’s accountability over Child Nutrition reimbursements.

Officials’ Response and Corrective Action Plan:

We have purchased and implemented a point of sale system in FY08 for the Lunchroom. This will help with revenue pre-payment worksheets and documentation. This system will document and improve accountability over child nutrition reimbursements.

Anticipated completion date: July 1, 2007
Responsible Contact: Britt Lewis, Treasurer

Finding Number	2007-006
CFDA Title and Number	10.553 – School Breakfast Program. 10.555 – National School Lunch Program 84.010 – Title I Grants to Local Educational Agencies 84.186 – Safe and Drug-Free Schools Grants
Federal Award Number / Year	044255-05-PU-2007 044255-LL-P4-2007 C1-S1-2007 DR-S1-2007
Federal Agency	U.S. Department of Agriculture U.S. Department of Education
Pass-Through Agency	The Ohio Department of Education

Financial Statement and Federal Schedule Adjustments

Significant Deficiency/Material Weakness

See (GAGAS) finding # 2007-001 above; A-133 also requires us to report this finding.



Mary Taylor, CPA
Auditor of State

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
MAY 20, 2008**