

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

Single Audit

For the Fiscal Year Ended June 30, 2011





Dave Yost • Auditor of State

Board of Education
London City School District
380 Elm Street
London, Ohio 43140

We have reviewed the *Independent Accountants' Report* of the London City School District, Madison County, prepared by Kennedy Cottrell Richards LLC, for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The London City School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 18, 2012

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**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

London City School District
Madison County
380 Elm Street
London, Ohio 43140

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of London City School District, Madison County, Ohio (the District), as of and for the year ended June 30, 2011, 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 respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of London City School District, Madison County, Ohio, as of June 30, 2011, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 23, during the year ended June 30, 2011, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2012, 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.

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information 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. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. 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 black ink that reads "Kennedy Cottrell Richards LLC". The signature is written in a cursive, flowing style.

Kennedy Cottrell Richards LLC

February 27, 2012

The discussion and analysis of the London City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the transmittal letter, financial statements, and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2011 are as follows:

- Net assets of governmental activities increased \$1,211,214.
- Total assets of governmental activities decreased \$2,245,492. Capital assets, net increased \$13,396,546. Current assets decreased \$15,642,038.
- General revenues accounted for \$21,899,974. Program specific revenues in the form of charges for services and sales, grants, contributions and interest accounted for \$5,939,247. Total revenues equaled \$27,839,221.
- The School District had \$26,628,007 in expenses related to governmental activities; only \$5,939,247 of these expenses were offset by program specific charges for services and sales, grants, contributions and interest. General revenues (primarily grants, entitlements, property taxes, and income taxes) of \$21,899,974 were adequate to provide for these programs.

Using the Basic Financial Statements

This report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand London City School District as a financial whole, an entire operating entity.

The Statement of Net Assets and the Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School 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 School District's major funds with all other non-major funds presented in total in one column. The major funds for the London City School District are the General Fund, Debt Service Fund, and Ohio Classroom Facilities Capital Projects Fund.

Reporting the School District as a Whole

One of the most important questions asked about the School District is “How did we do financially during fiscal year 2011?”

The Statement of Net Assets and the Statement of Activities, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These government-wide financial statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the School District’s net assets and changes in those assets. The change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the School District’s property tax base, current property tax laws in Ohio restricting revenue growth, required educational programs and other factors.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

The analysis of the School District’s major funds begins on page seven. Fund financial reports provide detailed information about the School District’s major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District’s major funds.

Governmental Funds - Most of the School 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 fiscal 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 School District’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) 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 School District's fiduciary funds are two private purpose trust funds and five agency funds. We exclude these activities from the School District's other financial statements because the School 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 School District as a Whole

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

Table 1 provides a summary of the School District's net assets for fiscal year 2011 and fiscal year 2010:

(Table 1)
Net Assets
Governmental Activities

	<u>2011</u>	<u>2010</u>	<u>Increase/ (Decrease)</u>
<u>Assets:</u>			
Current and Other Assets	\$21,752,950	\$37,394,988	(\$15,642,038)
Capital Assets, Net	51,555,184	38,158,638	13,396,546
<i>Total Assets</i>	<u>73,308,134</u>	<u>75,553,626</u>	<u>(2,245,492)</u>
<u>Liabilities:</u>			
Other Liabilities	10,002,501	11,877,599	(1,875,098)
Long-Term Liabilities	23,572,050	25,153,658	(1,581,608)
<i>Total Liabilities</i>	<u>33,574,551</u>	<u>37,031,257</u>	<u>(3,456,706)</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	30,563,602	15,349,769	15,213,833
Restricted	8,340,365	23,087,714	(14,747,349)
Unrestricted	829,616	84,886	744,730
<i>Total Net Assets</i>	<u>\$39,733,583</u>	<u>\$38,522,369</u>	<u>\$1,211,214</u>

Current and Other Assets decreased \$15,642,038. This was mainly due to the School District receiving a grant from the Ohio School Facilities Commission for renovations to the existing High School and to construct a new Middle School, which caused receivables to be higher than usual in the prior fiscal year. Capital Assets, Net increased \$13,396,546. This increase was mainly due to the School District's renovations to the existing High School and the construction of a new Middle School.

Total Liabilities decreased \$3,456,706. Long-Term Liabilities decreased \$1,581,608 due to annual debt payments made during the fiscal year. Other Liabilities decreased \$1,875,098 due mainly to a decrease in deferred revenue caused by a decrease in property taxes receivable resulting from a decline in the housing market.

Invested in Capital Assets, Net of Related Debt increased \$15,213,833 as the School District had a large portion of the renovations and construction projects completed during the fiscal year, along with debt payments made during the fiscal year. Restrict Net Assets decreased \$14,747,349 as the School District had a much smaller receivable relating to the Ohio School Facilities Commission grant. Unrestricted Net Assets increased \$744,730 due mainly to the School District making large cuts to expenditures during the fiscal year.

Table 2 shows the changes in net assets for fiscal years 2011 and 2010:

(Table 2)
Change in Net Assets
Governmental Activities

	2011	2010	Increase/ (Decrease)
<u>Revenues:</u>			
Program Revenues:			
Charges for Services and Sales	\$2,825,157	\$2,846,945	(\$21,788)
Operating Grants, Contributions and Interest	3,114,090	2,806,552	307,538
<i>Total Program Revenues</i>	<u>5,939,247</u>	<u>5,653,497</u>	<u>285,750</u>
General Revenues:			
Property Taxes	9,544,089	11,152,437	(1,608,348)
Income Taxes	2,824,179	2,764,319	59,860
Revenue in Lieu of Taxes	231,927	183,955	47,972
Grants and Entitlements not			
Restricted to Specific Programs	9,091,857	9,450,587	(358,730)
Contributions and Donations	29,458	88,418	(58,960)
Interest	25,909	19,470	6,439
Miscellaneous	152,555	62,530	90,025
<i>Total General Revenues</i>	<u>21,899,974</u>	<u>23,721,716</u>	<u>(1,821,742)</u>
<i>Total Revenues</i>	<u>\$27,839,221</u>	<u>\$29,375,213</u>	<u>(\$1,535,992)</u>

(continued)

(Table 2)
Change in Net Assets
Governmental Activities
(continued)

	2011	2010	Increase/ (Decrease)
<i>Program Expenses:</i>			
Instruction:			
Regular	\$10,176,725	\$10,744,690	(\$567,965)
Special	3,959,032	3,480,713	478,319
Vocational	452,281	416,751	35,530
Adult/Continuing	33,884	37,137	(3,253)
Support Services:			
Pupils	1,119,432	982,539	136,893
Instructional Staff	1,307,314	1,763,845	(456,531)
Board of Education	214,164	172,366	41,798
Administration	1,931,792	2,105,097	(173,305)
Fiscal	790,545	692,700	97,845
Operation and Maintenance of Plant	2,270,298	2,966,110	(695,812)
Pupil Transportation	1,029,556	1,002,105	27,451
Central	293,993	310,561	(16,568)
Operation of Non-Instructional Services:			
Food Service Operations	762,233	813,967	(51,734)
Other	143,146	116,748	26,398
Extracurricular Activities	900,060	897,254	2,806
Interest and Fiscal Charges	1,243,552	1,289,462	(45,910)
<i>Total Expenses</i>	<u>26,628,007</u>	<u>27,792,045</u>	<u>(1,164,038)</u>
Excess before Special Item	1,211,214	1,583,168	(371,954)
Special Item	0	(3,570,919)	3,570,919
<i>Change in Net Assets</i>	<u>1,211,214</u>	<u>(1,987,751)</u>	<u>3,198,965</u>
<i>Net Assets at Beginning of Year</i>	<u>38,522,369</u>	<u>40,510,120</u>	<u>(1,987,751)</u>
<i>Net Assets at End of Year</i>	<u>\$39,733,583</u>	<u>\$38,522,369</u>	<u>\$1,211,214</u>

Governmental Activities

Program revenues increased \$285,750 due primarily to increases in Operating Grants, Contributions and Interest of \$307,538. The change in Operating Grants, Contributions and Interest is due to an increase in federal grant revenue received during the fiscal year.

Property Taxes decreased \$1,608,348 due mainly to a decrease in tax advances received, along with decreases in assessed valuation due to the decline in the housing market. Grants and Entitlements not Restricted to Specific Programs decreased \$358,730 due primarily to a decrease in State foundation over the prior fiscal year.

During fiscal year 2010, the School District exchanged property, consisting of land and buildings, with a book value of \$3,711,499 to the City of London, for land valued at \$140,580. The difference of \$3,570,919 between the market value of the property received by the School District and the book value of the property transferred to the City was recorded as a special item.

Program Expenses decreased \$1,164,038. Regular Instruction decreased \$567,965 due mainly to the School District making several cuts during the fiscal year. Special Instruction increased \$478,319 as State standards for special education have increased. Support Services expenditures decreased \$1,038,229 due mainly to decreases in Instructional Staff, Administration, and Operation and Maintenance of Plant. These decreases are due mainly to the School District operating newer buildings and being diligent in making cuts to expenditures whenever possible.

The School District's Funds

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$40,842,231 and expenditures of \$41,773,375. The net change in fund balance for the General Fund during the fiscal year was an increase of \$973,067. This was due mainly to an overall decrease in expenditures as the School District continues to make cuts whenever possible.

The Debt Service Fund, which is funded mostly through property taxes, had an increase in fund balance of \$600,617.

The Ohio Classroom Facilities Capital Projects Fund balance decreased \$2,286,035 due primarily to an increase in grant monies received from the Ohio Classroom Facilities Commission, offset by larger expenditures for the High School renovations and new Middle School building projects.

General Fund – Budget Highlights

The School 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 fiscal year 2011, the School District revised its budget as it attempted to deal with unexpected changes in expenditures. A summary of the General Fund's original and final budgeted amounts is listed on page 16, as well as the actual amounts. A variance comparison is presented between the final budgeted amount and the actual amounts.

For the General Fund, original and final estimated revenues were \$21,182,316. The School District only received one amended certificate during the fiscal year.

Final estimated revenues were \$21,182,316 and actual revenues were \$19,903,018. The difference of \$1,279,298 is due the School District over estimating the amount of State foundation monies to be received.

Final estimated expenditures were \$22,618,414, with original estimated expenditures of \$22,651,991, resulting in a difference of \$33,577, due to the School District anticipating increases in various expenditures.

Final estimated expenditures were \$22,618,414, with actual expenditures of \$20,900,734, resulting in a difference of \$1,717,680, due to the School District conservatively watching expenditures.

The School District's ending actual fund balance in the General Fund was \$2,011,867, while the final budgeted fund balance equaled \$1,573,485, a difference of \$438,382. This difference was due to the School District closely monitoring expenditures during the fiscal year.

Capital Assets

At the end of fiscal year 2011, the School District had \$51,555,184 invested in capital assets (net of accumulated depreciation). Additions to capital assets included construction in progress for building projects, leased computer equipment, and buildings and improvements. The School District's disposals during the fiscal year were for vehicles and furniture, fixtures, and equipment. For additional information regarding the School District's capital assets, refer to Note 10 in the basic financial statements.

Debt

At June 30, 2011, the School District had \$22,437,482 in bonds outstanding, \$1,965,000 of which is due within one year.

The School District paid off the tax anticipation note during the fiscal year.

The School District had \$192,335 in capital leases outstanding at fiscal year-end, \$78,941 of which is due within one year.

For further information regarding the School District's long-term obligations and notes payable, refer to Notes 15 and 16 in the basic financial statements

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. For questions about this report or additional information, contact Ms. Kristine Blind, Treasurer of London City School District, 380 Elm Street, London, Ohio 43140.

LONDON CITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2011

	Primary Government Governmental Activities	Component Unit London Academy
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$11,364,979	\$0
Cash and Cash Equivalents	0	367,946
Materials and Supplies Inventory	15,417	0
Accrued Interest Receivable	665	0
Accounts Receivable	87,452	0
Intergovernmental Receivable	865,888	23,256
Income Taxes Receivable	1,214,049	0
Property Taxes Receivable	7,468,029	0
Due from Component Unit	367,946	0
Revenue in Lieu of Taxes Receivable	132,934	0
Deferred Charges	235,591	0
Capital Assets:		
Land	721,430	0
Construction in Progress	16,831,346	0
Depreciable Capital Assets, Net	34,002,408	3,556
<i>Total Assets</i>	73,308,134	394,758
<u>Liabilities:</u>		
Accounts Payable	80,917	0
Contracts Payable	1,687,915	0
Accrued Wages and Benefits Payable	2,356,684	0
Intergovernmental Payable	597,082	0
Retainage Payable	326,289	0
Deferred Revenue	4,807,112	0
Accrued Interest Payable	66,502	0
Early Retirement Incentive Payable	80,000	0
Due to Primary Government	0	367,946
Long-Term Liabilities:		
Due Within One Year	2,211,673	0
Due in More Than One Year	21,360,377	0
<i>Total Liabilities</i>	33,574,551	367,946
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	30,563,602	3,556
Restricted for Debt Service	3,432,008	0
Restricted for Capital Projects	4,113,205	0
Restricted for Ohio School Facilities Maintenance	442,346	0
Restricted for School Improvement Grant	76,875	0
Restricted for Education Jobs Fund	0	6,939
Restricted for IDEA-Part B Grant	70,197	12,481
Restricted for Student Activities	47,997	0
Restricted for Improving Teacher Quality Grant	42,673	0
Restricted for Other Purposes	115,064	3,836
Unrestricted	829,616	0
<i>Total Net Assets</i>	\$39,733,583	\$26,812

See accompanying notes to the basic financial statements

LONDON CITY SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Primary Government Governmental Activities	Component Unit London Academy
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$10,176,725	\$2,363,451	\$360,889	(\$7,452,385)	\$0
Special	3,959,032	10,841	1,410,306	(2,537,885)	0
Vocational	452,281	0	28,855	(423,426)	0
Adult/Continuing	33,884	0	35,163	1,279	0
Support Services:					
Pupils	1,119,432	0	214,016	(905,416)	0
Instructional Staff	1,307,314	490	339,446	(967,378)	0
Board of Education	214,164	0	0	(214,164)	0
Administration	1,931,792	0	5,391	(1,926,401)	0
Fiscal	790,545	0	54,502	(736,043)	0
Operation and Maintenance of Plant	2,270,298	0	1,218	(2,269,080)	0
Pupil Transportation	1,029,556	0	40,101	(989,455)	0
Central	293,993	0	24,961	(269,032)	0
Operation of Non-Instructional Services:					
Food Service Operations	762,233	262,623	454,978	(44,632)	0
Other	143,146	0	115,583	(27,563)	0
Extracurricular Activities	900,060	187,752	28,681	(683,627)	0
Interest and Fiscal Charges	1,243,552	0	0	(1,243,552)	0
Total Governmental Activities	\$26,628,007	\$2,825,157	\$3,114,090	(20,688,760)	0
<u>Component Unit:</u>					
London Academy	\$2,427,962	\$0	\$2,339,254	0	(88,708)
<u>General Revenues and Special Item:</u>					
Property Taxes Levied for:					
General Purposes				6,497,540	0
Debt Service				2,899,429	0
Other Purposes				147,120	0
Income Taxes				2,824,179	0
Revenue in Lieu of Taxes				231,927	0
Grants and Entitlements not Restricted to Specific Programs				9,091,857	0
Contributions and Donations not Restricted to Specific Programs				29,458	0
Interest				25,909	0
Miscellaneous				152,555	0
Total General Revenues				21,899,974	0
Change in Net Assets				1,211,214	(88,708)
Net Assets at Beginning of Year - Restated (See Notes 23 & 26)				38,522,369	115,520
Net Assets at End of Year				\$39,733,583	\$26,812

See accompanying notes to the basic financial statements

LONDON CITY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2011

	General	Debt Service	Ohio Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$2,131,431	\$2,725,971	\$5,392,435	\$1,115,142	\$11,364,979
Receivables:					
Property Taxes	5,796,250	1,671,779	0	0	7,468,029
Revenue in Lieu of Taxes	132,934	0	0	0	132,934
Income Taxes	1,214,049	0	0	0	1,214,049
Intergovernmental	0	0	284,076	581,812	865,888
Accounts	87,273	0	0	179	87,452
Accrued Interest	665	0	0	0	665
Interfund	23,958	0	0	0	23,958
Materials and Supplies Inventory	0	0	0	15,417	15,417
Due From Component Unit	367,946	0	0	0	367,946
<i>Total Assets</i>	<u>\$9,754,506</u>	<u>\$4,397,750</u>	<u>\$5,676,511</u>	<u>\$1,712,550</u>	<u>\$21,541,317</u>
<u>Liabilities and Fund Balances:</u>					
<u>Liabilities:</u>					
Accounts Payable	\$29,724	\$0	\$320	\$50,873	\$80,917
Contracts Payable	0	0	1,687,915	0	1,687,915
Accrued Wages and Benefits Payable	1,995,311	0	0	361,373	2,356,684
Intergovernmental Payable	545,340	0	0	51,742	597,082
Interfund Payable	0	0	0	23,958	23,958
Retainage Payable	0	0	326,289	0	326,289
Deferred Revenue	4,916,322	1,121,019	284,076	330,171	6,651,588
<i>Total Liabilities</i>	<u>7,486,697</u>	<u>1,121,019</u>	<u>2,298,600</u>	<u>818,117</u>	<u>11,724,433</u>
<u>Fund Balances:</u>					
Nonspendable	0	0	0	15,417	15,417
Restricted	0	3,276,731	3,377,911	693,327	7,347,969
Committed	79,944	0	0	0	79,944
Assigned	2,207,759	0	0	349,000	2,556,759
Unassigned (Deficit)	(19,894)	0	0	(163,311)	(183,205)
<i>Total Fund Balances</i>	<u>2,267,809</u>	<u>3,276,731</u>	<u>3,377,911</u>	<u>894,433</u>	<u>9,816,884</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$9,754,506</u>	<u>\$4,397,750</u>	<u>\$5,676,511</u>	<u>\$1,712,550</u>	<u>\$21,541,317</u>

See accompanying notes to the basic financial statements

LONDON CITY SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2011*

Total Governmental Fund Balances \$9,816,884

*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. These assets consist of:

Land	721,430	
Construction in progress	16,831,346	
Depreciable capital assets	49,726,001	
Accumulated depreciation	(15,723,593)	
Total capital assets	51,555,184	51,555,184

Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Delinquent property taxes	900,579	
Revenue in lieu of taxes	132,934	
Income taxes	181,419	
Intergovernmental	614,247	
Customer sales and services	15,297	
	1,844,476	1,844,476

Bond issuance costs reported as an expenditure in governmental funds are allocated as an expense over the life of the debt on a full accrual basis. 235,591

In the Statement of Activities, interest is accrued on outstanding general obligation bonds, whereas in governmental funds, an interest expenditure is reported when due. (66,502)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(20,354,864)	
Accretion on bonds	(1,402,644)	
Loss on refunding	377,681	
Premium on debt issue	(1,057,655)	
Capital leases	(192,335)	
Compensated absences	(942,233)	
Early retirement incentive payable	(80,000)	
Total liabilities	(23,652,050)	(23,652,050)

Net Assets of Governmental Activities \$39,733,583

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, 2011

	General	Debt Service	Ohio Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>					
Property Taxes	\$6,490,485	\$2,891,018	\$0	\$147,120	\$9,528,623
Revenue in Lieu of Taxes	231,927	0	0	0	231,927
Income Taxes	2,819,864	0	0	0	2,819,864
Intergovernmental	8,782,741	427,773	13,031,555	2,973,272	25,215,341
Interest	11,713	0	13,316	893	25,922
Tuition and Fees	471,725	0	0	0	471,725
Extracurricular Activities	25,364	0	0	162,878	188,242
Customer Sales and Services	1,883,260	0	0	262,623	2,145,883
Contributions and Donations	29,458	0	0	28,681	58,139
Rent	4,010	0	0	0	4,010
Miscellaneous	148,105	0	4,450	0	152,555
Total Revenues	20,898,652	3,318,791	13,049,321	3,575,467	40,842,231
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	8,212,363	0	0	1,091,294	9,303,657
Special	2,874,375	0	0	824,746	3,699,121
Vocational	426,698	0	0	0	426,698
Adult/Continuing	0	0	0	33,884	33,884
Support Services:					
Pupils	809,207	0	0	247,699	1,056,906
Instructional Staff	832,393	0	0	335,398	1,167,791
Board of Education	214,164	0	0	0	214,164
Administration	1,842,261	0	0	7,997	1,850,258
Fiscal	720,043	70,119	0	3,000	793,162
Operation and Maintenance of Plant	2,048,813	0	0	1,214	2,050,027
Pupil Transportation	781,204	0	0	51,532	832,736
Central	258,301	0	0	21,544	279,845
Operation of Non-Instructional Services:					
Food Service Operations	0	0	0	682,347	682,347
Other	0	0	0	143,146	143,146
Extracurricular Activities	619,413	0	0	163,872	783,285
Capital Outlay	107,307	0	15,335,356	4,427	15,447,090
Debt Service:					
Principal Retirement	329,514	1,815,000	0	0	2,144,514
Interest and Fiscal Charges	31,689	833,055	0	0	864,744
Total Expenditures	20,107,745	2,718,174	15,335,356	3,612,100	41,773,375
Excess of Revenues Over (Under) Expenditures	790,907	600,617	(2,286,035)	(36,633)	(931,144)
<u>Other Financing Sources (Uses):</u>					
Inception of Capital Lease	257,337	0	0	0	257,337
Transfers In	0	0	0	75,177	75,177
Transfers Out	(75,177)	0	0	0	(75,177)
Total Other Financing Sources (Uses)	182,160	0	0	75,177	257,337
Net Change in Fund Balances	973,067	600,617	(2,286,035)	38,544	(673,807)
Fund Balances at Beginning of Year - Restated (See Note 23)	1,294,742	2,676,114	5,663,946	855,889	10,490,691
Fund Balances at End of Year	\$2,267,809	\$3,276,731	\$3,377,911	\$894,433	\$9,816,884

See accompanying notes to the basic financial statements

LONDON CITY SCHOOL DISTRICT
*Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2011*

Net Change in Fund Balances - Total Governmental Funds (\$673,807)

**Amounts reported for governmental activities in the
Statement of Activities are different because:**

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital assets additions	107,307	
Construction in progress additions	15,083,412	
Depreciation expense	<u>(1,786,173)</u>	
Excess of depreciation expense under capital outlay		13,404,546

The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of capital assets are removed from the capital assets account in the Statement of Net Assets and offset against the proceeds from the sale of capital assets resulting in a loss on the sale of capital assets in the Statement of Activities.

Loss on disposal of capital assets		(8,000)
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Because some revenues will not be collected for several months after the School District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Delinquent property taxes	15,466	
Income taxes	4,315	
Intergovernmental	(13,038,088)	
Customer Sales and Services	<u>15,297</u>	
		(13,003,010)

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. The difference in the amount of interest on the Statement of Activities is the result of the following:

Amortization of bond issuance costs	(15,961)	
Amortization of bond premium	71,965	
Amortization of deferred loss	(125,894)	
Decrease in accrued interest payable	5,838	
Accretion on bonds	<u>(314,756)</u>	
		(378,808)

Some capital assets were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability.

(257,337)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current fiscal year, these amounts consist of:

Bond payments	1,815,000	
Capital lease payments	<u>329,514</u>	
		2,144,514

Some items 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. These activities consist of:

Increase in early retirement incentive payable	(80,000)	
Decrease in compensated absences payable	<u>63,116</u>	
		(16,884)

Change in Net Assets of Governmental Activities \$1,211,214

See accompanying notes to the basic financial statements

LONDON CITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget Over/(Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$6,010,000	\$6,010,000	\$5,992,708	(\$17,292)
Revenue in Lieu of Taxes	182,000	182,000	231,927	49,927
Income Taxes	2,778,438	2,778,438	2,795,402	16,964
Intergovernmental	9,719,022	9,719,022	8,782,741	(936,281)
Interest	18,000	18,000	12,445	(5,555)
Tuition and Fees	478,000	478,000	468,338	(9,662)
Extracurricular Activities	11,800	11,800	9,881	(1,919)
Customer Sales and Services	1,522,435	1,522,435	1,522,435	0
Contributions and Donations	0	0	244	244
Rent	0	0	4,010	4,010
Miscellaneous	162,621	162,621	78,054	(84,567)
<i>Total Revenues</i>	20,882,316	20,882,316	19,898,185	(984,131)
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	9,710,177	9,767,837	8,525,031	1,242,806
Special	2,811,145	2,827,810	2,907,291	(79,481)
Vocational	396,370	398,719	425,677	(26,958)
Support Services:				
Pupils	820,859	825,725	813,890	11,835
Instructional Staff	1,180,300	1,187,297	954,874	232,423
Board of Education	285,969	287,664	204,297	83,367
Administration	1,943,933	1,955,457	1,942,873	12,584
Fiscal	634,582	638,344	744,559	(106,215)
Operation and Maintenance of Plant	2,581,181	2,596,482	2,150,797	445,685
Pupil Transportation	835,378	840,330	832,525	7,805
Central	525,345	528,460	382,965	145,495
Extracurricular Activities	635,218	471,122	567,666	(96,544)
Debt Service:				
Principal Retirement	268,409	270,000	270,000	0
Interest and Fiscal Charges	8,388	8,438	8,438	0
<i>Total Expenditures</i>	22,637,254	22,603,685	20,730,883	1,872,802
Excess of Revenues Over (Under) Expenditures	(1,754,938)	(1,721,369)	(832,698)	888,671
<u>Other Financing Sources (Uses):</u>				
Transfers In	300,000	300,000	0	(300,000)
Transfers Out	(14,737)	(14,729)	(161,849)	(147,120)
Advances In	0	0	4,833	4,833
Advances Out	0	0	(8,002)	(8,002)
<i>Total Other Financing Sources (Uses)</i>	285,263	285,271	(165,018)	(450,289)
<i>Net Change in Fund Balance</i>	(1,469,675)	(1,436,098)	(997,716)	438,382
<i>Fund Balance at Beginning of Year</i>	2,826,481	2,826,481	2,826,481	0
<i>Prior Year Encumbrances Appropriated</i>	183,102	183,102	183,102	0
<i>Fund Balance at End of Year</i>	\$1,539,908	\$1,573,485	\$2,011,867	\$438,382

See accompanying notes to the basic financial statements

LONDON CITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Private Purpose Trust	Agency
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$51,182	\$62,848
Receivables:		
Accrued Interest	131	0
<i>Total Assets</i>	51,313	\$62,848
<u>Liabilities:</u>		
Due to Students	0	\$62,848
<u>Net Assets:</u>		
Held in Trust for Scholarships	\$51,313	

See accompanying notes to the basic financial statements

LONDON CITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2011

	Private Purpose Trust
	Scholarships
<u>Additions:</u>	
Gifts and Donations	\$26,000
<u>Deductions:</u>	
Scholarships	15,876
<i>Change in Net Assets</i>	10,124
<i>Net Assets at Beginning of Year - Restated (See Note 23)</i>	41,189
<i>Net Assets at End of Year</i>	\$51,313

See accompanying notes to the basic financial statements

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The London City School District (the “School District”) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District serves an area of approximately 54 square miles. The School District is located in Madison County and encompasses all of the City of London and portions of Deer Creek, Somerford, and Union Townships. It is staffed by 74 non-certificated employees, 159 certificated full-time teaching personnel and 18 administrative employees who provide services to 2,101 students. The School District currently operates four instructional buildings, one administrative building and one bus garage.

Reporting Entity

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

Non-public Schools – Within the School District boundaries, there are two non-public schools. Current State legislature provides funding to these non-public schools. These monies are received and disbursed on behalf of the non-public school by the Treasurer of the School District, as directed by the non-public school. These transactions are reported in a special revenue fund and as a governmental activity of the School District.

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

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

(continued)

Discretely Presented Component Unit

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

London Academy

London Academy (the "Academy") is a legally separate not-for-profit organization served by a self-appointed five member board. The Academy is reflected as a discretely presented component unit of the London City School District. The Academy, under 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 ninth through twelfth grade populations entirely through distance learning technologies. It is operated in cooperation with the School 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. 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 information presented in Notes 2 through 25 relates to the primary government. Information related to the discretely presented component unit is presented in Note 26.

The School District participates in seven organizations, four of which are defined as jointly governed organizations, one as a public entity shared risk pool, one as an insurance purchasing pool, and one as a related organization. These organizations are presented in Note 18 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Metropolitan Educational Council
- Tolles Career and Technical Center
- Central Madison Joint Recreation District
- London Schools Foundation

Public Entity Shared Risk Pool:

- Schools of Ohio Risk Sharing Authority

Insurance Purchasing Pool:

- Ohio SchoolComp Workers' Compensation Group Rating Plan

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

(continued)

Related Organization:
London Public Library

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the London City School 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 standards-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

Basis of Presentation

The School 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 School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The government-wide statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type; however, the School District has no business-type activities.

The Statement of Net Assets presents the financial condition of the governmental activities of the School District at fiscal year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School 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 School District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting 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 type.

Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. All funds of the School District fall within two categories: governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the School District typically are financed. Governmental fund reporting focuses 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 following are the School District's major governmental funds:

General Fund - The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School 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 and reports the accumulation of restricted property taxes received and the payment of general obligation bond principal and interest.

Ohio Classroom Facilities Fund - The Ohio Classroom Facilities Capital Projects Fund is used to account for restricted revenues and expenditures for the Ohio School Facilities shared-funding classroom facilities building project.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District has seven fiduciary funds: two private purpose trust funds used to account for college scholarship programs for students; an agency fund used to account for student managed activity programs; two agency funds used to account for revenues and expenditures related to benefits for the School District's employees; an agency fund used to account for scholarship money for students, and an agency fund to track all grant monies received and expended for London Academy.

Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the Statement of Net Assets. The Statement of Activities presents increases (e.g., revenues) and decreases (e.g., 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 reports 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 a reconciliation 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and the financial statements of the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the 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. “Measurable” means that the amount of the transaction can be determined, and “available” means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from income tax is recognized in the year in which the income is earned and revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available for advance, income tax, grants, accrued interest, tuition and fees, extracurricular activities, and customer sales and services.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue. Grants and 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.

Expenses/Expenditures

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 the governmental funds.

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

Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2011, the School District invested in a repurchase agreement which is 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 2011 amounted to \$11,713, which includes \$9,791 from other School District funds.

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 School District are reported on the financial statements as cash equivalents.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivable" and "Interfund Payable". These amounts are eliminated in the governmental activities column of the Statement of Net Assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expensed when used. Inventories consist of materials and supplies held for consumption and purchased food held for resale.

Capital Assets

All capital assets of the School District are general capital assets that are associated with governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000. The School 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.

All reported capital assets, except land and construction in progress, 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>
Land Improvements	15 - 50 years
Buildings and Improvements	15 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	8 years
Textbooks and Software	6 years

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

The entire compensated absences liability is reported on the government-wide financial statements.

Bond Premiums/Issuance Costs/Interest on Capital Appreciation Bonds/Loss on Refunding

Bond issuance costs and bond premiums are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. Capital appreciation bonds are accreted each fiscal year for the interest accrued during the fiscal year. Bond premiums and the interest on the capital appreciation bonds are presented as an addition to the face amount of the bonds payable whereas issuance costs are recorded as deferred charges. On the fund financial statements, bond premiums are reported as Other Financing Sources and issuance costs are reported as expenditures when the debt is issued. Accretion on the capital appreciation bonds is not reported.

As permitted by State statute, the School District paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

The accounting loss on refunded bonds (difference between the reacquisition price and the net carrying amount of the old debt) is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current fiscal year. Bonds and capital leases that will be paid from governmental funds are recognized as an expenditure in the governmental fund financial statements when due.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable

The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted

Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed

The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned

Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unassigned

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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 enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations and music and athletic programs, and federal and State grants restricted to expenditures for specified purposes.

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, all of 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 amounts 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 a level of control selected by the Board. The legal level of budgetary control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year, including all supplemental appropriations.

Internal Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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.

Estimates

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

NOTE 3 – ACCOUNTABILITY

Accountability

At June 30, 2011, the following funds had a deficit fund balance:

<u>Funds</u>	<u>Amounts</u>
Food Service	\$22,162
Adult Basic Literacy Education	7,352
Education Jobs Fund	111,414
Title I	6,966

The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances 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 Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budget Basis) – for the General Fund is 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 that:

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 (budget basis) rather than restricted, committed, or assigned fund balance (GAAP basis).
4. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.
5. Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING (continued)

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$973,067
Adjustments:	
Revenue Accruals	(1,199,962)
Expenditure Accruals	(575,782)
Perspective Differences	(9,804)
Unrecorded Cash	(87)
Advances	(3,169)
Transfers	(86,672)
Encumbrances	<u>(95,307)</u>
Budget Basis	<u><u>(\$997,716)</u></u>

NOTE 5 – DEPOSITS AND INVESTMENTS

Monies held by the School District are classified by State statute into three categories.

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

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

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

NOTE 5 – DEPOSITS AND INVESTMENTS (continued)

Interim monies held by the School District may be deposited or invested in the following securities:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Deposits: Custodial credit risk for deposits is the risk that in the event of bank failure, the London City School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year-end, \$9,334,733 of the School District's bank balance of \$9,584,733 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution.

The School District has no policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of deposits being secured.

NOTE 5 – DEPOSITS AND INVESTMENTS (continued)

Investments: At June 30, 2011, the School District had \$2,490,016 invested in a repurchase agreement with Huntington National Bank which will mature in less than one year.

Interest Rate Risk: The School District's investment policy follows State statute, which requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk: The underlying securities of the repurchase agreement are Federal National Mortgage Association notes, which carry a credit rating of AA+ by Standard and Poor's.

Concentration of Credit Risk: The School District's investment policy follows State statute, which limits investments in commercial paper and bankers' acceptances to 25 percent of the interim monies available for investment at any one time.

NOTE 6 – PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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 property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in calendar year 2011 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

NOTE 6 – PROPERTY TAXES (continued)

Tangible personal property tax revenue received during calendar year 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing and equipment, furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Madison County. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance prior to June 30, 2011, was \$2,571,101 in the General Fund and \$1,141,261 in the Debt Service Fund. The amount received as an advance prior to June 30, 2011, was \$1,361,523 in the General Fund and \$590,501 in the Debt Service Fund.

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 2011 taxes were collected are:

	2010 Second- Half Collections		2011 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$289,377,530	96.97%	\$286,339,550	97.06%
Public Utility Personal	8,667,490	2.90%	8,680,450	2.94%
General Business Personal	383,910	0.13%	0	0.00%
Total Assessed Value	<u>\$298,428,930</u>	<u>100.00%</u>	<u>\$295,020,000</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$46.30		\$46.80	

NOTE 7 – INCOME TAX

The School District levies a voted tax of one percent for general operations on the income of residents and of estates. The School District passed an income tax renewal on May 4, 2010. The renewal levy will expire during fiscal year 2016. 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 School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

NOTE 8 – RECEIVABLES

Receivables at June 30, 2011, consisted of property taxes, revenue in lieu of taxes, income taxes, intergovernmental grants, accounts, accrued interest, 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 fiscal year guarantee of federal funds. All receivable amounts are expected to be received within one year with the exception of the Ohio School Facilities Commission Grant and delinquent property and income taxes. The Ohio School Facilities Commission Grant monies will be collected over the life of the construction of the new facilities. Property and income taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<u>Governmental Activities:</u>	
Cafeteria Fund - Federal Reimbursements	\$53,203
Title I	138,944
Title I - School Improvement Subsidy	75,000
Title II-A	61,096
Safe and Drug Free Schools	619
Special Education, Part B-IDEA	161,077
Education Jobs Fund	48,466
Race to the Top	25,917
Adult Basic Literacy Education	17,490
Ohio Schools Facilities Commission	284,076
Total Intergovernmental Receivables	<u><u>\$865,888</u></u>

During fiscal year 2009, the School District was awarded \$23,131,905 for the renovation of the High School and construction of a new Middle School from the Ohio School Facilities Commission.

NOTE 8 – RECEIVABLES (continued)

Revenue in Lieu of Taxes

The School District receives revenue in lieu of taxes from several compensation/donation agreements with the City of London. Pizzuti Equities, Staples, and VAT BST entered into an enterprise zone agreement with the City of London to allow these businesses a tax exemption on real and personal property for the purpose of building and improving facilities and purchasing new equipment. The Pizzuti Equities, Staples, and VAT BST agreements will expire during fiscal year 2012.

NOTE 9 – RISK MANAGEMENT

Property and Liability Insurance

The School 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. During fiscal year 2011, the School District contracted with Schools of Ohio Risk Sharing Authority (SORSA) (Note 18) for property, fleet, and liability insurance.

Settled claims have not exceeded this coverage in any of the past three fiscal years. There has been no significant change in coverage from the prior fiscal year.

Workers' Compensation

For fiscal year 2011, the School District participated in the Ohio SchoolComp Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduce premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applies to all participants 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. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP. Each year, the School District pays an enrollment fee to the GRP to cover the costs of administering the program.

NOTE10 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2011, was as follows:

	Restated Balance at 6/30/10	Additions	Deletions	Balance at 6/30/11
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated:				
Land	\$721,430	\$0	\$0	\$721,430
Construction in Progress	3,531,508	15,083,412	(1,783,574)	16,831,346
Total Capital Assets, Not Being Depreciated	<u>4,252,938</u>	<u>15,083,412</u>	<u>(1,783,574)</u>	<u>17,552,776</u>
Capital Assets, Being Depreciated:				
Land Improvements	3,687,679	0	0	3,687,679
Buildings and Improvements	40,681,404	1,783,574	0	42,464,978
Furniture, Fixtures and Equipment	1,344,355	107,307	(20,000)	1,431,662
Vehicles	1,445,383	0	(160,073)	1,285,310
Textbooks and Software	856,372	0	0	856,372
Total Capital Assets, Being Depreciated	<u>48,015,193</u>	<u>1,890,881</u>	<u>(180,073)</u>	<u>49,726,001</u>
Less Accumulated Depreciation:				
Land Improvements	(2,078,153)	(168,669)	0	(2,246,822)
Building and Improvements	(9,756,219)	(1,271,548)	0	(11,027,767)
Furniture, Fixtures and Equipment	(685,735)	(171,579)	12,000	(845,314)
Vehicles	(779,518)	(127,873)	160,073	(747,318)
Textbooks and Software	(809,868)	(46,504)	0	(856,372)
Total Accumulated Depreciation	<u>(14,109,493)</u>	<u>(1,786,173) *</u>	<u>172,073</u>	<u>(15,723,593)</u>
Total Capital Assets, Being Depreciated, Net	<u>33,905,700</u>	<u>104,708</u>	<u>(8,000)</u>	<u>34,002,408</u>
Governmental Activities Capital Assets, Net	<u>\$38,158,638</u>	<u>\$15,188,120</u>	<u>(\$1,791,574)</u>	<u>\$51,555,184</u>

NOTE 10 – CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$743,362
Special	178,406
Vocational	25,330
Support Services:	
Pupils	50,854
Instructional Staff	148,184
Administration	113,350
Fiscal	15,848
Operation and Maintenance of Plant	90,011
Pupil Transportation	197,434
Central	13,482
Operation of Non-Instructional Services:	
Food Service Operations	80,316
Extracurricular Activities	129,596
Total Depreciation Expense	<u><u>\$1,786,173</u></u>

NOTE 11 – DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

Plan Description – The School District participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2011, the allocation to pension and death benefits was 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District's required contributions for pension obligations to

NOTE 11 – DEFINED BENEFIT PENSION PLANS (continued)

SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$130,473, \$486,455, and \$242,429, respectively; 49.50 percent has been contributed for fiscal year 2011, with the remaining amount being reported as intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

State Teachers Retirement System of Ohio

Plan Description – The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

NOTE 11 – DEFINED BENEFIT PENSION PLANS (continued)

Funding Policy – For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2010, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan for the fiscal years ended June 30, 2011, 2010, and 2009 were \$1,344,215 \$1,310,173, and \$1,210,645, respectively; 82.22 percent has been contributed for fiscal year 2011, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

Contributions made to STRS Ohio for the DC Plan and for fiscal year 2011 were \$26,054 made by the School District and \$18,610 made by the plan members. In addition, member contributions of \$14,081 were made for fiscal year 2011 for the defined contribution portion of the Combined Plan.

NOTE 12 – POSTEMPLOYMENT BENEFITS

School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

NOTE 12 – POSTEMPLOYMENT BENEFITS (continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2011, this amount was \$35,800. During fiscal year 2011, the School District paid \$51,413 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009, were \$67,211, \$70,838, and \$164,276, respectively; 49.50 percent for fiscal year 2011, with the remaining amount being reported as intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009, were \$8,396, \$28,928, and \$20,002, respectively; 49.50 percent has been contributed for fiscal year 2011, with the remaining amount being reported as intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

State Teachers Retirement System of Ohio

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

NOTE 12 – POSTEMPLOYMENT BENEFITS (continued)

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District’s contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$103,401 \$100,783, and \$93,127, respectively; 82.22 percent has been contributed for fiscal year 2011, with the remaining amount being reported as intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

NOTE 13 – EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Eligible classified employees and administrators earn 10 to 20 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers and 10 month administrators do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 350 days for all employees who earn sick leave.

Employees who have been employed by the School District for a minimum of 10 consecutive years at the time of retirement are entitled to retirement severance pay. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit. In addition, beginning July 1, 1986 and each contract year thereafter, a bargaining unit member may accrue one additional day of severance pay for each contract year that the bargaining member used zero days of sick leave and personal leave.

Special Termination Benefits

For fiscal year 2011, employees eligible to retire were offered a special termination benefit. There were eight employees who accepted the offer. The employees will be paid a \$10,000 bonus over two payments during fiscal year 2012.

Employee Benefits

The School District offers health insurance to its employees through United Health Care. Vision insurance is offered through Vision Services Plan. Delta Dental is the insurance provider for dental care. The provider for life insurance is Unum.

NOTE 13 – EMPLOYEE BENEFITS (continued)

Deferred Compensation

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 14 – CAPITAL LEASE – LESSEE DISCLOSURE

During the fiscal year, the School District entered into a capitalized lease for computer hardware and equipment and to refinance a capital lease entered into during fiscal year 2009. In prior fiscal years, the School District entered into capitalized leases for a copier and computer hardware and equipment. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “*Accounting for Leases*,” which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

The equipment acquired by the leases was initially capitalized in the amount of \$737,634 which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the Statement of Net Assets for governmental activities. Principal payments in fiscal year 2011 totaled \$329,514 and were paid from the General Fund. Principal payments included amounts refinanced for an equipment lease entered into during fiscal year 2009.

The assets acquired through the capital leases are as follows:

	<u>Asset Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Asset: Furniture, Fixtures, and Equipment	\$737,634	(\$380,964)	\$356,670

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2011.

NOTE 14 – CAPITAL LEASE – LESSEE DISCLOSURE (continued)

<u>Fiscal Year Ending June 30,</u>	<u>Total Payments</u>
2012	\$89,250
2013	89,250
2014	31,842
Total	210,342
Less: Amount Representing Interest	(18,007)
Present Value of Net Minimum Lease Payments	<u>\$192,335</u>

NOTE 15 – LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2011 were as follows:

	<u>Principal Outstanding 6/30/10</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding 6/30/11</u>	<u>Amounts Due Within One Year</u>
<u>Governmental Activities:</u>					
School Facilities Construction and Improvement Bonds 2001					
Serial Bonds - 4.92%	\$7,390,000	\$0	\$1,545,000	\$5,845,000	\$1,685,000
London Refunding Series 2005					
Serial Bonds - 3.00% - 4.35%	5,515,000	0	125,000	5,390,000	130,000
Term Bonds - 3.00% - 4.35%	750,000	0	0	750,000	0
Capital Appreciation Bonds - 10.33%	909,909	0	0	909,909	0
Accretion on Capital					
Appreciation Bonds	541,108	153,772	0	694,880	0
Premium on Refunding Series 2005	554,490	0	27,724	526,766	0
Loss on Refunding Series 2005	(238,074)	0	(59,518)	(178,556)	0
London Refunding Series 2006					
Serial Bonds - 3.50% - 4.00%	5,535,000	0	145,000	5,390,000	150,000
Term Bonds - 3.50% - 4.00%	1,070,000	0	0	1,070,000	0
Capital Appreciation Bonds - 10.15%	999,955	0	0	999,955	0
Accretion on Capital					
Appreciation Bonds	546,780	160,984	0	707,764	0
Premium on Refunding Series 2006	575,130	0	44,241	530,889	0
Loss on Refunding Series 2006	(265,501)	0	(66,376)	(199,125)	0
Capital Leases	264,512	257,337	329,514	192,335	78,941
Compensated Absences	1,005,349	95,928	159,044	942,233	167,732
Total Governmental Activities					
Long-Term Obligations	<u>\$25,153,658</u>	<u>\$668,021</u>	<u>\$2,249,629</u>	<u>\$23,572,050</u>	<u>\$2,211,673</u>

NOTE 15 – LONG-TERM OBLIGATIONS (continued)

School Facilities Construction and Improvement Bonds 2001 - On October 16, 2001, the School District issued \$29,910,000 in general obligation bonds for the purpose of constructing new classroom facilities under the State of Ohio Classroom Facilities Assistance Program and for the repayment of bond anticipation notes issued for this project. The bonds will be repaid from the Debt Service Fund. During fiscal year 2006, the School District did two advance refundings for portions of the 2001 bonds in the amount of \$15,944,864.

London Refunding Series Bonds 2005 - On October 13, 2005, the School District issued \$7,784,909 in General Obligation Bonds to advance refund a portion of the outstanding School Facilities Construction and Improvement 2001 General Obligation Bonds. At June 30, 2011, \$7,784,909 of the refunded bonds were outstanding.

The serial bonds originally issued in the amount of \$6,125,000 have maturity dates of December 1, 2005, to December 1, 2019, and December 1, 2024, to December 1, 2029.

The term bonds originally issued in the amount of \$750,000, will mature on December 1, 2020, 2021, 2022, and 2023.

The capital appreciation bonds issued at \$909,909, are not subject to prior redemption. The capital appreciation bonds will mature in fiscal year 2016 in the amount of \$2,525,000. Accretion on the capital appreciation bonds for fiscal year 2011 was \$153,772.

The bonds will be retired from the Debt Service Fund.

London Refunding Series Bonds 2006 - On January 5, 2006, the School District issued \$8,159,955 in General Obligation Bonds to advance refund a portion of the outstanding School Facilities Construction and Improvement 2001 General Obligation Bonds. At June 30, 2011, \$8,159,955 of the refunded bonds were outstanding.

The serial bonds issued at \$6,090,000 have maturity dates of December 1, 2006, to December 1, 2013, December 1, 2015 to December 1, 2016, and December 1, 2019 to December 1, 2022.

The term bonds issued at \$1,070,000 will mature on December 1, 2017 and 2018.

The capital appreciation bonds issued at \$999,955 are not subject to prior redemption. The capital appreciation bonds will mature in fiscal year 2015 in the amount of \$2,415,000. Accretion on the capital appreciation bonds for fiscal year 2011 was \$160,984.

The bonds will be retired from the Debt Service Fund.

Capital leases will be paid from the General Fund. Compensated absences will be paid from the General Fund and the Food Service, Education Jobs Fund, IDEA-Part B, Title I, and Improving Teacher Quality Special Revenue Funds.

NOTE 15 – LONG-TERM OBLIGATIONS (continued)

The School District’s overall legal debt margin was \$9,001,779 with an unvoted debt margin of \$294,627 at June 30, 2011.

Principal and interest requirements to retire the general obligation debt outstanding at June 30, 2011, are as follows:

Fiscal Year Ending June 30,	Serial Bonds Principal	Serial Bonds Interest	Capital	Capital	Term Bonds	Total
			Appreciation Bonds Principal	Appreciation Bonds Interest		
2012	\$1,965,000	\$759,150	\$0	\$0	\$0	\$2,724,150
2013	2,325,000	661,425	0	0	0	2,986,425
2014	2,425,000	541,111	0	0	0	2,966,111
2015	145,000	476,999	999,955	1,415,045	0	3,036,999
2016	45,000	473,452	909,909	1,615,091	0	3,043,452
2017-2021	3,745,000	1,722,088	0	0	1,090,000	6,557,088
2022-2026	2,670,000	1,067,385	0	0	730,000	4,467,385
2027-2030	3,305,000	292,411	0	0	0	3,597,411
Total	<u>\$16,625,000</u>	<u>\$5,994,021</u>	<u>\$1,909,864</u>	<u>\$3,030,136</u>	<u>\$1,820,000</u>	<u>\$29,379,021</u>

NOTE 16 – NOTES PAYABLE

Activity related to the School District’s tax anticipation notes payable is as follows:

	Principal			Principal
	Outstanding 6/30/10	Additions	Deductions	Outstanding 6/30/11
<u>Governmental Activities:</u>				
Tax Anticipation Notes - 5.75%	\$270,000	\$0	\$270,000	\$0

The notes were shown as a liability on the fund financial statements in the General Fund, which received the proceeds. The proceeds were used for capital improvements. The tax anticipation notes were paid off during fiscal year 2011.

NOTE 17 – INTERFUND ACTIVITY

Interfund balances at June 30, 2011, consist of the following interfund receivable and payable:

		Receivable
		<u>General Fund</u>
Payable	Other	
	Governmental Funds	<u><u>\$23,958</u></u>

During fiscal year 2011, two Other Governmental Funds had negative cash balances. The General Fund made advances totaling \$23,958 to eliminate the negative balances in these Other Governmental Funds.

The following table shows transfers made during the fiscal year:

		Transfers From
		<u>General Fund</u>
Transfers To	Other	
	Governmental Funds	<u><u>\$75,177</u></u>

During fiscal year 2011, the General Fund had transfers to Other Governmental Funds to subsidize the cost of various programs.

NOTE 18 – JOINTLY GOVERNED ORGANIZATIONS, PUBLIC ENTITY SHARED RISK POOL, INSURANCE PURCHASING POOL, AND RELATED ORGANIZATION

Jointly Governed Organizations

Metropolitan Educational Council

The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 100 members, which includes school districts, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county outside Franklin County. Each fiscal year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. The School District paid \$2,000 to MEC during fiscal year 2011. Financial information may be obtained from the Metropolitan Educational Council, Sue Ward, who serves as fiscal officer, at 2100 Citygate Drive, Columbus, OH 43219.

Tolles Career and Technical Center

The Tolles Career and Technical Center 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 district's elected boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Tolles Career and Technical Center, Treasurer, 7877 U.S. Route 42 South, Plain City, Ohio 43064.

Central Madison Joint Recreation District

The Central Madison Joint Recreation District (CMJRD) is a taxing entity whose purpose is to create recreational facilities in areas that include the City of London, London City School District, and Somerford and Deercreek Townships. The CMJRD operates under the direction of a four-member board consisting of one representative appointed by each participating entity. To obtain financial information, write to Kristen Gross, Treasurer, 271 Elm Street, London, Ohio 43140.

London Schools Foundation

The London Schools Foundation is a non-profit organization whose purpose is to raise funds for scholarships for the graduates of London City School District. The London Schools Foundation operates under the direction of a ten-member board consisting of representatives from area businesses, which are self appointed, and two from the London City School District's Board of Education. The Superintendent of London City School District serves as an ex-officio member. To obtain financial information, contact Jim Hunt, Treasurer, London, Ohio 43140.

NOTE 18 – JOINTLY GOVERNED ORGANIZATIONS, PUBLIC ENTITY SHARED RISK POOL, INSURANCE PURCHASING POOL, AND RELATED ORGANIZATION

(continued)

Public Entity Shared Risk Pool

Schools of Ohio Risk Sharing Authority

The School District participates in the Schools of Ohio Risk Sharing Authority (SORSA), a risk sharing insurance pool. The pool consists of 62 school districts, joint vocational schools, and educational service centers throughout Ohio who pool risk for property, crime, liability, boiler and machinery, and public official liability coverage. SORSA is governed by a board of trustees elected by members. The School District pays an annual premium to SORSA for this coverage. The premium for fiscal year 2011 equaled \$69,114 for property, fleet, and liability insurance. Reinsurance is purchased to cover claims exceeding the coverage amount and for all claims related to equipment breakdown coverage. In the event that the School District would withdraw from SORSA, the School District would be required to give advance written notice prior to the end of their three year contract. There is no penalty for early withdrawal and the School District would not be held responsible for any outstanding claims.

Insurance Purchasing Pool

Ohio SchoolComp Workers' Compensation Group Rating Plan

The School District participates in the Ohio SchoolComp Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The Ohio School Board Association (OSBA) and the Ohio Association of School Business Officials (OASBO) co-sponsor the GRP. The Executive Directors of the OSBA and the OASBO, or their designees, serve as coordinators of the program.

Related Organization

London Public Library

The London Public Library, a related organization of the School District, is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the London City School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the London Public Library, Rebecca Stickel, Fiscal Officer, 20 E. First Street, London, Ohio 43410.

NOTE 19 – SET-ASIDES

The School 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 instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

The following cash basis information describes the change in the fiscal year-end set-aside amounts for textbooks and instructional materials and for capital acquisitions. Disclosure of this information is required by State statute.

	Textbooks and Instructional Materials	Capital Acquisitions
Set-aside Balance as of June 30, 2010	(\$457,509)	\$0
Current Fiscal Year Set-aside Requirement	307,248	307,248
Qualifying Disbursements	(364,324)	(679,930)
Set-aside Balance as of June 30, 2011	(\$514,585)	(\$372,682)
Required Set-aside Balances Carried Forward to FY 2012	(\$514,585)	\$0

Although the School District had qualifying expenditures for capital acquisitions that exceeded the set-aside requirements, these amounts may not be used to reduce the set-aside requirements of future fiscal years and therefore are not presented as being carried forward to the next fiscal year.

NOTE 20 – CONTINGENCIES

Grants

The School 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 School District at June 30, 2011.

NOTE 20 – CONTINGENCIES (continued)

Litigation

The School District is not party to any legal proceedings.

NOTE 21 – CONTRACTUAL COMMITMENTS

The following table provides a summary of the outstanding contractual commitments for various projects as of June 30, 2011:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Amount Outstanding</u>
SHP Leading Design	\$1,276,126	\$1,185,020	\$91,106
Melink Corporation, Inc.	38,391	17,144	21,247
Gutridge Plumbing	180,648	178,348	2,300
Microman	110,820	74,456	36,364
Robertson Construction Services, Inc.	6,973,767	5,823,212	1,150,555
Beacon Electric	2,712,419	2,498,076	214,343
Industrial Communications and Sound	665,241	587,566	77,675
Miles-McClellan Construction Company, Inc.	1,842,011	1,736,144	105,867
Stand and Associates	92,487	51,281	41,206
Professional Services Industries	79,427	64,343	15,084
Quandel	1,196,557	1,021,201	175,356
General Temperature Control	2,683,505	2,613,194	70,311
Roger Storer and Son	716,592	688,275	28,317
Louis R. Polster Company	359,520	353,881	5,639
Total	<u>\$18,927,511</u>	<u>\$16,892,141</u>	<u>\$2,035,370</u>

NOTE 22 – FUND BALANCE

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and other governmental funds are presented below:

NOTE 22 – FUND BALANCE (continued)

Fund Balances	General	Debt Service	Ohio Classroom Facilities	Other Governmental Funds	Total
<i>Nonspendable</i>					
Inventory	\$0	\$0	\$0	\$15,417	\$15,417
<i>Restricted for</i>					
Debt Service	0	3,276,731	0	0	3,276,731
Ohio Classroom Facilities	0	0	3,377,911	0	3,377,911
Permanent Improvements	0	0	0	22,513	22,513
Buildings	0	0	0	79,705	79,705
Food Services	0	0	0	19,894	19,894
Facilities Maintenance	0	0	0	442,346	442,346
Student Activities	0	0	0	47,997	47,997
Auxillary Services	0	0	0	28,579	28,579
Professional Development	0	0	0	3,671	3,671
Other State Grants	0	0	0	17,570	17,570
Race to the Top Grant	0	0	0	1,399	1,399
Title VI-B	0	0	0	17,288	17,288
Title II-D	0	0	0	271	271
School Improvements	0	0	0	1,875	1,875
Safe and Drug Free Grant	0	0	0	108	108
Reducing Class Size	0	0	0	10,109	10,109
Other Federal Grants	0	0	0	2	2
<i>Total Restricted</i>	0	3,276,731	3,377,911	693,327	7,347,969
<i>Committed to</i>					
Contracts	79,944	0	0	0	79,944
<i>Assigned to</i>					
Future Appropriations	2,161,074	0	0	0	2,161,074
Permanent Improvements	0	0	0	349,000	349,000
Other Purposes	46,685	0	0	0	46,685
<i>Total Assigned</i>	2,207,759	0	0	349,000	2,556,759
<i>Unassigned (Deficit)</i>	(19,894)	0	0	(163,311)	(183,205)
<i>Total Fund Balances</i>	\$2,267,809	\$3,276,731	\$3,377,911	\$894,433	\$9,816,884

NOTE 23 – CHANGES IN ACCOUNTING PRINCIPLES AND CORRECTION OF PRIOR YEAR ERRORS

Changes in Accounting Principles

For fiscal year 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the School District’s financial statements.

The implementation of GASB 54 had the following effect on fund balances at June 30, 2010, as previously reported.

	<u>General</u>	<u>Other Governmental</u>
Fund Balance		
at June 30, 2010	\$1,256,473	\$917,908
Change in Fund Structure	<u>38,269</u>	<u>(62,019)</u>
Adjusted Fund Balance		
at June 30, 2010	<u>\$1,294,742</u>	<u>\$855,889</u>

The implementation of GASB 54 had the following effect on fiduciary net assets at June 30, 2010, as previously reported.

	<u>Fiduciary Activities</u>
Net Assets, June 30, 2010, as previously reported	<u>\$17,943</u>
Change in Net Assets	<u>23,246</u>
Net Assets, June 30, 2010, as restated	<u>\$41,189</u>

NOTE 23 – CHANGES IN ACCOUNTING PRINCIPLES AND CORRECTION OF PRIOR YEAR ERRORS (continued)

Correction of Prior Year Errors

Capital leases and capital assets were overstated during fiscal year 2010. This restatement and the implementation of GASB 54 had the following effect on net assets at June 30, 2010, as previously reported:

	<u>Governmental Activities</u>
Net Assets, June 30, 2010, as previously reported	\$38,520,385
Change in Fund Structure	(23,750)
Capital Leases Payable	257,337
Capital Assets, Net	<u>(231,603)</u>
Net Assets, June 30, 2010, as restated	<u>\$38,522,369</u>

NOTE 24 – SUBSEQUENT EVENTS

On September 7, 2011, the School District issued \$4,155,000 in refunding bonds.

NOTE 25 – RELATED PARTY TRANSACTION

The Academy is a component unit of the London City School District. The Academy and the Sponsor entered into a 5-year sponsorship agreement on June 25, 2007 whereby terms of the sponsorship were established.

The Academy is required annually to pay to the School District, from funding provided to the Academy by the Ohio Department of Education pursuant to Section 3314.03(C) of the Ohio Revised Code, such amounts as are mutually agreed, including fees for any services to the Academy by the Sponsor. The School District received \$1,522,435 from the Academy during the fiscal year and has a receivable due from the Academy in the amount of \$367,946 as of fiscal year end 2011.

NOTE 26 – DISCRETELY PRESENTED COMPONENT UNIT

During fiscal year 2011, the Academy paid London City School District \$2,300,597 for personnel (all teaching and administrative personnel are employees of London City School District); insurance; pension and retirement benefits; curriculum materials, textbooks, computers and other equipment, software, and supplies; as well as utilities, janitorial services, legal and financial management services, and sponsorship services.

NOTE 26 – DISCRETELY PRESENTED COMPONENT UNIT (continued)

London Academy

As indicated in Note 1 to the Basic Financial Statements, the following disclosures are made on behalf of London Academy:

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

Basis Of Presentation

During the fiscal year, the Academy segregates transactions related to certain Academy functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. For financial reporting, the Academy uses a single enterprise fund presentation.

Measurement Focus and Basis of Accounting

The London Academy uses the full accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents

The Academy's Treasurer accounts for all monies received by the Academy. The Academy maintains two interest bearing depository accounts and all funds of the Academy are maintained in these accounts. These accounts are presented on the Statement of Net Assets as Cash and Cash Equivalents.

Intergovernmental Receivable

Intergovernmental Receivable represents intergovernmental revenue to be received from various State and federal grants.

NOTE 26 – DISCRETELY PRESENTED COMPONENT UNIT (continued)

Capital Assets

A summary of London Academy’s capital assets at June 30, 2011, follows:

Furniture, Fixtures and Equipment	\$88,621
Less: Accumulated Depreciation	<u>(85,065)</u>
Capital Assets, Net	<u><u>\$3,556</u></u>

Restatement of Net Assets

Intergovernmental receivables were restated at June 30, 2010 due to an error in the prior fiscal year.

	Governmental
	<u>Activities</u>
Net Assets at June 30, 2010	\$156,714
Decrease in Net Assets	<u>(41,194)</u>
Net Assets Restated at June 30, 2010	<u><u>\$115,520</u></u>

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR <i>Pass Through Grantor</i>	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE					
<i>Passed Through Ohio Department of Education</i>					
Nutrition Cluster:					
School Breakfast Program	10.553	\$ 70,938	\$ -	\$ 70,938	\$ -
National School Lunch Program	10.555	318,744	54,597	318,744	54,597
Total Nutrition Cluster		<u>389,682</u>	<u>54,597</u>	<u>389,682</u>	<u>54,597</u>
Total U.S. Department of Agriculture		<u>389,682</u>	<u>54,597</u>	<u>389,682</u>	<u>54,597</u>
U.S. DEPARTMENT OF EDUCATION					
<i>Passed Through Ohio Department of Education</i>					
Adult Education Basic Grants to States	84.002	60,879	-	64,576	-
Title I Cluster					
Title I Grants to Local Educational Agencies	84.010	417,954	-	416,177	-
ARRA - Title I Grants to Local Educational Agencies	84.389	81,561	-	99,642	-
Total Title I Cluster		<u>499,515</u>	<u>-</u>	<u>515,819</u>	<u>-</u>
Special Education Cluster					
Special Education Grants to States	84.027	429,869	-	434,483	-
Special Education Preschool Grants	84.173	10,780	-	12,299	-
ARRA - Special Education Grants to States	84.391	157,783	-	226,108	-
ARRA - Special Education Preschool Grants	84.392	15,363	-	15,363	-
Total Special Education Cluster		<u>613,795</u>	<u>-</u>	<u>688,253</u>	<u>-</u>
Education Technology State Grants	84.318	6,940	-	1,836	-
Improving Teacher Quality State Grants	84.367	108,369	-	109,134	-
ARRA- Education for Homeless Children and Youth	84.387	1,414	-	-	-
ARRA - State Fiscal Stabilization Fund – Education State Grants	84.394	600,493	-	600,493	-
ARRA - Race to the Top	84.395A	14,959	-	28,320	-
Education Jobs Fund	84.410	297,119	-	285,279	-
Total U.S. Department of Education		<u>2,203,483</u>	<u>-</u>	<u>2,293,710</u>	<u>-</u>
Total		<u>\$ 2,593,165</u>	<u>\$ 54,597</u>	<u>\$ 2,683,392</u>	<u>\$ 54,597</u>

The accompanying notes are an integral part of this schedule.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY, OHIO**

NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2011

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the District's federal award programs. This schedule includes federal receipts and expenditures of the District but does not include the federal receipts and disbursements of the discretely presented component unit. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE C - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE D – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the respective program(s) that benefitted from the use of those donated food commodities.

NOTE E – TRANSFERS

The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with ODE's approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. During fiscal year 2011, the Ohio Department of Education (ODE) authorized the follow transfers:

CFDA Number	Program Title	Grant Year	Transfers Out	Transfers In
84.010	Title I Grants to Local Educational Agencies	2010	\$ 22,411	
84.010	Title I Grants to Local Educational Agencies	2011		\$ 22,411
84.027	Special Education Grants to States	2010	32,321	
84.027	Special Education Grants to States	2011		32,321
84.173	Special Education Preschool Grants	2010	1,518	
84.173	Special Education Preschool Grants	2011		1,518
84.367	Improving Teacher Quality State Grants	2010	6,687	
84.367	Improving Teacher Quality State Grants	2011		6,687
84.387	ARRA- Education for Homeless Children and Youth	2010	435	
84.387	ARRA- Education for Homeless Children and Youth	2011		435
84.389	ARRA - Title I Grants to Local Educational Agencies	2010	18,081	
84.389	ARRA - Title I Grants to Local Educational Agencies	2011		18,081
84.391	ARRA - Special Education Grants to States	2010	68,326	
84.391	ARRA - Special Education Grants to States	2011		68,326
			\$ 149,779	\$ 149,779

**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
380 Elm Street
London, Ohio 43140

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of London City School District, Madison County, (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 27, 2012, wherein we noted the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of 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 internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings, that we consider significant deficiencies in internal control over financial reporting. We consider findings 2011-01 2011-02 to be significant deficiencies. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated February 27, 2012

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 finance committee, Board of Education, and federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Kennedy Cottrell Richards LLC". The signature is written in a cursive, flowing style.

Kennedy Cottrell Richards LLC

February 27, 2012

**Independent Accountants' Report on Compliance with Requirements
Applicable to Each Major Federal Program and on Internal Control Over
Compliance Required by OMB Circular A-133**

London City School District
Madison County
380 Elm 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, 2011. 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.

The District's basic financial statements include the operations of London Academy, a component unit of London City School District, which received \$458,083 in federal awards, which is not included in the District's Federal Awards Expenditure Schedule for the year ended June 30, 2011. Our audit of Federal awards, described below, did not include the operations of London Academy because the component unit expended less than \$500,000 of Federal awards for the year ended June 30, 2011, thus it was not subject to OMB Circular A-133 audit requirements.

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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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.

As described in findings 2011-03 and 2011-04 in the accompanying schedule of findings, the District did not comply with the *Reporting* requirements applicable to its ARRA – State Fiscal Stabilization Fund – Education State Grants and ARRA – Special Education Grant to States (Idea, Part B) and the *Matching, Level of Effort, and Earmarking* requirements applicable to its Title I – Local Grants to Education Agencies. Compliance with these requirements is necessary, in our opinion, for the District to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2011.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists these instances as Findings 2011-05 through 2011-07.

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 the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2011-03 and 2011-04 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2011-05 through 2011-07 to be significant deficiencies.

We also noted matters involving federal compliance or internal control over compliance not requiring inclusion in this report that we reported to the District's management in a separate letter dated February 27, 2012.

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, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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



Kennedy Cottrell Richards LLC
February 27, 2012

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY, OHIO**

SCHEDULE OF FINDINGS

JUNE 30, 2011

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material internal control weaknesses reported at the financial statement level (GAGAS)?	No
(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)?	No
(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	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510(a) of Circular A-133?	Yes
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster CFDA: 10.553, 10.555 Title I Cluster CFDA: 84.010, 84.389 Special Education Cluster CFDA: 84.027, 84.173, 84.391, 84.392 ARRA - State Fiscal Stabilization Fund – Education State Grants CFDA: 84.394
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d)(1)(ix)	Low Risk Auditee?	No

LONDON CITY SCHOOL DISTRICT
MADISON COUNTY, OHIO

SCHEDULE OF FINDINGS

JUNE 30, 2011

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

Finding Number	2011-01
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Significant Deficiency: Financial Reporting

The presentation of materially correct financial statements and the related footnotes is the responsibility of management of the District. Independent auditors are not part of an entity's internal control structure and should not be relied upon by management to detect misstatements in the financial statements.

Thus, it is important that management develop control procedures related to drafting financial statements and footnotes that enable management to prevent and detect potential misstatements in the financial statements and footnotes prior to audit.

Our audit identified misstatements in both the District's financial statements, notes to the financial statements, and its Schedule of Receipts and Expenditures of Federal Awards that, although not material, were necessary to present the financial statements and schedule in conformity with accounting principles generally accepted in the United States of America.

We provided to the Treasurer adjusting entries to post, which subsequently corrected the misstatements. The misstatements are an indicator the District needs to improve or strengthen their existing control procedures related to financial reporting.

We recommend the District consider modifying the existing control procedures over the financial reporting process to include an independent review of the financial statements and the related journal entries. The review should be conducted by an individual that is knowledgeable of generally accepted accounting principles and the review should take place prior to the start of the audit.

Official's Response

The District relies on a third party to provide financial statements, notes and schedules in accordance with GAAP. The District will improve control by thoroughly reviewing the work of the third party to ensure no misstatements are present.

LONDON CITY SCHOOL DISTRICT
MADISON COUNTY, OHIO

SCHEDULE OF FINDINGS

JUNE 30, 2011

Finding Number	2011-02
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Significant Deficiency: Food Service Receipts

It is management's responsibility to ensure that an adequate internal control structure is placed in operation to: prevent or detect misstatements in the accounting records; safeguard the entity's assets against loss; help ensure compliance with laws and regulations; and, provide a basis for measuring whether operations are achieving management's objectives. An effective internal control structure requires that cash reconciliation procedures be performed and documented.

The District uses a point-of-sale system to track its daily cash receipts from serving meals. At the end of each day, the head cashier at each school is supposed to manually balance all of the cash registers to the point-of-sale system and then generate a Cash Reconciliation Report from the system to show total cash collected versus total estimated point-of-sale collections.

We noted that the head cashiers generated the Cash Reconciliation reports; however, there was no indication that the reconciliation process was being performed by the Head Cashier. We also noted that there was no indication that a review of the Cash Reconciliation reports was being performed by the Food Service Supervisor. Without proper controls over food service receipts, the risk of misstatement or misappropriation of the amounts is increased.

We recommend the District document their control procedures performed over the daily reconciliation process and implement a review by the Food Service Coordinator. One way this could be done is by using the signature lines on the cash reconciliation report.

Official's Response

The District will implement complete and thorough use of the Cash Reconciliation report. All cash registers will be balanced to the report and verified by signature. A second, independent reconciliation will be performed and verified by signature as well.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY, OHIO**

SCHEDULE OF FINDINGS

JUNE 30, 2011

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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CFDA Title and Number	ARRA - State Fiscal Stabilization Fund – Education State Grants CFDA: 84.394
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education
Finding Number	2011-03

Material Weakness/Material Noncompliance: Reporting

American Recovery and Reinvestment Act of 2009 (ARRA), Section 1512 (b) & (c) requires any entity that receives certain Recovery funds directly from the Federal government (including recovery funds received through grant, loan or contract other than an individual) to submit a report to the Federal Agency not later than 10 days after the end of each calendar quarter in which the Federal Recovery funds were received. Section 1512(c) (3) (D) requires an estimate of the number of jobs created and the number of jobs retained. Further, Office of Management and Budget Memo M-09-21 dated June 22, 2009 states that prime recipients may choose to delegate certain reporting requirements to subrecipients.

The Ohio Department of Education’s American Recovery and Reinvestment Act Reporting Guidance states the Ohio Department of Education (ODE), as a prime recipient of ARRA funding, is required to report quarterly to the federal government data on ARRA programs. ODE distributes ARRA funds to local education agencies (LEAs) as subrecipients and must collect quarterly data from LEAs to meet the reporting requirements associated with ARRA funding. Among the items to be reported is the number of jobs created or retained with ARRA funds in full time equivalencies (FTE).

Though applicable and significant to the grant, the District failed to report any FTEs on its quarterly 1512 reports for the ARRA - State Fiscal Stabilization Fund. This noncompliance is an indication that the District does not have adequate internal controls over the 1512 reporting process.

We recommend that the District implement control procedures to ensure accurate reporting and to ensure the proper support documentation is maintained to support the information included in these reports.

Officials Response and Corrective Actions

The District endeavors to fully and completely comply with all mandated reporting requirements. A change in key personnel took place which led to improper 1512 reporting. Although the 1512 reporting has ended, the District has the proper staff and data collection procedures in place to ensure any future reporting will be accurate.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY, OHIO**

SCHEDULE OF FINDINGS

JUNE 30, 2011

CFDA Title and Number	Title I Cluster - CFDA: 84.010, 84.389
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education
Finding Number	2011-04

Material Weakness/Material Noncompliance: Matching, Level of Effort, Earmarking

Schools in school improvement under Section 116(b)(5), corrective action under Section 116(b)(97), or restructuring under Section 116(b)(8) are required to provide choice-related transportation under Section 116(b)(9) and supplemental education services under Section 116(e). Title I, Section 116(b)(10)(A) of ESEA (20 USC 6316(b)(10)(A) states "an LEA that is obligated to provide choice-related transportation or supplemental educational services must spend an amount equal to at least 20 percent of its allocation under subpart 2 of Part A ("20 percent obligation") to provide such transportation and supplemental educational services, unless a lesser amount is needed to satisfy all requests. Of this amount, the LEA must spend a minimum of an amount equal to 5 percent on choice-related transportation, and a minimum of an amount equal to 5 percent for supplemental educational services."

In accordance with the above, the District was required to earmark \$90,708 for supplemental education services out of its 2011 Title 1 grant allocation (CFDA 84.010). However, the District only provided support for \$12,385 of their supplemental education services earmarking allocation. This noncompliance is an indication that the District does not have sufficient internal controls in place to ensure that it provides the proper level of earmarking and that the amount is properly documented.

We recommend the District implement controls to ensure that they are spending the required earmarking amounts and that they track these expenses separately to ensure that they are in compliance with these requirements.

Officials Response and Corrective Actions

The District separately accounts for earmarked funds. If these funds are not expended within a given timeframe, ODE allows for the budget to be revised and funds re-appropriated. The District will ensure that documentation is kept on all appropriate expenditures for the earmarked funds and verification from ODE is in written form if a revision is warranted and approved.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY, OHIO**

SCHEDULE OF FINDINGS

JUNE 30, 2011

CFDA Title and Number	Nutrition Cluster - CFDA: 10.553, 10.555 Title I Cluster - CFDA: 84.010, 84.389 Special Education Cluster - CFDA: 84.027, 84.173, 84.391, 84.392
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education
Finding Number	2011-05

Significant Deficiency/Noncompliance: Allowable Costs/Cost Principles

2 C.F.R. 225, Attachment B, Section 8(h) states in part...Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certificates will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Furthermore the section states:

...Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h(5) of this appendix... Such documentary support will be required where employees work on:

- More than one Federal award,
- A Federal award and a non-Federal award,
- An indirect cost activity and a direct cost activity,
- Two or more indirect activities which are allocated using different allocation bases, or
- An unallowable activity and a direct or indirect cost activity.

In our testing of payroll costs, we noted that for (1) two of the 25 employees we tested that the district charged to the Special Education Cluster grants, (2) three of the 24 employees we tested that the District charged to the Title I Cluster grants, (3) and two of the 18 employees we tested with payroll costs charged to the Nutrition Cluster grants were not supported by periodic certifications or other time records to support the time the employees worked on those programs. Also, in our testing of internal controls over federal compliance, we noted that two of 60 the timesheets we tested did not have supervisor approval and one timesheet was missing.

Through other procedures, however, we were able to obtain sufficient evidence to determine that each of the employee's pay was an allowable cost for those grants. Therefore, these costs will not be questioned.

The total payroll and related benefits the District charged to the grant programs are as follows:

- Special Education Cluster: \$400,326
- Title I Cluster: \$418,659
- Nutrition Cluster: \$397,122

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY, OHIO**

SCHEDULE OF FINDINGS

JUNE 30, 2011

Significant Deficiency/Noncompliance: Allowable Costs/Cost Principles (continued)

We recommend the District implement control procedures to ensure that these payroll costs are being supported by the documentation described above in 2 C.F.R. 225, Attachment B, Section 8(h).

Officials Response and Corrective Actions

The District understands the requirements and has acquired the proper certifications and/or time and effort reports. The control procedure has been improved by having the Payroll Coordinator verify proper documentation is on file and correct signatures are in place prior to the expenditure of Federal awards.

CFDA Title and Number	Title I Cluster - CFDA: 84.010, 84.389
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education
Finding Number	2011-06

Significant Deficiency/Noncompliance: Eligibility - Allocation of Funds to Schools

34 C.F.R. Section 200.78(a) requires that a Local Educational Authority (LEA) must allocate funds under Title I subpart A to school attendance areas and schools, identified as eligible and selected to participate under section 1113(a) or (b) of the Elementary and Secondary Education Act (ESEA), in rank order on the basis of the total number of children from low-income families in each area or school.

As detailed below, for the fiscal year 2011 grant, the District overspent for London Elementary School and underspent for London Middle School, which were the schools that received allocations under the Title I grant.

<u>School</u>	<u>Total Expenditures</u>	<u>Budgeted Allocation</u>	<u>Variance</u>	<u>% of Allocation Spent</u>
Title I (CFDA 84.010)				
London Elementary School	\$ 363,627	\$ 275,025	\$ 88,602	132%
London Middle School	38,732	99,569	60,837	39%
ARRA Title I (CFDA 84.389)				
London Elementary School	\$ 99,642	\$ 73,218	\$ 26,424	136%
London Middle School	0	26,223	26,223	0%

The eligible and participating schools identified under section 1113(a) or (b) of the Elementary and Secondary Education Act (ESEA) qualified and were operated as the following programs:

- London Elementary School – schoolwide
- London Middle School – targeted assistance

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY, OHIO**

SCHEDULE OF FINDINGS

JUNE 30, 2011

Significant Deficiency/Noncompliance: Eligibility - Allocation of Funds to Schools (continued)

Through our procedures, we were able to obtain sufficient evidence to determine that London Middle School had sufficient allowable expenditures to cover the overspending at London Elementary School. The allocation error was a result of the District's failure to properly budget the allocation by building.

We recommend the District implement procedures, such as detailed budgets and planning of activities at the school level, to prevent overspending at the school building level and to ensure that schools are served in rank order.

Officials Response and Corrective Actions

The District is aware of the need to separately budget for each building, based on the proper allocations and is currently in compliance. Discussions and training were held with those staff responsible for the implementation and monitoring of the Title I grant to ensure they were aware of their responsibilities in the future

CFDA Title and Number	Nutrition Cluster - CFDA: 10.553, 10.555 Title I Cluster - CFDA: 84.010, 84.389
Grant Year	2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education
Finding Number	2011-07

Significant Deficiency/Noncompliance: Eligibility Determination and Verification

7 CFR 245.6 provides that each child receiving free and reduced lunches must annually submit an application to the School. The School must then certify a child's family income and family size and place him/her within income eligibility standards issued by the Office of Food Nutrition Services. The application must be approved and maintained on file.

7 CFR 245.6a requires that by December 15th of each school year a participating school (school food authority-SFA) must verify the information presented on a sample of the applications that it has approved for free and reduced price meals. The verification sample size is based on the number of approved applications on file on October 31st. SFAs may select the sample by either of two methods specified in the section. Further, the SFA must follow-up on children determined ineligible for free and reduced price meals and change the category of such children determined ineligible.

7 CFR 245.6a, c states that the school verifying applications shall maintain on file for review a description of the verification to be accomplished. The description shall include:

- (1) A summary of the verification efforts including the techniques to be used;
- (2) the total number of applications on file by October 31;
- (3) the percentage or number of applications verified;

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY, OHIO**

SCHEDULE OF FINDINGS

JUNE 30, 2011

Significant Deficiency/Noncompliance: Eligibility Determination and Verification (continued)

- (4) all verified applications must be readily retrievable by the school and include all documents submitted by the household in an effort to confirm eligibility, reproductions of those documents, or annotations made by the determining official which indicate which documents were submitted by the household and the date of submission;
- (5) documentation of any changes in eligibility and the reasons for the changes; and
- (6) all relevant correspondences between the household selected for and the school food authority/school.

Furthermore, the Ohio Department of Education's Verification Manual states;

- Prior to household notification, someone other than the person who made the initial application determination must check the accuracy (Confirmation Review) of all of the household applications selected for verification. This person is known as the "Confirming Official".
- If a household fails to respond, LEAs must make at least one attempt to obtain verification information from the household through mail, telephone, email, or through personal contact. A third party may assist the LEA with this follow up activity. LEAs MUST document the follow up attempt to the household.

At the beginning of each school year, each student that wishes to participate in the free and reduced lunch program, who does not have his/her eligibility determined through the direct certification process, is required to submit a free/reduced application. The District's Food Service Coordinator, reviews the application, determines the level of eligibility (e.g., free, reduced, or does not qualify), and then approves the application. The Food Service Coordinator is also responsible for performing the verification of the application. The District does not perform a secondary review of either procedure.

The District's current policies and procedures are insufficient to ensure that proper eligibility determinations are being made and that the verification process is taking place properly. This was evidenced by:

- 1) The District improperly determined the benefit for three of the 60 applications we tested; and,
- 2) There was no documentation to support that the District made a follow-up attempt on the applications that were reported on verification as "fails to respond"; and,
- 3) There was no evidence of a secondary review by the District of the eligibility determinations or the verification process.

For the Title I program, the District elected to measure its poverty level and identify eligible school attendance areas by the number of children eligible for free and reduced priced meals under the Richard B. Russell National School Lunch Act. Thus, this finding also impacts the District's eligibility determination for the Title I program.

We recommend the District establish policies and procedures regarding eligibility determination and verification. Those policies and procedures at a minimum should incorporate the requirements of the above noted CFR sections.

Officials Response and Corrective Actions

Written policies and procedures will be put in place incorporating both 7 CFR 245.6 and the ODE verification manual guidelines to ensure complete and accurate eligibility determinations are made. In addition, a secondary review will be implemented.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY, OHIO**

SCHEDULE OF FINDINGS

JUNE 30, 2011

CFDA Title and Number	Nutrition Cluster - CFDA: 10.553, 10.555
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education
Finding Number	2011-08

Significant Deficiency: Program Revenue

It is management's responsibility to ensure that an adequate internal control structure is placed in operation to: prevent or detect misstatements in the accounting records; safeguard the entity's assets against loss; help ensure compliance with laws and regulations; and, provide a basis for measuring whether operations are achieving management's objectives. An effective internal control structure requires that cash reconciliation procedures be performed and documented.

The District uses a point-of-sale system to track its daily cash receipts from serving meals. At the end of each day, the head cashier at each school is supposed to manually balance all of the cash registers to the point-of-sale system and then generate a Cash Reconciliation Report from the system to show total cash collected versus total estimated point-of-sale collections.

We noted that the head cashiers generated the Cash Reconciliation reports; however, there was no indication that the reconciliation process was being performed by the Head Cashier. We also noted that there was no indication that a review of the Cash Reconciliation reports was being performed by the Food Service Supervisor. Without proper controls over food service receipts, the risk of misstatement or misappropriation of the amounts is increased.

We recommend the District document their control procedures performed over the daily reconciliation process and implement a review by the Food Service Coordinator. One way this could be done is by using the signature lines on the cash reconciliation report.

Officials Response and Corrective Actions

The District will implement complete and thorough use of the Cash Reconciliation report. All cash registers will be balances to the report and verified by signature. A second, independent reconciliation will be performed and verified by signature as well.

**LONDON SCHOOL DISTRICT
MADISON COUNTY, OHIO**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-01	Significant Deficiency over Financial Report	No	Not Corrected. Repeated as Finding 2011-01.
2010-02	Material Weakness/Noncompliance: ARRA 1512	No	Partially Corrected. Repeated as Finding 2011-03.
2010-03	Material Weakness/ Noncompliance: Matching, Level of Effort, Earmarking	No	Not Corrected. Repeated as Finding 2011-04.
2010-04	Significant Deficiency/ Noncompliance: Allowable Costs/ Cost Principles	No	Not Corrected. Repeated as Finding 2011-05.
2010-05	Significant Deficiency/ Noncompliance: Cash Management	Yes	

Independent Accountants' Report on Applying Agreed-Upon Procedures

London City School District
Madison County
380 Elm Street
London, Ohio 43140

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether the London City School District (the District) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the District did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

Ohio Rev. Code Section 3313.666 required the Board to amend its definition by September 28, 2010.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.



Kennedy Cottrell Richards LLC

February 27, 2012



Dave Yost • 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 1, 2012