



**Auditor of State
Betty Montgomery**

LONDON CITY SCHOOL DISTRICT
MADISON COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

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

To the Board of Education:

We have audited the accompanying basic financial statements of the governmental activities, each major fund, the discretely presented component unit and remaining fund information of London City School District, Madison County, Ohio (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the discretely presented component unit and remaining fund information of London City School District, Madison County, Ohio, as of June 30, 2003, and the respective changes in financial position where applicable, and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Managements Discussion and Analysis for State and Local Governments* and reclassified funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2004, on our consideration of the Districts internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards receipts and expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

September 20, 2004

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The discussion and analysis of the London City School Districts' (the District) financial performance provides an overall review of the Districts' financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the Districts' financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Districts' financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- \$ The District showed a decrease in net assets of \$(368,549) during this year's operations.
- \$ Total District wide revenues were \$17,025,551. General revenues accounted for \$15,093,985.
- \$ Total program expenses were \$17,394,100.
- \$ Outstanding debt was reduced from a balance of \$30,115,000 in 2002 to \$29,865,000 in 2003.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the Districts 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 and what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the General fund, Capital Building Project and Debt Service funds are by far the most significant funds.

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003". The *Statement of Net Assets and the Statement of Activities* answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current years revenues and expenses regardless of when cash is received or paid.

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

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins on page 13. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General, Capital Building Project and Debt Service funds.

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

The District as a Trustee

The District is a trustee or fiduciary for an account. This fund provides scholarships for students. There is no District related activity occurring within this fund.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)

The District as a Whole

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 2003 compared to 2002. Also in Table 1 the District's total net assets decreased from a year ago. The District was able to maintain operating financial health while addressing stagnant revenues, slow federal reimbursements and rising costs.

**Table 1
Net Assets**

	Governmental Activities 2003	Governmental Activities 2002
<i>Assets</i>		
Current and Other Assets	\$32,418,873	\$39,960,704
Capital Assets	16,175,801	9,095,643
Total Assets	48,594,674	49,056,347
<i>Liabilities</i>		
Current and Other Liabilities	7,307,280	7,199,975
Long Term Liabilities		
Due Within One Year	695,000	340,000
Due More Than One Year	30,102,752	30,658,181
Total Liabilities	38,105,032	38,198,156
<i>Net Assets</i>		
Invested in Capital Assets,		
Net of Debt	8,388,288	7,163,704
Restricted	23,636,450	30,338,547
Unrestricted (Deficit)	(21,535,096)	(26,644,060)
Total Net Assets	\$10,489,642	\$10,858,191

Table 2 shows the changes in net assets for fiscal year 2003. Table 2 also highlights the District's revenues and expenses. These two main components are subtracted to yield the change in net assets. This table utilizes the full accrual method of accounting.

Revenue is further divided into two major components: Program Revenue and General Revenue. Program revenue is defined as fees, restricted grants and charges for services. General revenues include taxes and unrestricted grants such as state foundation support and miscellaneous revenue.

Expenses are shown in programs that are easily identifiable utilizing the current Uniform School Accounting System (USAS) coding structure. Since this is the first year the School District has prepared financial statements following GASB Statement 34, revenues and expenses comparisons to fiscal year 2002 are not available.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)

**Table 2
Program Revenues and Expenses**

	Governmental Activities 2003
Revenues	
Program Revenues:	
Charges for Services	\$ 764,839
Operating Grants	1,166,727
General Revenues:	
Property Taxes	7,069,647
Grants and Entitlements	7,100,635
Other	923,703
Total Revenues	17,025,551
 Program Expenses	
Instruction:	
Regular	7,028,825
Special	1,902,311
Vocational	286,715
Adult/Continuing	79,924
Support Services:	
Pupil	394,049
Instructional Staff	745,364
Board of Education	81,986
Administration	1,563,826
Fiscal	338,914
Food Service	507,088
Operation and Maintenance of Plant	1,318,203
Pupil Transportation	638,700
Central	176,067
Operation of Non-Instructional Services	38,419
Extracurricular Activities	853,972
Interest Retirement	1,439,737
	17,394,100
(Decrease) in Net Assets	\$ (368,549)

Since this is the first year the District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. However, this table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusions about the Districts current financial status and possibly project future problems.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)

Analysis of Overall Financial Position and Results of Operation

The financial position of the District has declined slightly.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**Table 3
Governmental Activities**

	Total Cost of Services 2003	Net Cost of Services 2003
Instruction	\$ 9,297,775	\$ 8,247,726
Support Services:		
Pupils	394,049	383,516
Instructional Staff	745,364	551,791
Board of Education	81,986	81,986
Administration	1,563,826	1,563,826
Fiscal	338,914	338,914
Business	507,088	(5,841)
Operation & Maintenance of Plant	1,318,203	1,318,203
Pupil Transportation	638,700	638,700
Central	176,067	176,067
Operation of Non-Instructional Services	38,419	38,419
Extra-curricular Activities	853,972	689,490
Capital Outlay:	32,926	32,926
Debt Service:		
Interest Retirement	1,439,737	1,439,737
Total Expenses	\$ 17,394,100	\$ 15,462,534

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)

The District's Funds

As previously stated, governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$17,055,086 and expenditures of \$24,668,181. The net change in fund balance for the year was most significant in the General and Capital Projects Funds, where the unreserved balance decreased by \$910,998 and \$7,308,999 respectively in 2003.

The schedule below shows the fund balance and the total change in fund balance from June 30, 2002 to 2003.

	Fund Balance at <u>June 30, 2003</u>	Fund Balance at <u>June 30, 2002</u>	Increase (Decrease)
General Fund	\$1,436,753	\$2,347,751	(\$910,998)
Capital Projects Fund	20,874,062	28,183,061	(7,308,999)
Debt Service	1,343,194	1,056,679	286,515
Other Governmental Funds	<u>1,419,194</u>	<u>1,098,807</u>	<u>302,387</u>
 Total	 <u><u>\$25,073,203</u></u>	 <u><u>\$32,686,298</u></u>	 <u><u>(\$7,613,095)</u></u>

General Fund

The District's General Fund balance decreased primarily because of loss of revenues while expenditures increased. The tables that follow assist in illustrating the financial activities of the General Fund.

	<u>2003</u>	<u>2002</u>	<u>% Change</u>
<i>Revenues</i>			
Taxes	\$5,334,530	\$5,552,867	-3.93%
Intergovernmental	6,887,999	6,950,951	-0.91%
Interest	66,152	210,749	-68.61%
Other Revenue	<u>518,856</u>	<u>301,493</u>	72.10%
 Total	 <u><u>\$12,807,537</u></u>	 <u><u>\$13,016,060</u></u>	 -1.60%
 <i>Expenditures</i>			
Instruction	\$8,299,649	\$7,192,560	15.39%
Support Services	4,950,382	4,786,612	3.42%
Extracurricular Activities	<u>413,900</u>	<u>315,181</u>	31.32%
 Total	 <u><u>\$13,663,931</u></u>	 <u><u>\$12,294,353</u></u>	 11.14%

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)

Capital Building Project Fund

The District's Capital Building Project Fund is used to account for financial resources used for the acquisition and construction of major capital facilities specifically funded by bonds approved by the voters. The decrease in fund balance is primarily a result of the continued expenditures of the available construction funds, from the proceeds of the bond issue, to complete the significant ongoing construction projects. Detailed information regarding project activity is included in the notes to the basic financial statements.

<i>Revenues</i>	2003	2002	% Change
Other Revenue	\$37,192	\$21,177	75.62%
 <i>Expenditures</i>	 2003	 2002	
Capital Expenditures	\$7,346,191	\$2,917,751	151.78%

General Fund Budgeting Highlights

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

During the course of fiscal 2003, the District amended its general fund budget periodically as defined by revenue and budget needs.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003 the District had \$ 5,483,271 invested in land, buildings, equipment, and vehicles. Table 4 shows fiscal 2003 balances compared to 2002.

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

	Governmental Activities	
	2003	2002
Land	\$ 884,550	\$ 884,550
Buildings	2,723,229	2,738,755
Other Improvements	366,925	574,890
Construction in Progress	10,325,605	3,010,313
Furniture and Equipment	1,435,690	1,552,652
Vehicles	439,802	334,483
Totals	\$ 16,175,801	\$ 9,095,643

The most significant increase was the result of the construction project for a new elementary and renovation of the middle school and high school facilities.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED
(Continued)

Debt

At June 30, 2003, the District had bonds and notes outstanding. Table 5 summarizes debt outstanding.

**Table 5
Outstanding Debt at Year End**

	Governmental Activities 2003	Governmental Activities 2002
General Obligation Bonds	\$29,710,000	\$29,910,000
General Obligation Notes	155,000	205,000
Total	\$29,865,000	\$30,115,000

For the Future

With the loss of revenues and the completion of renovations and construction of a new elementary building, the District is again considering seeking additional operating funds through a levy.

London City School District
Statement of Net Assets
June 30, 2003

	Governmental Activities	Component Unit
Assets		
Equity in Pooled Cash and Cash Equivalents		
Cash and Cash Equivalents:	\$ 15,190,346	\$ 114,912
Investments	9,298,568	-
Materials and Supplies Inventory	8,886	-
Accounts Receivable	111,922	-
Intergovernmental Receivable	51,129	105,000
Property Taxes Receivable	7,758,022	-
Nondepreciable Capital Assets	11,210,155	-
Depreciable Capital Assets, Net	4,965,646	-
<i>Total Assets</i>	48,594,674	219,912
Liabilities		
Accounts Payable	150,855	560
Accrued Wages	1,690,871	-
Pension Obligations Payable	362,683	-
Due to Other Governments	-	157,520
Accrued Interest	115,414	-
Deferred Revenue	4,987,457	5,372
Long-Term Liabilities:		
Due Within One Year	695,000	-
Due In More Than One Year	30,102,752	-
<i>Total Liabilities</i>	38,105,032	163,452
Net Assets		
Invested in Capital Assets, Net of Related Debt	8,388,288	-
Restricted for:		
Capital Projects	20,874,062	-
Debt Service	1,343,194	-
Other Purposes	1,419,194	-
Unrestricted (Deficit)	(21,535,096)	56,460
<i>Total Net Assets</i>	\$ 10,489,642	\$ 56,460

See accompanying notes to the basic financial statements.

London City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Component Unit</u>
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants, and Contributions</u>	<u>Governmental Activities</u>	<u>London Digital Academy</u>
Governmental Activities					
Instruction:					
Regular	\$ 7,028,825	\$ 292,218	\$ 52,372	\$ (6,684,235)	\$ -
Special	1,902,311	-	618,789	(1,283,522)	-
Vocational	286,715	-	7,008	(279,707)	-
Adult/Continuing	79,924	-	79,662	(262)	-
Support Services:					
Pupil	394,049	-	10,533	(383,516)	-
Instructional Staff	745,364	-	193,573	(551,791)	-
Board of Education	81,986	-	-	(81,986)	-
Administration	1,563,826	-	-	(1,563,826)	-
Fiscal	338,914	-	-	(338,914)	-
Food Service	507,088	308,139	204,790	5,841	-
Operation and Maintenance of Plant	1,318,203	-	-	(1,318,203)	-
Pupil Transportation	638,700	-	-	(638,700)	-
Central	176,067	-	-	(176,067)	-
Operation of Non-Instructional Services	38,419	-	-	(38,419)	-
Extracurricular Activities	853,972	164,482	-	(689,490)	-
Interest Retirement	1,439,737	-	-	(1,439,737)	-
Total Governmental Activities	<u>17,394,100</u>	<u>764,839</u>	<u>1,166,727</u>	<u>(15,462,534)</u>	<u>-</u>
Component Unit:					
London Digital Academy	<u>258,768</u>	<u>-</u>	<u>186,638</u>	<u>-</u>	<u>(72,130)</u>
Property Taxes Levied for:					
General Purposes				5,304,995	-
Debt Service				1,764,652	-
Grants and Entitlements not Restricted to Specific Programs				7,100,635	128,013
Investment Earnings				584,811	577
Miscellaneous				<u>338,892</u>	<u>-</u>
Total General Revenues				<u>15,093,985</u>	<u>128,590</u>
Change in Net Assets				<u>(368,549)</u>	<u>56,460</u>
Net Assets Beginning of Year - (Restated see Note 3)				10,858,191	-
Net Assets End of Year				<u>\$ 10,489,642</u>	<u>\$ 56,460</u>

See accompanying notes to the basic financial statements.

London City School District

Balance Sheet

Governmental Funds

37,802

	General	Capital Building Project Fund	Debt Service Fund	All Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and					
Cash Equivalents	\$1,217,435	\$11,595,781	\$693,182	\$1,562,614	\$15,069,012
Investments	0	9,298,568	0	0	9,298,568
Interfund Receivable	14,072	0	0	0	14,072
Receivables	997	10,926	0	99,999	111,922
Inventory	0	0	0	8,886	8,886
Intergovernmental Receivable	27,773	0	0	23,356	51,129
Restricted Asset	121,334	0	0	0	121,334
Property Taxes Receivable	5,709,791	0	2,048,231	0	7,758,022
Total Assets	7,091,402	20,905,275	2,741,413	1,694,855	32,432,945
Liabilities					
Interfund Payable	0	0	0	14,072	14,072
Accounts Payable	92,218	31,213	0	27,424	150,855
Accrued Wages and Benefits	1,498,437	0	0	192,434	1,690,871
Pension Obligations Payable	217,480	0	0	36,444	253,924
Deferred Revenue	3,846,514	0	1,398,219	5,287	5,250,020
Total Liabilities	5,654,649	31,213	1,398,219	275,661	7,359,742
Fund Balances					
Reserved for Encumbrances	5,576	16,095,593	0	73,078	16,174,247
Reserved for Future Appropriation	53,400	0	0	0	53,400
Reserved for Textbooks	121,334	0	0	0	121,334
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	1,256,443	0	0	0	1,256,443
Special Revenue Funds	0	0	0	44,164	44,164
Debt Service Funds	0	0	1,343,194	0	1,343,194
Capital Projects Funds	0	4,778,469	0	1,279,215	6,057,684
Trust Funds	0	0	0	22,737	22,737
Total Fund Balances (Deficits)	1,436,753	20,874,062	1,343,194	1,419,194	25,073,203
Total Liabilities and Fund Balances	\$7,091,402	\$20,905,275	\$2,741,413	\$1,694,855	\$32,432,945

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, 2003*

Total Governmental Funds Balances	\$25,073,203
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	16,175,801
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds:	
Property Tax	262,563
Total	262,563
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:	
Pension Obligation	(108,759)
General Obligation Bonds	(29,710,000)
General Obligation Notes	(155,000)
Compensated Absences	(932,752)
Accrued Interest Payable	(115,414)
Total	(31,021,925)
 <i>Net Assets of Governmental Activities</i>	 \$10,489,642

London City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	General Fund	Capital Building Project Fund	Debt Service Fund	All Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$5,334,530	\$0	\$1,764,652	\$0	\$7,099,182
Intergovernmental	6,887,999	0	212,636	1,166,727	8,267,362
Interest	66,152	0	0	518,659	584,811
Tuition and Fees	292,218	0	0	313,554	605,772
Extracurricular Activities	27,877	0	0	131,190	159,067
Miscellaneous	198,761	37,192	0	102,939	338,892
<i>Total Revenues</i>	<u>12,807,537</u>	<u>37,192</u>	<u>1,977,288</u>	<u>2,233,069</u>	<u>17,055,086</u>
Expenditures					
Current:					
Instruction:					
Regular	6,741,475	0	0	83,674	6,825,149
Special	1,278,913	0	0	618,789	1,897,702
Vocational	279,261	0	0	7,008	286,269
Adult/Continuing	0	0	0	79,662	79,662
Support Services:					
Pupil	389,149	0	0	10,533	399,682
Instructional Staff	533,061	0	0	195,304	728,365
Board of Education	81,986	0	0	0	81,986
Administration	1,493,092	0	0	56,409	1,549,501
Fiscal	326,825	0	0	10,003	336,828
Food Service	0	0	0	513,676	513,676
Operation and Maintenance of Plant	1,326,832	0	0	6,300	1,333,132
Pupil Transportation	717,668	0	0	3,462	721,130
Central	81,769	0	0	44,426	126,195
Operation of Non-Instructional Services	0	0	0	115,677	115,677
Extracurricular Activities	413,900	0	0	222,363	636,263
Capital Outlay	0	7,346,191	0	0	7,346,191
Debt Service:					
Principal Retirement	0	0	250,000	0	250,000
Interest Retirement	0	0	1,440,773	0	1,440,773
<i>Total Expenditures</i>	<u>13,663,931</u>	<u>7,346,191</u>	<u>1,690,773</u>	<u>1,967,286</u>	<u>24,668,181</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(856,394)	(7,308,999)	286,515	265,783	(7,613,095)
Other Financing Sources (Uses)					
Transfers In	0	0	0	54,604	54,604
Transfers Out	(54,604)	0	0	0	(54,604)
<i>Total Other Financing Sources (Uses)</i>	<u>(54,604)</u>	<u>0</u>	<u>0</u>	<u>54,604</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(910,998)	(7,308,999)	286,515	320,387	(7,613,095)
<i>Fund Balances Beginning of Year - Restated</i>	<u>2,347,751</u>	<u>28,183,061</u>	<u>1,056,679</u>	<u>1,098,807</u>	<u>32,686,298</u>
<i>Fund Balances End of Year</i>	<u>\$1,436,753</u>	<u>\$20,874,062</u>	<u>\$1,343,194</u>	<u>\$1,419,194</u>	<u>\$25,073,203</u>

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, 2003*

Net Change in Fund Balances - Total Governmental Funds	(\$7,613,095)
 <i>Amounts reported for governmental activities in the statement of activities are different because</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	7,133,497
Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(53,339)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Property Taxes	(29,535)
Total	(29,535)
Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	250,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	1,036
Some expenses reported in the statement of activities, such as compensated absences liability and pension obligation do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(7,542) (49,571)
 <i>Change in Net Assets of Governmental Activities</i>	 <u><u>(\$368,549)</u></u>
 See accompanying notes to the basis financial statements	

London City School District
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Basis)
General Fund
For the Fiscal Year Ended June 30, 2003

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts			
	Original	Final	Actual	
Revenues				
Taxes	\$ 5,532,306	\$ 5,496,947	\$ 5,496,947	\$ -
Intergovernmental	6,837,102	6,921,833	6,921,833	-
Interest	100,000	77,049	77,049	-
Tuition and Fees	288,369	269,032	269,032	-
Miscellaneous	211,250	234,809	228,572	(6,237)
<i>Total Revenues</i>	<u>12,969,027</u>	<u>12,999,670</u>	<u>12,993,433</u>	<u>(6,237)</u>
Expenditures				
Current:				
Instruction:				
Regular	6,777,758	6,777,758	6,774,220	3,538
Special	1,291,662	1,291,662	1,269,819	21,843
Vocational	278,420	278,420	263,655	14,765
Support Services:				
Pupil	411,698	411,698	411,256	442
Instructional Staff	531,809	531,809	528,595	3,214
Board of Education	80,867	80,867	80,008	859
Administration	1,475,957	1,475,957	1,470,882	5,075
Fiscal	322,102	322,102	321,815	287
Operation and Maintenance of Plant	1,377,896	1,377,986	1,325,277	52,709
Pupil Transportation	704,797	704,797	697,567	7,230
Central	78,665	78,665	78,665	-
Extracurricular Activities	410,385	410,385	410,385	-
<i>Total Expenditures</i>	<u>13,742,016</u>	<u>13,742,106</u>	<u>13,632,144</u>	<u>109,962</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(772,989)	(742,436)	(638,711)	103,725
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	30,643	30,643	46,091	15,448
Advances In	940	940	940	-
Advances Out	(14,072)	(14,072)	(14,072)	-
Transfers Out	(62,416)	(62,416)	(54,604)	7,812
<i>Total Other Financing Sources (Uses)</i>	(44,905)	(44,905)	(21,645)	23,260
<i>Net Change in Fund Balances</i>	(817,894)	(787,341)	(660,356)	126,985
<i>Fund Balance - Beginning of Year</i>	<u>1,999,126</u>	<u>1,999,126</u>	<u>1,999,126</u>	<u>-</u>
<i>Fund Balance - End of Year</i>	<u>\$ 1,181,232</u>	<u>\$ 1,211,785</u>	<u>\$ 1,338,770</u>	<u>\$ 126,985</u>

See accompanying notes to the basic financial statements

London City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

	Private Purpose Trust	Agency Fund
Assets		
Equity in Pooled Cash and Cash Equivalents	\$16,966	\$227,807
Receivable	0	410
<i>Total Assets</i>	16,966	228,217
Liabilities		
	0	
Due to Other Governments	0	165,361
Due to Students	0	62,856
<i>Total Liabilities</i>	0	228,217
 <i>Total Net Asset - held in trust for scholarships</i>	 \$16,966	

See accompanying notes to the basic financial statements

London City School District
Statement of Change in Fiduciary Net Asset
Fiduciary Fund
June 30, 2003

	Private Purpose Trust
Additions	
Investment Earnings	\$91
<i>Total Additions</i>	91
Deductions	
Contributions Scholarships	526
<i>Total Deductions</i>	526
Change in Net Assets	(435)
<i>Net Asset - beginning of the year</i>	17,401
<i>Net Asset - end of the year</i>	\$16,966

See accompanying notes to the basic financial statements

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**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Note 1 - Description of the School District and Reporting Entity

The District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a city district as defined by Section 3311.2 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

Average daily membership (ADM) as of October 1, 2002 was 2,053. The District employed 162 certified employees and 78 non-certificated employees. The District cooperates for services with the Champaign - Madison County Educational Service Center, a separate entity, for curricular services.

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

Reporting Entity

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

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

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

London Digital Academy – London Digital Academy (Academy) is a legally separate not-for-profit served by an appointed six-member Board of Directors. The Academy, under a contractual agreement with the London City School District, provides comprehensive educational programs of high quality, tied to state and national standards, which can be delivered to students in the K – 12 population entirely through distance learning technologies. It is operated in cooperation with the District to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses, and others, including home-schooled students. The District elects three persons employed and serving in administrator positions within the District, one member who is neither an officer nor employee of the District who is a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy, and one member who is neither an officer nor employee of the District who is a representative initially appointed by the Tri-Rivers Educational Computer

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 1 - Description of the School District and Reporting Entity (continued)

Association (TRECA). Therefore, the Academy is reflected as a component unit of the London City School District. London Digital Academy operates on a fiscal year ending June 30. Separately issued financial statements can be obtained from London Digital Academy, 60 South Walnut Street, London, Ohio 43140. Note disclosures for the Academy are reflected in Note 22 of the notes to the basic financial statements.

The District also participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan, an insurance purchasing pool and with the Metropolitan Educational Council (MEC) and the Central Ohio Joint Vocational School District, jointly governed organizations and with the London Public Library, a related organization. These organizations are presented in Notes 11, 17 and 18 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Government-wide Financial Statements

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

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

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

B. Fund Accounting

Fund Financial Statements

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

Fund Accounting

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

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable

assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund and the Capital Building Fund are the District's only major governmental funds:

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

Capital Building Project Fund - This fund is used to account for financial resources to be used for the acquisition or construction of major capital assets or facilities.

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

Other Governmental Funds - accounts for grants and other resources, debt service, food service and other projects of the District whose uses are restricted to a particular purpose.

Fiduciary Funds

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

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus

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

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reflects on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which

the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include 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.

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

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

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

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grant entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenditures/Expenses

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

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

E. 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, 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 control has been established by the Board of Education at the fund level.

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

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

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

F. Cash and Investments

During fiscal year 2003, investments were limited to repurchase agreements, federal agency securities, commercial paper, banker acceptance notes, certificates of deposit and STAR Ohio. Except for nonparticipating investment contracts and nonnegotiable certificate of deposit, investments are reported at fair value which is based on quoted market prices. Non participating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2003. STAR Ohio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

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 2003 amounted to \$66,152; and other funds, \$518,750.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the nonallocation method. The nonallocation method of prepayments and deferrals is consistent with the basic governmental concept that only expendable financial resources are reported by a specific governmental fund. Payments for the prepaid items or deferrals are fully recognized as an expenditure in the year of payment. Under the nonallocation method no asset for the prepayment or deferral is created, and no expenditure allocation to future accounting periods is required. The District had no such transactions as of June 30, 2003.

H. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories consist of donated food, purchased food, and supplies held for resale, and materials and supplies for consumption. Inventory in governmental funds consists of expendable supplies held for consumption.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside for textbooks, see Note 16.

J. Capital Assets

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

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

All reported capital assets, other than land 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:

Description	Estimated Lives
Other Improvements	15 - 30 years
Buildings	50 years
Furniture and Equipment	5 - 20 years
Vehicles	5 - 15 years

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". Interfund balances within governmental activities are eliminated on the government wide statement of net assets.

L. Compensated Absences

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

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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 funds. However, contractually required pension contributions 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 during the current year. Bonds and notes are recognized as a liability on the governmental fund financial statements when due.

N. Net Assets

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

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

O. Fund Balance Reserves and Designations

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

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures. The designation for budget stabilization represents revenues set aside that exceed statutorily required amounts.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of enterprise funds. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the enterprise fund. The District does not currently have any funds classified as enterprise funds.

Q. Contributions of Capital

Contributions of capital arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

R. Interfund Transactions

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.

S. Estimates

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

Note 3 – Changes in Accounting Principles and Restatement of Fund Balance

A. Changes in Accounting Principles

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 36, 37, and 41.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 3 – Changes in Accounting Principles and Restatement of Fund Balance (continued)

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column. Fiduciary funds are reported by type.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net assets amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, based on the guidance provided in Statement No. 34 and by the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparisons for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice

B. Restatement of Fund Balance

The restatement due to the implementation of the above statements and interpretation 6 had the following effect on fund balance of the major and nonmajor funds of the District as they were previously reported. It was determined funds previously reported as enterprise funds should be reclassified and reported as special revenue funds.

The transition from governmental fund balance to net assets of the governmental activities is also presented:

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 3 – Changes in Accounting Principles and Restatement of Fund Balance (continued)

Total Governmental Fund Balances at June 30, 2002, as restated:

	General Fund	Capital Building Fund	Debt Service	All Other Funds	Total Governmental Activities
Fund Balance June 30, 2002	\$2,347,751	\$28,183,061	1,056,679	\$1,023,635	\$32,611,126
Fund Reclassifications				75,172	75,172
Adjusted Fund Balance June 30, 2002	\$2,347,751	\$28,183,061	1,056,679	\$1,098,807	\$32,686,298
GASB 34 Adjustments:					
Capital Assets				9,095,643	9,095,643
Deferred Revenue				292,098	292,098
Long Term Liabilities:					
Compensated Absences					(883,181)
General Obligation Notes					(205,000)
General Obligation Bonds					(29,910,000)
Pension Obligation					(101,217)
Interest Payable					(116,450)
					<hr/>
Governmental Activities Net Assets at June 30, 2002, as restated					<u>\$10,858,191</u>

Note 4 - Accountability

A. Accountability

At June 30, 2003, miscellaneous state grants had deficits. The General Fund is liable for any deficits in these funds and provides transfers when cash is required.

Note 5 - Budgetary Basis of Accounting

While the 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 (Non-GAAP Basis) and Actual 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 fund financial statements are the following:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 5 - Budgetary Basis of Accounting (continued)

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 as a reservation of fund balance (GAAP basis).

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

Net Change in Fund Balance	General Fund
GAAP Basis	\$(910,998)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Net Adjustments to Revenue Accruals	185,896
Expenditure Accruals:	
Net Adjustments to Expenditure Accruals	31,787
Due to Other	32,959
	\$(660,356)
Budget Basis	

Note 6 - Deposits and Investments

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

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

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current 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.

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

Interim monies may be invested in the following securities:

1. United States Treasury bills, bonds, notes, 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;

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 6 - Deposits and Investments (Continued)

2. Bonds, notes, debentures, or any other obligation 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 provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).
7. Certain commercial paper notes and bankers' acceptances (if authorized by the Board of Education) for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited.

An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At fiscal year end, the District had \$147 in undeposited cash on hand which is included on the balance sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents".

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

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 6 - Deposits and Investments (Continued)

At fiscal year end, the carrying amount of the District's deposits was \$8,411,641 and the bank balance was \$9,827,484. Of the bank balance, \$100,000 was covered by federal depository insurance and \$9,727,484 was uninsured and uncollateralized as defined by GASB. Although it was secured by collateral held by third party trustees pursuant to Section 135.181 Ohio Revised Code in collateralized pools securing all public funds on deposit these securities are not held in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

The District's investments are categorized to give an indication of the level of risk assumed by the district at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 2	Category 3	Carrying Amount
Repurchase Agreement	\$	\$ 1,248,113	\$ 1,248,113
Federal Home Loan MC Securities	2,981,425		2,981,425
Federal Home Loan Securities	3,356,371		3,356,371
Fannie Mae Securities	2,960,772		2,960,772
Star Ohio			5,775,218
Totals	<u>\$ 9,298,568</u>	<u>\$ 1,248,113</u>	<u>\$ 16,321,899</u>

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

A reconciliation between the classification of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents Deposits	Investments
GASB Statement No. 9	\$ 15,435,119	\$
Federal Home Loan MC Securities		2,981,425
Federal Home Loan Securities		3,356,371
Fannie Mae Securities		2,960,772
Star Ohio	(5,775,218)	5,775,218
Repurchase Agreement	(1,248,113)	1,248,113
GASB Statement No. 3	<u>\$ 8,411,788</u>	<u>\$ 16,321,899</u>

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes for 2003 were levied after April 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20.

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

Public utility real and tangible personal property taxes for 2003 were levied after April 1, 2002, on the assessed values as of December 31, 2001, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 2002 taxes. Tangible personal property taxes for 2003 were levied after April 1, 2002, on the value as of December 31, 2001. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually.

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

The District receives property taxes from Madison County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2003 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis it is deferred.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 7 - Property Taxes (Continued)

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Property- Commercial/ Industrial	\$38,432,400	17%	\$42,069,840	16%
Real Property - Residential Agriculture	147,506,460	66%	174,201,370	68%
Tangible Personal	26,841,190	12%	28,561,050	11%
Public Utility	11,742,850	5%	12,842,930	5%
Total Assessed Value	<u>\$224,522,900</u>		<u>\$257,675,190</u>	
Tax rate per \$1,000 of assessed valuation	\$37.30		\$37.30	

Note 8 - Receivables

Receivables at June 30, 2003, consisted of property taxes, accounts (receivables, tuition and student fees), intergovernmental, and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
General Fund	
Intergovernmental-tuition	\$27,773
Other Governmental Funds	
Food Service Fund	
Government Reimbursement	23,356
Total Intergovernmental Receivables	<u>\$51,129</u>

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	July 1, 2002	Additions	Deletions	June 30, 2003
Governmental Activities				
Land	\$ 884,550	\$ -	\$ -	\$ 884,550
Buildings	6,632,466	61,256	-	6,693,722
Other Improvements	1,605,252	8,435	-	1,613,687
Construction in Progress	3,010,313	7,315,292	-	10,325,605
Furniture and Equipment	4,204,404	167,796	244,839	4,127,361
Vehicles	1,076,320	146,340	28,104	1,194,556
Totals at Historical Cost	<u>17,413,305</u>	<u>7,699,119</u>	<u>272,943</u>	<u>24,839,481</u>
Buildings	(3,893,711)	(76,782)	-	(3,970,493)
Other Improvements	(1,030,362)	(216,400)	-	(1,246,762)
Furniture and Equipment	(2,651,752)	(236,795)	(196,876)	(2,691,671)
Vehicles	(741,837)	(35,645)	(22,728)	(754,754)
Total Accumulated Depreciation	<u>(8,317,662)</u>	<u>(565,622)</u>	<u>(219,604)</u>	<u>(8,663,680)</u>
Governmental Activities Assets, Net	<u>\$9,095,643</u>	<u>\$7,133,497</u>	<u>\$ 53,339</u>	<u>\$16,175,801</u>

Depreciation expense was charged as follows:

Depreciation	
Instruction:	
Regular	\$200,321
Special	6,997
Vocational	446
Adult/Continuing	262
Support Services:	
Pupil	643
Instructional Staff	29,474
Board of Education	
Administration	31,829
Fiscal	818
Business	-
Food Service	4,850
Operation and	
Maintenance of Plant	2,810
Pupil Transportation	49,201
Central	6,507
Operation of Non- Instructional Services	1,162
Extracurricular Activities	<u>230,302</u>
Total	<u>\$565,622</u>

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 10 - Interfund Assets/Liabilities

As of June 30, 2003, the General Fund had an interfund receivable in the amount of \$14,072. The Title VI and Drug Free Schools Grant special revenue funds had interfund payables in the amount of \$6,510 and \$7,562 respectively, resulting from the provision of cash flow resources from the General Fund until the receipt of grant monies by the special revenue funds.

Note 11 - Risk Management

A. General Risk

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

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

B. Workers' Compensation

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

The intent of the GRP is to achieve the benefit of a reduced premium for the school district by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 12 - Defined Benefit Pension Plans

A. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits to members, and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly available, stand-alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

Benefits are established by Chapter 3307 of the Ohio Revised Code. A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance. For fiscal year ended June 30, 2003, plan members are required to contribute 9.3 percent of their annual covered salary. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 employee contributions.

For the fiscal year ended June 30, 2003, plan members are required to contribute 9.3 percent of their annual covered salaries. The District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2003, (the latest information available), 6 percent was used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$ 1,003,848, \$1,028,088, and \$948,096, respectively; 17.06 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001. \$171,345 represents the unpaid contribution for fiscal year 2003.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 12 - Defined Benefit Pension Plans (Continued)

B. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually.

The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$228,729, \$288,528, and \$246,984, respectively; 27.49 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001. \$165,857 represents the unpaid contribution for fiscal year 2003.

B. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$100,384 for the fiscal year 2003.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 13 - Postemployment Benefits (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697 and STRS had 105,300 eligible benefit participants.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$103,842.

The surcharge rate added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002 SERS net assets available for payment of health care benefits of \$335.2 million. SERS had approximately 50,000 participants receiving health care benefits.

Note 14 - Employee Benefits

A. Compensated Absences

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

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

The classified personnel accumulate vacation based on the following schedule:

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

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

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 14 - Employee Benefits (Continued)

A. Compensated Absences (Continued)

Employees who have been employed by the District for a minimum of ten consecutive years at the time of retirement are entitled to retirement severance pay. Severance pay is paid to an eligible retiring employee at his/her per diem rate of his/her annual salary at the time of retirement.

Any employee receiving retirement severance pay shall be entitled to a dollar amount equivalent to one-fourth of all accumulated sick leave credited to that employee up to 65 days for certified employees and 51 for classified employees.

B. Health Care Benefits

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

Note 15 - Long-Term Obligations

The Ohio Revised Code (ORC) provides that the net debt of a school district, whether or not approved by the people, shall not exceed 9.0% of the total value of all property in the District as listed and assessed for taxation. In addition, the unvoted net debt of a school district cannot exceed .1% of the total assessed value of property. The District has no unvoted debt, the District's unvoted debt limit is \$257,675. The voted debt limit at June 30, 2003 is \$24,190,767.

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

A summary of changes in long-term obligations for the year ended June 30, 2003, are as follows:

	Balance			Balance		Due
	<u>July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2003</u>	<u>Within One Year</u>	
Bonds Payable	29,910,000	0	(200,000)	29,710,000	555,000	
Energy Notes Payable	205,000	0	(50,000)	155,000	50,000	
Compensated Absences Payable	883,181	49,571	0	932,752	90,000	
	<u>\$30,998,181</u>	<u>49,571</u>	<u>\$(250,000)</u>	<u>\$30,797,752</u>	<u>695,000</u>	

The annual maturities of the Energy Conservation Notes as of June 30, 2003, and related interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
2004	\$50,000	\$7,855	\$57,855
2005	50,000	4,845	54,845
2006	55,000	3,290	58,290
Totals	<u>\$155,000</u>	<u>\$15,990</u>	<u>\$170,990</u>

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 15 - Long-Term Obligations (Continued)

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

The annual maturities of the general obligation bonds as of June 30, 2003, and related interest payments are as follows:

Year	Principal	Interest	Payment
2004	\$ 555,000	\$ 1,378,304	\$ 1,933,304
2005	625,000	1,363,501	1,988,501
2006	700,000	1,344,895	2,044,895
2007	930,000	1,319,922	2,249,922
2008	1,025,000	1,287,850	2,312,850
2009-2013	7,805,000	5,676,304	13,481,304
2014-2018	9,775,000	3,229,281	13,004,281
2019-2023	2,885,000	1,727,125	4,612,125
2024-2028	3,670,000	911,250	4,581,250
2029-2030	1,740,000	88,000	1,828,000
Totals	<u>\$29,710,000</u>	<u>\$18,326,432</u>	<u>\$ 48,036,432</u>

Note 16 - Set-Asides

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2003.

	<u>Textbooks</u>	<u>Capital Improvements</u>
Balance June 30, 2003	\$(29,355)	\$0
Current Year Set Aside Requirement	284,907	284,907
Qualifying Expenditures	<u>(134,218)</u>	<u>(284,907)</u>
Amount Carried Forward to Fiscal Year 2004	<u>\$(121,334)</u>	<u>\$0</u>

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 17 - Jointly Governed Organization

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

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

Note 18 – Related Organization

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

Note 19 - School Foundation Program

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding decision. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "the Ohio General Assembly to enact a school funding scheme that is thorough and efficient".

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

Note 20 – Construction in Progress

The District issued School Improvement and Classroom Facilities Bonds on October 16, 2001, in the amount of \$29,910,000 to pay the local share of school construction under the State of Ohio Classroom Facilities Assistance Program for constructing, furnishing and equipping educational facilities.

The status of the construction in progress is as follows:

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 20 – Construction in Progress (continued)

Construction In Progress					
<u>Contractor</u>	<u>Original Contract</u>	<u>Changes Approved</u>	<u>Current Contract Amt.</u>	<u>Paid to date</u>	<u>Pct. Billed</u>
Phase 1					
Strawser Paving	\$226,400	(5,017)	221,383	\$221,383	100%
Celina Glass ADT Security Systems	80,000	9,811	89,811	88,000	98%
	<u>52,601</u>	<u>(1,225)</u>	<u>51,376</u>	<u>50,175</u>	98%
	359,001	3,569	362,570	359,558	
Phase 2					
Demmy Construction Settle Muler Electric	1,609,912	327,985	1,937,897	1,890,240	98%
	<u>436,914</u>	<u>(29,734)</u>	<u>407,180</u>	<u>407,180</u>	100%
	2,046,826	298,251	2,345,077	2,297,420	
Phase 3					
Wenco, Inc. Corna/Kokosing Construction	44,570	(2,814)	41,756	41,756	100%
	<u>219,900</u>	<u>893</u>	<u>220,793</u>	<u>210,121</u>	95%
	264,470	(1,921)	262,549	251,877	
Phase 4 New Elementary & High School Addition/Renovations					
Ferguson Construction Stonecreek Interiors	9,439,027	43,629	9,482,656	1,729,937	18%
Wasserstrom	663,500		663,500	11,119	2%
Thomas Glass Shindler Elevator Central Fire Protection	442,000		442,000	-	9%
	1,053,000		1,053,000	7,139	1%
	63,700		63,700	2,893	5%
	249,732	2,740	252,472	8,646	3%
Donnell, Inc. Stage Mechanical Romanoff Electric	1,125,900	18,273	1,144,173	366,991	32%
	2,767,300	695	2,767,995	139,759	5%
	<u>1,674,190</u>	<u>11,524</u>	<u>1,685,714</u>	<u>99,440</u>	6%
	17,478,349	76,861	17,555,209	2,365,923	
Totals	<u>\$20,148,646</u>	<u>376,760</u>	<u>20,525,406</u>	<u>\$5,274,777</u>	

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 21 - Contingencies

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

B. Litigation

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

Note 22 - London Digital Academy

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

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

A. Cash and Cash Equivalents

Cash held by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased and presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2003, the Academy had no investments. At fiscal year end, the carrying amount and bank balance of the Academy's deposits was \$114,912.

B. Receivables

Receivables at June 30, 2003, consisted of intergovernmental (e.g. federal grant) receivables in the amount of \$105,000. All intergovernmental receivables are considered collectible in full, due to the stable condition and current year guarantee of federal funds.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Note 23 – Subsequent Events

On November 4, 2003, the 1% income tax levy the District placed on the ballot for operating expenses did not pass. The District will place the 1% income tax levy on the November 2004 ballot.

On March 1, 2004, a decision was made on one of the litigation proceedings pending against the District. The 1999 slander and libel lawsuit filed by a former District employee against the Board of Education, Superintendent and two former employees was lost on appeal by the plaintiff.

On May 13, 2004, a decision was made on the other two litigation proceedings pending against the District. The Board of Education and the District's administration were dismissed as defendants in one case and the entirety of the other case was also dismissed.

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LONDON CITY SCHOOL DISTRICT
MADISON COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2003

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program		10.550	\$0	\$45,571	\$0	\$45,571
National School Breakfast Program	044255-05PU-2002/2003	10.553	\$16,011	\$0	\$16,011	\$0
National School Lunch Program	044255-LLP4-2002/2003	10.555	136,725	0	136,725	0
Total U.S. Department of Agriculture - Nutrition Cluster			152,736	45,571	152,736	45,571
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Adult Education - Basic Grants to States	044255-ABS1-2002/2003	84.002	78,734	0	79,964	0
Title I, Grants to Local Educational Agencies	044255-C1S1-2002/2003	84.010	373,891	0	400,682	0
Safe and Drug Free Schools and Communities	044255-DRS1-2002/2003	84.186	7,865	0	5,943	0
Innovative Education Program Strategies	044255-C2S1-2003	84.298	11,503	0	21,037	0
Title II D - Technology Literacy Challenge Fund Grants	044255-TJS1-2003	84.318	10,821	0	4,590	0
Advanced Placement Incentive Program	044255-AVS1-2003	84.330	600	0	600	0
School Renovation Idea and Tech Program	044255-ATS3-2003	84.352A	1,478	0	1,478	0
English Language Acquisition Grants	044255-T3S1-2003	84.365	10,468	0	10,220	0
Improving Teacher Quality State Grants	044255-TRS1-2003	84.367	101,557	0	122,760	0
Special Education Cluster:						
Special Education to States	044255-6BSF-2002/2003	87.027	194,600	0	213,911	0
Special Education - Preschool Grant	044255-PGS1-2003	84.173	11,090	0	15,098	0
Total Special Education Cluster			205,690	0	229,009	0
Total U.S. Department of Education			802,607	0	876,283	0
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of Jobs and Family Services</i>						
Refugee and Entrant Assistance Discretionary Grant	044255-RIS1-2003	93.576	2,000	0	1,956	0
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program		93.778	15,287	0	15,287	0
Total U.S. Department of Health and Human Services			17,287	0	17,243	0
Total Federal Awards			972,630	45,571	1,046,262	45,571

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

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – TRANSFERABILITY

During fiscal year 2003, the Ohio Department of Education eliminated the Eisenhower Professional Development Grant and the Class Size Reduction Grant. The negative receipts associated with the elimination of those grants have been reported as receipts of the Improving Teacher Quality State Grants.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, the discretely presented component unit and remaining fund information of London City School District, Madison County, Ohio, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 20, 2004, wherein we noted the District implemented Governmental Accounting Standards Board Statement No. 34 and reclassified funds. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated September 20, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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However, we noted certain other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to District management in a separate letter dated September 20, 2004.

This report is intended for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

September 20, 2004



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the London City School District, Madison County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

September 20, 2004

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003**

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

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 14, 2004**