

London City School District

Madison County

Single Audit

July 1, 2003 through June 30, 2004

Fiscal Year Audited Under GAGAS: 2004

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**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the London City School District, Madison County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period July 1, 2003 June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 30, 2005

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London City School District
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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of London City School District, Madison County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of London Digital Academy (the Academy), which are included as a discrete presentation in the District's basic financial statements. These financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion insofar as it relates to the amounts included for the Academy is based solely on the report of other auditors.

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 basic 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 the 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, based on our audit and the report of other auditors, 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 the aggregate remaining fund information of the District, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of the Board
London City School District
Independent Auditor's Report

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 9 and pages 42 through 44 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Balestra, Harr & Scherer, CPAs, Inc.

July 20, 2005

LONDON CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004
(Unaudited)

The discussion and analysis of London City School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review notes to the basic financial statements and financial statements to enhance their understanding of the District's performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets decreased \$744,661 from 2003.
- General revenues accounted for \$15,157,221 in revenue or 85.2% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,625,734 or 14.8% of total revenues of \$17,782,955.
- Total assets of governmental activities increased by \$1,635,686 as taxes receivable increased by \$857,545, capital assets increased by \$18,870,717 while cash and other receivables decreased by \$18,092,576.
- The District had \$18,527,616 in expenses related to governmental activities; \$2,625,734 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$15,157,221 were not adequate to provide for these programs.
- As a major fund, the General Fund had \$13,496,206 in revenues and \$14,427,688 in expenditures. The General Fund balance decreased from \$1,436,753 to \$505,271.

Using the Basic Financial Statements

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

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

Reporting the School 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 2004?" 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 year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the District consists of one activity:

- Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

The District has two kinds of funds:

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

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

The District as a Whole

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

Table 1 provides a summary of the District's net assets for 2003 compared to 2004:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2004</u>
Assets		
Current and Other Assets	\$32,418,873	\$15,183,842
Capital Assets	<u>16,175,801</u>	<u>35,046,518</u>
Total Assets	<u>48,594,674</u>	<u>50,230,360</u>
Liabilities		
Long-Term Liabilities	30,797,752	30,307,734
Other Liabilities	<u>7,307,280</u>	<u>10,177,645</u>
Total Liabilities	<u>38,105,032</u>	<u>40,485,379</u>
Net Assets		
Invested in Capital		
Assets Net of Debt	8,388,288	5,786,518
Restricted	23,636,450	4,396,416
Unrestricted	<u>(21,535,096)</u>	<u>(437,953)</u>
Total Net Assets	<u>\$10,489,642</u>	<u>\$9,744,981</u>

For governmental activities total assets increased \$1,635,686. Equity in pooled cash and cash equivalents decreased \$18,369,389. This decrease represents the expenditures paid on the building project. Taxes receivable increased \$857,545. Total liabilities increased \$2,380,347, resulting in a net asset decrease of \$744,661.

Table 2 shows the change in net assets for fiscal year 2003 compared to 2004.

Table 2
Changes in Net Assets

	Governmental Activities	
	<u>2003 *</u>	<u>2004</u>
Revenues		
Program Revenues:		
Charges for Services	\$764,839	\$788,463
Operating Grants	1,166,727	1,825,734
Capital Grants	0	11,537
General Revenue:		
Property Taxes	7,069,647	7,473,054
Grants and Entitlements	7,100,635	7,374,650
Other	<u>923,703</u>	<u>309,517</u>
Total Revenues	<u>17,025,551</u>	<u>17,782,955</u>
Program Expenses:		
Instruction	9,297,775	9,186,192
Support Services:		
Pupil and Instructional Staff	1,139,413	1,218,483
General and School Administrative, Fiscal and Business	1,984,726	2,104,851
Operations and Maintenance	1,318,203	1,561,892
Pupil Transportation	638,700	758,992
Central	176,067	723,853
Operation of Non-Instructional Services	545,507	709,278
Extracurricular Activities	853,972	827,423
Interest & Fiscal Charges	<u>1,439,737</u>	<u>1,436,652</u>
Total Expenses	<u>17,394,100</u>	<u>18,527,616</u>
Increase (decrease) in Net Assets	<u>(\$368,549)</u>	<u>(\$744,661)</u>

* Expenditures were restated for fiscal year 2003 to show the reclassification of food service expenditures as operation of non-instructional service.

Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general and capital project purposes, and unrestricted grants and entitlements comprised 83% of the District's revenues for governmental activities.

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

Thus Ohio districts do not receive additional property tax revenue from increases in appraisal values and must regularly return to the voters to maintain a constant level of service. Property taxes made up 42.0% of revenue for governmental activities for the District in fiscal year 2004.

Instruction comprises 50% of governmental program expenses. Instruction expenses increased due to additional grant funding received in 2004. Support services expenses were 34% of governmental program expenses. Operation of Non-Instructional Services expenditures increased due to increase in food service expenditures. All other program expenses were 16%. Property tax revenue increased due to additional amounts available for advance at June 30, 2004.

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

Table 3
Governmental Activities

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
Instruction	\$9,297,775	\$9,186,192	(\$8,247,726)	(\$7,714,823)
Support Services:				
Pupil and Instructional Staff	1,139,413	1,218,483	(935,307)	(986,314)
General, Administration, Fiscal and Business	1,984,726	2,104,851	(1,984,726)	(2,029,791)
Operations and Maintenance	1,318,203	1,561,892	(1,318,203)	(1,560,005)
Pupil Transportation	638,700	758,992	(638,700)	(747,455)
Central	176,067	723,853	(176,067)	(686,749)
Operation of Non-Instructional Services	545,507	709,278	(32,578)	(71,439)
Extracurricular Activities	853,972	827,423	(689,490)	(668,654)
Interest & Fiscal Charges	<u>1,439,737</u>	<u>1,436,652</u>	<u>(1,439,737)</u>	<u>(1,436,652)</u>
Total Expenses	<u>\$17,394,100</u>	<u>\$18,527,616</u>	<u>(\$15,462,534)</u>	<u>(\$15,901,882)</u>

The District's Funds

Information about the District's major funds is presented in the Fund Financial Statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$17,684,134 and expenditures and other financing uses of \$38,000,600. The net change in fund balance for the year was (\$20,316,466), or (81.1%). The General Fund balance decreased \$931,482 due mostly to an increase in instruction, administration, and operation and maintenance. The Building Fund balance decreased \$18,919,601 due mostly to an increase in capital outlay for the building project.

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 2004, the District amended its general fund budget several times, however none were significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the budget in an attempt to deal with changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$13,706,608, above original budget estimates of \$13,449,457. Of this \$257,151 difference, most was due to a conservative estimate for taxes and intergovernmental revenue.

The District's ending unobligated cash balance was \$317,059 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$35,046,518 invested in land, construction in progress, buildings and improvements and equipment. Table 4 shows fiscal 2003 balances compared to fiscal 2004:

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

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2004</u>
Land	\$884,550	\$884,550
Construction in Progress	10,325,605	29,245,302
Buildings and Improvements	3,090,154	2,796,972
Equipment	<u>1,875,492</u>	<u>2,119,694</u>
Total Net Assets	<u>\$16,175,801</u>	<u>\$35,046,518</u>

This District continues its ongoing commitment to maintaining and improving its capital assets. See Note 7 for additional information in the District's capital assets.

Debt

At June 30, 2004, the District had bonds and notes outstanding. Table 5 summarizes debt outstanding.

Table 5
Outstanding Debt, at Year End

	Governmental. Activities <u>2003</u>	Governmental Activities <u>2004</u>
General Obligation Bonds	\$29,710,000	\$29,155,000
General Obligation Notes	<u>155,000</u>	<u>105,000</u>
Total Outstanding Debt at Year End	<u>\$29,865,000</u>	<u>\$29,260,000</u>

See Note 13 for further information on the District's debt.

For the Future

The Ohio Supreme Court found the State of Ohio in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997 the State has directed its tax revenue growth toward school districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes which are inherently not "equitable" nor "adequate". The Court directed the Governor and the legislature to address the fundamental issues creating the inequities. In 2001 the Ohio legislature crafted a school-funding program to address the Court's concerns. In 2003 the funding program was modified as a result of Amended Substitute House Bill 95.

With the loss of revenues and the completion of renovations and construction of a new elementary building, the District sought additional operating funds through an income tax levy, which was passed in February 2005. See Note 21 in the notes to the basic financial statements for additional information.

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

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

Contacting the District's Financial Management

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

London City School District
Statement of Net Assets
June 30, 2004

	Governmental Activities	Component Unit
Assets:		
Equity in Pooled Cash and Investments	\$5,834,583	\$201,718
Restricted Cash and Investments	284,942	0
Receivables:		
Taxes	8,615,567	0
Accounts	28,901	0
Intergovernmental	418,205	8,933
Inventory	1,644	0
Nondepreciable Capital Assets	30,129,852	0
Depreciable Capital Assets, Net	4,916,666	5,142
Total Assets	50,230,360	215,793
Liabilities:		
Accounts Payable	590,418	203
Accrued Wages and Benefits	2,015,929	0
Retainage Payable	136,387	0
Accrued Interest Payable	119,977	0
Intergovernmental Payable	0	173,547
Deferred Revenue	6,207,187	0
Contracts Payable	1,107,747	0
Long-Term Liabilities:		
Due Within One Year	791,047	0
Due In More Than One Year	29,516,687	0
Total Liabilities	40,485,379	173,750
Net Assets:		
Invested in Capital Assets, Net of Related Debt	5,786,518	5,142
Restricted for:		
Special Revenue	227,052	0
Debt Service	1,310,985	0
Capital Projects	2,709,824	0
Set-Aside	148,555	0
Other Purposes	0	4,421
Unrestricted	(437,953)	32,480
Total Net Assets	\$9,744,981	\$42,043

See accompanying notes to the basis financial statements

London City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues			Net (Expense) Revenue	Component
		Charges for	Operating Grants	Capital Grants	and Changes in Net Assets	Unit
		Services and Sales	and Contributions	and Contributions	Governmental	London Digital
					Activities	Academy
Governmental Activities:						
Instruction:						
Regular	\$6,720,834	\$68,346	\$108,694	\$0	(\$6,543,794)	\$0
Special	2,091,713	252,209	965,205	0	(874,299)	0
Vocational	304,130	0	7,451	0	(296,679)	0
Other	69,515	0	69,464	0	(51)	0
Support Services:						
Pupil	436,663	0	7,782	0	(428,881)	0
Instructional Staff	781,820	0	224,387	0	(557,433)	0
General Administration	89,834	0	0	0	(89,834)	0
School Administration	1,606,368	0	75,060	0	(1,531,308)	0
Fiscal	408,649	0	0	0	(408,649)	0
Operations and Maintenance	1,561,892	1,887	0	0	(1,560,005)	0
Pupil Transportation	758,992	0	0	11,537	(747,455)	0
Central	723,853	0	37,104	0	(686,749)	0
Operation of Non-Instructional Services	709,278	307,252	330,587	0	(71,439)	0
Extracurricular Activities	827,423	158,769	0	0	(668,654)	0
Interest and Fiscal Charges	1,436,652	0	0	0	(1,436,652)	0
Total Governmental Activities	18,527,616	788,463	1,825,734	11,537	(15,901,882)	0
Component Unit:						
London Digital Academy	245,113	0	3,533	0	0	(241,580)
General Revenues:						
Property Taxes Levied for:						
					5,637,948	0
					1,835,106	0
					7,374,650	225,196
					17,675	0
					163	0
					159,030	1,967
					240	0
					132,409	0
Total General Revenues and Transfers					15,157,221	227,163
Change in Net Assets					(744,661)	(14,417)
Net Assets Beginning of Year					10,489,642	56,460
Net Assets End of Year					\$9,744,981	\$42,043

See accompanying notes to the basis financial statements

London City School District
Balance Sheet
Governmental Funds
June 30, 2004

	General	Building	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Investments	\$350,447	\$3,062,208	\$689,105	\$1,732,823	\$5,834,583
Restricted Cash and Investments	148,555	136,387	0	0	284,942
Receivables:					
Taxes	6,519,167	0	2,096,400	0	8,615,567
Accounts	28,901	0	0	0	28,901
Intergovernmental	159,516	0	0	258,689	418,205
Interfund	50,327	0	0	0	50,327
Inventory	0	0	0	1,644	1,644
Total Assets	7,256,913	3,198,595	2,785,505	1,993,156	15,234,169
Liabilities and Fund Balances:					
Liabilities:					
Accounts Payable	64,679	0	0	525,739	590,418
Accrued Wages and Benefits	1,743,822	0	0	206,650	1,950,472
Compensated Absences	72,974	0	0	0	72,974
Retainage Payable	0	136,387	0	0	136,387
Interfund Payable	0	0	0	50,327	50,327
Deferred Revenue	4,870,167	0	1,515,700	183,240	6,569,107
Contracts Payable	0	1,107,747	0	0	1,107,747
Total Liabilities	6,751,642	1,244,134	1,515,700	965,956	10,477,432
Fund Balances:					
Reserved for Encumbrances	0	1,215,384	0	167,877	1,383,261
Reserved for Inventory	0	0	0	1,644	1,644
Reserved for Property Tax Advances	1,649,000	0	580,700	0	2,229,700
Reserved for Set-Aside	148,555	0	0	0	148,555
Unreserved, Undesignated, Reported in:					
General Fund	(1,292,284)	0	0	0	(1,292,284)
Special Revenue Funds	0	0	0	124,803	124,803
Debt Service Funds	0	0	689,105	0	689,105
Capital Projects Funds	0	739,077	0	732,876	1,471,953
Total Fund Balances	505,271	1,954,461	1,269,805	1,027,200	4,756,737
Total Liabilities and Fund Balances	\$7,256,913	\$3,198,595	\$2,785,505	\$1,993,156	\$15,234,169

See accompanying notes to the basis financial statements

London City School District
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 June 30, 2004

Total Governmental Fund Balance \$4,756,737

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

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds. 35,046,518

Other long-term assets are not available to pay for current-
 period expenditures and therefore are deferred in the funds.

Delinquent Property Taxes	178,680	
Intergovernmental	<u>183,240</u>	
		361,920

In the statement of net assets interest payable is accrued when
 incurred, whereas in the governmental funds interest is
 reported as a liability only when it will require the use of
 current financial resources. (119,977)

Some liabilities reported in the statement of net assets do not
 require the use of current financial resources and therefore
 are not reported as liabilities in governmental funds.

Pension Obligation	(65,457)	
Compensated Absences	<u>(974,760)</u>	
		(1,040,217)

Long-term liabilities, are not due and payable in the current
 period and therefore are not reported in the funds. (29,260,000)

Net Assets of Governmental Activities \$9,744,981

See accompanying notes to the basis financial statements

London City School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Building	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$5,702,622	\$0	\$1,854,315	\$0	\$7,556,937
Tuition and Fees	307,404	0	0	760	308,164
Investment Earnings	10,437	0	0	148,585	159,022
Intergovernmental	7,398,821	0	109,385	1,520,638	9,028,844
Extracurricular Activities	42,114	0	0	129,280	171,394
Charges for Services	0	0	0	307,019	307,019
Other Revenues	34,808	96	0	117,850	152,754
Total Revenues	13,496,206	96	1,963,700	2,224,132	17,684,134
Expenditures:					
Current:					
Instruction:					
Regular	6,922,576	0	0	99,634	7,022,210
Special	1,395,502	0	0	691,044	2,086,546
Vocational	300,218	0	0	4,312	304,530
Other	0	0	0	69,994	69,994
Support Services:					
Pupil	429,872	0	0	7,539	437,411
Instructional Staff	560,257	0	0	193,730	753,987
General Administration	89,834	0	0	0	89,834
School Administration	1,514,445	0	0	60,930	1,575,375
Fiscal	398,729	0	0	7,500	406,229
Operations and Maintenance	1,543,484	0	0	16,428	1,559,912
Pupil Transportation	716,657	0	0	0	716,657
Central	144,599	0	0	573,323	717,922
Operation of Non-Instructional Services	0	0	0	705,005	705,005
Extracurricular Activities	410,979	0	0	186,687	597,666
Capital Outlay	536	18,919,697	0	0	18,920,233
Debt Service:					
Principal Retirement	0	0	605,000	0	605,000
Interest and Fiscal Charges	0	0	1,432,089	0	1,432,089
Total Expenditures	14,427,688	18,919,697	2,037,089	2,616,126	38,000,600
Net Change in Fund Balance	(931,482)	(18,919,601)	(73,389)	(391,994)	(20,316,466)
Fund Balance Beginning of Year	1,436,753	20,874,062	1,343,194	1,419,194	25,073,203
Fund Balance End of Year	\$505,271	\$1,954,461	\$1,269,805	\$1,027,200	\$4,756,737

See accompanying notes to the basis financial statements

London City School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2004

Net Change in Fund Balance - Total Governmental Funds (\$20,316,466)

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

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

Capital assets used in governmental activities	19,436,339	
Depreciation Expense	<u>(565,622)</u>	18,870,717

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

Delinquent Property Taxes	(83,883)	
Intergovernmental	<u>183,240</u>	99,357

Repayment of bond principal is an expenditure in the
 governmental funds, but the repayment reduces long-term
 liabilities in the statement of net assets. 605,000

In the statement of activities interest expense is accrued when incurred,
 whereas in governmental funds an interest expenditure is reported
 when due. (4,563)

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

Pension Obligation	43,302	
Compensated Absences	<u>(42,008)</u>	1,294

Change in Net Assets of Governmental Activities	<u><u>(\$744,661)</u></u>
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See accompanying notes to the basis financial statements

London City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	\$16,966	\$196,844
Receivables:		
Accounts	0	985
Total Assets	<u>16,966</u>	<u>\$197,829</u>
Liabilities:		
Due to Other Governments	0	136,000
Due to Students	0	61,829
Total Liabilities	<u>0</u>	<u>\$197,829</u>
Net Assets:		
Held in Trust	<u>16,966</u>	
Total Net Assets	<u>\$16,966</u>	

See accompanying notes to the basis financial statements

London City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2004

	Private Purpose Trust
Additions:	
Donations	\$0
Total Additions	0
Deductions:	
Regular	0
Total Deductions	0
Change in Net Assets	0
Net Assets Beginning of Year	16,966
Net Assets End of Year	\$16,966

See accompanying notes to the basis financial statements

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

Average daily membership (ADM) as of October 1, 2003 was 2,082. 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 populations entirely through distance learning technologies. It is operated in cooperation with the District to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses, and others, including home schooled students. The District elects three persons employed and serving in administrator positions within the District, one member who is neither an officer nor employee of the District who is a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy, and one member who is neither an officer nor employee of the District who is a representative initially appointed by the Tri-Rivers Educational Computer 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.

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.

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 after 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.

Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Accounting

Fund Financial Statements

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

Fund Accounting

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

Governmental Funds

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

Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

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

Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: 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, 2004, but which were levied to finance fiscal year 2005 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.

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.

Equity in Pooled Cash and Investments

During fiscal year 2004, investments were limited to U.S. Treasury Bonds, 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. Nonparticipating 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 2004. 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, 2004.

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 2004 amounted to \$10,437; and other funds, \$148,585.

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.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, 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, 2004.

Inventory

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

Restricted Assets

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

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:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	15 - 50 years
Equipment	5 - 20 years

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.

Compensated Absences

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

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

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

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.

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.

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, set-asides, and encumbrances.

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 set-aside represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures. The designation for set-asides represents revenues set aside that exceed statutorily required amounts.

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.

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.

Estimates

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

3. ACCOUNTABILITY

Accountability

At June 30, 2004, the following funds had a deficit at year end. The General Fund is liable for any deficits in these funds and provides transfers when cash is required.

<u>Fund</u>	<u>Deficit</u>
Special Revenue Funds:	
Other Grants	\$5,790
Miscellaneous State Grants	1,031
Adult Basic Education	30,936
Special Education	21,617
Title III	5,579
Title I	64,749
IDEA Preschool	395
E-Rate	2,142
Improving Teacher Quality	4,041
Miscellaneous Federal Grants	344

4. 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;
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;
6. The State Treasurer's investment pool (STAR Ohio); and
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.

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".

At fiscal year end, the carrying amount of the District's deposits was \$1,164,137 and the bank balance was \$2,255,990. Of the bank balance, \$116,965 was covered by federal depository insurance and \$2,139,025 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.

Based on the above criteria, the District's investments at year-end are classified as follows:

<u>Description</u>	<u>Category 2</u>	Carrying Amount/ <u>Fair Value</u>
U.S Treasury Bonds	\$2,187,925	\$2,187,925
State Treasury Pool	<u>0</u>	<u>2,981,273</u>
Total Investments	<u>\$2,187,925</u>	<u>\$5,169,198</u>

5. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, 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 2004 were levied after April 1, 2003, on the assessed values as of December 31, 2002, 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 2004 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes for 2004 were levied after April 1, 2003, on the value as of December 31, 2002. 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, 2004, are available to finance fiscal year 2004 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, 2004, 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 2004 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.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	<u>2003 Second-Half Collections</u>		<u>2004 First-Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real Property – Commercial/Industrial	\$42,069,840	16%	\$43,048,560	16%
Real Property – Residential/Agriculture	174,201,370	68%	179,265,370	68%
Tangible Personal	28,561,050	11%	30,710,310	12%
Public Utility	<u>12,842,930</u>	5%	<u>11,783,660</u>	4%
Total Assessed Value	<u>\$257,675,190</u>		<u>\$264,807,900</u>	
Tax rate per \$1,000 of assessed value	\$37.50		\$45.30	

6. RECEIVABLES

Receivables at June 30, 2004, consisted of property taxes, accounts (tuition and student fees) and intergovernmental. 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>
London Digital Academy	\$159,516
Summer Intervention	18,928
Special Education	60,647
Title I	105,898
Title V	10,455
Drug-Free Schools	7,301
IDEA Preschool	5,674
Improving Teacher Quality	28,205
Food Service	<u>21,581</u>
Total Governmental Activities	<u>\$418,205</u>

7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Government Activities				
<i>Capital Assets not being depreciated:</i>				
Land	\$884,550	\$0	\$0	\$884,550
Construction in Progress	10,325,605	18,919,697	0	29,245,302
<i>Capital Assets being depreciated:</i>				
Buildings and Improvements	8,307,409	0	0	8,307,409
Equipment	<u>5,321,917</u>	<u>516,642</u>	<u>0</u>	<u>5,838,559</u>
Totals at Historical Cost	<u>\$24,839,481</u>	<u>\$19,436,339</u>	<u>\$0</u>	<u>\$44,275,820</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(\$5,217,255)	(\$293,182)	\$0	(\$5,510,437)
Equipment	<u>(3,446,425)</u>	<u>(272,440)</u>	<u>0</u>	<u>(3,718,865)</u>
Total Accumulated Depreciation	<u>(\$8,663,680)</u>	<u>(\$565,622)</u>	<u>\$0</u>	<u>(\$9,229,302)</u>
Governmental Activities Capital Assets, Net	<u>\$16,175,801</u>	<u>\$18,870,717</u>	<u>\$0</u>	<u>\$35,046,518</u>

Depreciation expense was charged as follows:

Instruction:	
Regular	\$200,321
Special	6,997
Vocational	446
Other Instruction	262
Support Services:	
Pupil	643
Instructional Staff	29,474
School Administration	31,829
Fiscal	818
Operations and Maintenance	2,810
Pupil Transportation	49,201
Central	6,507
Operation of Non-instructional Activities	6,012
Extracurricular Activities	<u>230,302</u>
Total Depreciation Expense	<u>\$565,622</u>

8. INTERFUND ASSETS/LIABILITIES

The District had the following interfund receivables/payables outstanding at June 30, 2004:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$50,327	\$0
Nonmajor Governmental Funds:		
After Care	0	2,416
Intervention Summer School	0	8,994
Entry Year Mentor Program	0	1,031
Family Literacy	0	3,464
ABLE	0	12,230
IDEA B	0	15,884
English Proficiency III	0	3,542
E-Rate	0	2,142
Title II-D	0	343
High School Faculty Special Trust	0	281
Totals	<u>\$50,327</u>	<u>\$50,327</u>

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

9. RISK MANAGEMENT

General Risk

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate.

The District maintains fleet insurance in the amount of \$1,000,000 for any one accident or loss. The District maintains replacement cost insurance on buildings and contents in the amount of \$33,318,467.

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

Workers' Compensation

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

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

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

10. DEFINED BENEFIT PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09% of annual covered salary was the portion being used to fund pension obligations. For fiscal year 2003, 8.17% 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$291,576, \$228,729, and \$288,528, respectively; 66% has been contributed for fiscal year 2004 and 100% for fiscal year 2003 and 2002.

STATE TEACHERS RETIREMENT SYSTEM

The District participates in State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 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% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was 9.5%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,062,576, \$1,003,848, and \$1,028,088, respectively; 91% has been contributed for fiscal year 2004 and 100% for fiscal year 2003 and 2002.

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, 2004, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

11. POST EMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$75,898 for the fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was 3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based upon years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay was established at \$24,500. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$102,260.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of 300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

12. EMPLOYEE BENEFITS

Compensated Absences

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

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

The classified personnel accumulate vacation based on the following schedule:

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

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

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

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

Health Care Benefits

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

13. LONG-TERM OBLIGATIONS

A summary of changes in long-term obligations for the year ended June 30, 2004, are as follows:

	<u>Beginning Principal Outstanding</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Principal Outstanding</u>	<u>Due In One Year</u>
Bond 4.92%	\$29,710,000	\$0	\$555,000	\$29,155,000	\$625,000
Energy Conservation Notes 5.05%	<u>155,000</u>	<u>0</u>	<u>50,000</u>	<u>105,000</u>	<u>50,000</u>
Total General Obligation Bonds and Notes	29,865,000	0	605,000	29,260,000	675,000
Compensated Absences	<u>932,752</u>	<u>204,982</u>	<u>90,000</u>	<u>1,047,734</u>	<u>116,047</u>
Total Governmental Activities Long-Term Liabilities	<u>\$30,797,752</u>	<u>\$204,982</u>	<u>\$695,000</u>	<u>\$30,307,734</u>	<u>\$791,047</u>

General Obligation Bonds: The District issued School Improvement and Classroom Facilities Bonds on October 16, 2001, in the amount of \$29,910,000 at 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 educational facilities and for the repayment of bond anticipation notes issued for this project. The maturity date of the bonds is December 2029.

The District issued notes June 1, 1996 for the purpose of purchasing and installing energy conservation measures in the amount of \$445,000 with an interest rate of 5.05%. The notes mature June 1, 2004.

The annual maturities of the general obligation bonds and notes as of June 30, 2004, and related interest payments are as follows:

General Obligation Bonds and Notes

Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$675,000	\$1,368,831	\$2,043,831
2006	755,000	1,347,700	2,102,700
2007	930,000	1,319,923	2,249,923
2008	1,025,000	1,287,850	2,312,850
2009	1,130,000	1,249,803	2,379,803
2010-2014	8,800,000	5,312,531	14,112,531
2015-2019	8,175,000	2,744,874	10,919,874
2020-2024	3,025,000	1,579,375	4,604,375
2025-2029	3,855,000	723,125	4,578,125
2030	<u>890,000</u>	<u>22,250</u>	<u>912,250</u>
Totals	<u>\$29,260,000</u>	<u>\$16,956,262</u>	<u>\$46,216,262</u>

14. 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.

In fiscal year 2002, the District issued \$29,910,000 in bonds for school construction. The beginning set aside cash balance as of June 30, 2003 has been restated to take this issuance into consideration as an offset to the current year set aside requirement.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2004.

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Reserve Balance as of June 30, 2003	\$121,334	(\$29,910,000)
Current Year Set-aside Requirement	281,118	281,118
Qualified Disbursements	(253,897)	(62,205)
Set-aside Reserve Balance as of June 30, 2004	<u>\$148,555</u>	<u>(\$29,691,087)</u>
Restricted Cash as of June 30, 2004	<u>\$148,555</u>	

15. 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.

16. 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.

17. 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.

18. 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 construction in progress is as follows:

Contract	Contractor	Contract Amount	Change Orders	Paid to Date	Remaining Balance
Roof Recoating	Roofing by Insulation Unlimited Inc.	\$54,800	\$6,750	\$61,550	\$0
Bus Purchase	Cardinal Bus Sales	62,205	0	62,205	0
Phase 4 General Trades	Nadalin Company Inc.	257,000	29,856	186,929	99,927
Technology & Wiring	Pomeroy IT Solutions	869,000	-20,723	791,514	56,763
Furnishings	Continental Educational Environment	25,792	0	25,792	0
Auditorium Seating	Farnham Equipment	65,700	1,950	47,650	20,000
Roof Replacement	AH Sturgill Roofing, Inc.	480,920	0	136,041	344,879
Renovating Boiler Equipment	Bruner Corp	471,381	0	471,381	0
Foundation	Corna/Kokosing Construction Schindler Elevator Corporation	219,900	893	220,793	0
Elevator	Corporation	63,700	0	59,886	3,814
Kitchen Equipment Package	Wasserstrom	442,000	-6,587	402,150	33,263
Hartley Complex Driveway	Demmy Construction Inc.	1,609,912	474,262	2,054,569	29,605
Plumbing	Donnell, Inc.	1,125,900	79,438	1,151,859	53,479
Electrical Package	Romanoff Electric of Columbus	1,674,190	73,808	1,651,245	96,753
HVAC Package	Slagle Mechanical Contractors	2,767,300	83,536	2,642,666	208,170
Aluminum Storefront/Curtain Wall	Thomas Glass Company Inc.	1,053,000	49,494	1,044,298	58,196
General Trades & Masonry Packages	Ferguson Construction Co. Stonecreek Interior Systems Inc.	9,439,027	170,984	8,762,727	847,284
Casework Package	Inc.	663,500	0	626,072	37,428
		<u>\$21,345,227</u>	<u>\$943,661</u>	<u>\$20,399,327</u>	<u>\$1,889,561</u>

19. CONTINGENCIES

Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

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.

20. 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.

Equity in Pooled Cash and Investments

Cash held by the Academy is reflected as "Equity in Pooled Cash and Investments" 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 2004, the Academy had no investments. At fiscal year end, the carrying amount of the Academy's deposits was \$201,718. The bank balance was \$202,135.

21. SUBSEQUENT EVENTS

In October 2004, the Auditor of State declared the District to be in a state of Fiscal Watch under Section 3316.03 (A)(3) of the Ohio Revised Code. The District's recovery plan was to pass a 1% income tax levy to remedy this action, which it subsequently passed in February 2005.

In February 2005, the taxpayers of the City of London passed a 1% income tax levy for the financing of operating expenses for the District.

In April 2005, the District issued \$1,210,000 in tax anticipation notes to provide the necessary cash flows to meet operating requirements until monies are received for the 1% income tax levy passed in February 2005. These notes require semi-annual interest payments and annual principal retirement payments beginning June 1, 2006 with a maturity date of December 1, 2010. Interest rates range from 5.75% to 6.25% over the life of the debt.

London City School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2004

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$5,805,891	\$5,806,629	\$5,916,899	\$110,270
Tuition and Fees	306,342	306,381	312,199	5,818
Investment Earnings	10,241	10,242	10,437	195
Intergovernmental	7,260,011	7,260,933	7,398,821	137,888
Extracurricular Activities	40,854	40,859	41,635	776
Other Revenues	26,118	26,121	26,617	496
Total Revenues	13,449,457	13,451,165	13,706,608	255,443
Expenditures:				
Current:				
Instruction:				
Regular	7,078,383	7,080,779	7,050,457	30,322
Special	1,428,056	1,428,539	1,422,422	6,117
Vocational	313,015	313,121	311,780	1,341
Support Services:				
Pupil	430,590	430,736	428,891	1,845
Instructional Staff	563,615	563,805	561,391	2,414
General Administration	90,836	90,867	90,478	389
School Administration	1,493,835	1,494,341	1,487,942	6,399
Fiscal	397,310	397,445	395,743	1,702
Operations and Maintenance	1,541,932	1,542,454	1,535,849	6,605
Pupil Transportation	700,380	700,617	697,617	3,000
Central	141,869	141,917	141,309	608
Operation of Non-Instructional Services	10,908	10,912	10,865	47
Extracurricular Activities	412,245	412,385	410,619	1,766
Total Expenditures	14,602,974	14,607,918	14,545,363	62,555
Excess of Revenues Over (Under) Expenditures	(1,153,517)	(1,156,753)	(838,755)	317,998
Other financing sources (uses):				
Proceeds from Sale of Capital Assets	3,140	3,140	3,200	60
Advances In	14,128	14,133	14,072	(61)
Advances (Out)	(49,383)	(49,389)	(50,327)	(938)
Total Other Financing Sources (Uses)	(32,115)	(32,116)	(33,055)	(939)
Net Change in Fund Balance	(1,185,632)	(1,188,869)	(871,810)	317,059
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	1,339,248	1,339,248	1,339,248	0
Fund Balance End of Year	\$153,616	\$150,379	\$467,438	\$317,059

See accompanying notes to the required supplementary information.

LONDON CITY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2004

1. BUDGETARY PROCESS

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2004.

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

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

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

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

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	(\$931,482)
Net Adjustment for Revenue Accruals	68,158
Net Adjustment for Expenditure Accruals	23,078
Encumbrances	<u>(31,564)</u>
Budget Basis	<u>(\$871,810)</u>

London City School District
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2004

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$0	\$38,377	\$0	\$38,377
National School Breakfast Program	05PU	10.553	17,549	0	17,549	0
National School Lunch Program	LLP4	10.555	145,546	0	145,546	0
Total United States Department of Agriculture - Nutrition Cluster			163,095	38,377	163,095	38,377
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education</i>						
Adult Education - Basic Grants to States	ABS1	84.002	21,555	0	26,006	0
Title I Grants to Local Education Agencies	CIS1	84.010	454,814	0	479,275	0
Safe and Drug Free Schools and Communities	DRS1	84.186	19,731	0	21,368	0
Innovative Education Program Strategies	C2S1	84.298	9,505	0	2,235	0
Education Technology State Grants	TJS1	84.318	9,586	0	9,929	0
School Renovation Idea and Tech Program	ATS4	84.352A	0	0	6,231	0
English Language Acquisition Grants	T3S1	84.365	10,527	0	14,316	0
Improving Teacher Quality State Grants	TRS1	84.367	139,912	0	124,198	0
Special Education Cluster:						
Special Education- Grants to States	6BSF	84.027	240,441	0	270,891	0
Special Education- Handicapped Preschool	PGS1	84.173	8,569	0	8,100	0
Total Special Education Cluster			249,010	0	278,991	0
Total United States Department of Education			914,640	0	962,549	0
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through Ohio Department of Job and Family Services</i>						
Refugee and Entrant Assistance Discretionary Grant	RIS1	93.576	1,400	0	1,382	0
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	N/A	93.778	163	0	163	0
Total United States Department of Health and Human Services			1,563	0	1,545	0
Total Federal Financial Assistance			\$1,079,298	\$38,377	\$1,127,189	\$38,377

N/A = Pass through entity number could not be located.
See Notes to the Schedule of Federal Awards Expenditures.

London City School District,
Notes to the Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2004

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the School 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.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of London City School District, Madison County, Ohio (the District), as of and for the year ended June 30, 2004, and have issued our report thereon dated July 20, 2005. We did not audit the financial statements of London Digital Academy which were audited by other auditors whose report thereon has been furnished to us, and our opinion insofar as it relates to the amounts included for London Digital Academy is solely based on the report of the other auditors. 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.

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 basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2004.1.

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

Members of the Board
London City School District

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated July 20, 2005.

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



Balestra, Harr & Scherer, CPAs, Inc.

July 20, 2005

BALESTRA, HARR & SCHERER CPAs, INC.

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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

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

Compliance

We have audited the compliance of London City School District, Madison County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. 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 of 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, 2004.

Members of the Board
London City School District

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133
Page 2

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 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 the internal control over compliance in accordance with OMB Circular A-133.

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 reportable 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, regulation, contracts and grants caused by error or fraud 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 solely for the information and use of management, members of the Board, 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.



Balestra, Harr & Scherer, CPAs, Inc.

July 20, 2005

London City School District
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
June 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS

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

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

Reportable Condition – 2004.1:

The District's detailed capital asset records have not been updated from the prior year, nor did its records from fiscal year 2003 agree to audited balances. Failure to maintain updated capital asset records results in inaccurate and/or incomplete balances and underlying detail. Reliance upon misinformation in decision-making processes may occur. The District should review and update its capital asset records for accuracy and completeness and reconcile to audited balances.

CORRECTIVE ACTION PLAN			
Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2004.1	The Treasurer will update its capital asset accounting records and reconcile balances to audited figures.	6/30/05	Kevin Moxley, Treasurer

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



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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
SEPTEMBER 13, 2005**