

London City School District

Madison County

Single Audit

July 1, 2005 through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

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Mary Taylor, CPA
Auditor of State

Board of Education
London City School District
60 South Walnut Street
London, Ohio 43140-1246

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, 2005 to June 30, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 12, 2007

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London City School District
Table of Contents

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet-Governmental Funds	14
Reconciliation of Total Governmental Fund Balances To Net Assets of Governmental Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Fiduciary Net Assets – Fiduciary Funds	18
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	19
Notes to the Basic Financial Statements.....	20
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Budget Basis) – General Fund.....	45
Notes to the Required Supplementary Information	46
Schedule of Federal Awards Expenditures	49
Notes to Schedule of Federal Awards Expenditures.....	50
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	51
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Compliance in Accordance With OMB Circular A-133	53
Schedule of Findings and Questioned Costs – OMB Circular A 1-33 Section .505.....	55
Schedule of Prior Audit Findings	57

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
London City School District
60 South Walnut Street
London, Ohio 43140-1246

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the London City School District, Madison County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the District as of June 30, 2006, 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 December 22, 2006, 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.

The Management's Discussion and Analysis on pages 3 through 10 and the budgetary comparison information for the General Fund on pages 45 through 48 are not a required part 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.

As described in Note 21, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting & Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.



Balestra, Harr & Scherer, CPAs, Inc.
December 22, 2006

LONDON CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2006
(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, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review notes to the basic financial statements and the basic financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets decreased \$2,316,038 from 2005.
- General revenues accounted for \$19,025,046 in revenue or 87% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,943,209 or 13% of total revenues of \$21,968,255.
- The District had \$24,284,293 in expenses related to governmental activities; \$2,943,209 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$19,025,046 were also used to provide for these programs.

OVERVIEW OF THE 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 and the Debt Service Fund.

Government-wide Financial Statements

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, “How did we do financially during 2006?” The Government-wide Financial Statements answers this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

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

The District has two kinds of funds:

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

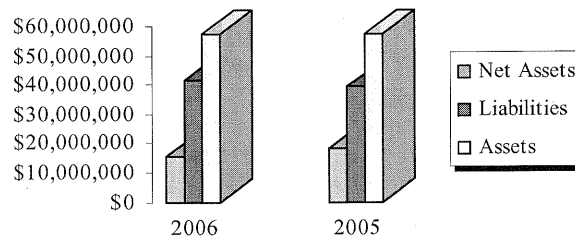
Fiduciary Funds The District’s fiduciary funds consist of an agency fund and a private purpose trust fund. We exclude these activities from the District’s other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal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

The District as a Whole

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

Table 1 provides a summary of the District's net assets for 2006 compared to 2005:

	Governmental Activities	
	2006	2005 Restated
Assets		
Current Assets	\$13,767,633	\$11,609,579
Capital Assets	44,086,004	45,880,925
Total Assets	57,853,637	57,490,504
Liabilities		
Long-Term Liabilities	30,188,035	29,678,496
Other Liabilities	11,640,088	9,470,456
Total Liabilities	41,828,123	39,148,952
Net Assets		
Invested in Capital		
Assets Net of Debt	14,079,389	16,085,925
Restricted	2,271,403	2,144,933
Unrestricted	(325,278)	110,694
Total Net Assets	\$16,025,514	\$18,341,552



Over time, assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$16,025,514.

At year-end, capital assets represented 76% of total assets. Capital assets include land, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2006, was \$14,079,389. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$2,271,403, represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current and Other Assets increased in 2006 compared to 2005 mainly due to the increases in tax receivable which is caused by an increase in taxes revenue and increase in taxes available for advance. Current and other assets also increased because the District established an income tax on January 1, 2006. Capital Assets decreased from the prior year mainly because current fiscal year depreciation expense exceeded current fiscal year additions after taking into account the restatement of the 2005 Capital Assets because the District underwent an appraisal of the Capital Asset detail and increased the capitalization threshold to \$5,000. Other liabilities increased largely due to the increase in unearned revenue. The increase in unearned revenue was caused by an increase in taxes receivable and an increase in the taxes available for advance.

Table 2 shows the change in net assets for fiscal year 2006 compared to 2005.

Table 2
Changes in Net Assets

	Governmental Activities	
	2006	2005 Restated
Revenues		
Program Revenues:		
Charges for Services	\$937,929	\$950,027
Operating Grants	1,925,308	1,095,980
Capital Grants	79,972	81,945
General Revenue:		
Income Tax	452,315	0
Property Taxes	9,223,519	7,692,198
Grants and Entitlements	8,054,305	8,051,465
Other	1,294,907	487,415
Total Revenues	<u>21,968,255</u>	<u>18,359,030</u>
Program Expenses:		
Instruction	13,494,493	10,259,978
Support Services:		
Pupil and Instructional Staff	1,345,960	1,164,093
General and School Administrative, and Fiscal	2,367,046	2,093,342
Operations and Maintenance	2,215,894	1,725,525
Pupil Transportation	829,517	738,880
Central	211,797	336,195
Operation of Non-Instructional Services	787,325	769,808
Extracurricular Activities	804,270	605,391
Interest and Fiscal Charges	2,227,991	1,414,284
Total Expenses	<u>24,284,293</u>	<u>19,107,496</u>
Change in Net Assets	(2,316,038)	(748,466)
Beginning Net Assets	<u>18,341,552</u>	<u>19,090,018</u>
Ending Net Assets	<u>\$16,025,514</u>	<u>\$18,341,552</u>

Of the total governmental activities revenues of \$21,968,255, \$2,943,209 is from program revenue. This means that the government relies on general revenues to fund the majority of the cost of services provided to the citizens. Of those general revenues, \$9,223,519 (42%) comes from property tax levies and \$8,054,705 (37%) is from state and federal funding. This District's operations are reliant upon its property tax levy and the state's foundation program.

Operating grants increased in 2006 compared to 2005 due to the increase in the amount of grant monies received. The District had a balance in income tax revenue because the District established an income tax on January 1, 2006. Property tax revenue increased in 2006 compared to 2005 because the District received an additional advance in 2006. Other Revenues increased due to additional monies collected from the London Academy which was a result from the increase in enrollment in 2006 compared to 2005. Instructional Expenses increased over the prior year due to increases in personnel costs and general inflationary factors. Interest and fiscal charges increased from the prior year due to the District making payments on the 2001 school improvement and classroom facilities bonds.

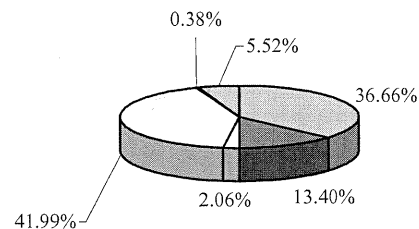
Governmental Activities

The District revenues are mainly from two sources. Property taxes levied for general and debt service purposes, and unrestricted grants and entitlements comprised 76% 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% of revenue for governmental activities for the District in fiscal year 2006.

Revenue Sources	2006	Percent of Total
General Grants	\$8,054,305	36.66%
Program Revenues	2,943,209	13.40%
Income Tax	452,315	2.06%
General Tax Revenues	9,223,519	41.99%
Investment Earnings	82,703	0.38%
Other Revenues	1,212,204	5.52%
	<u>\$21,968,255</u>	<u>100.00%</u>



Instruction comprises 56% of governmental program expenses. Support services expenses were 29% of governmental program expenses. All other expenses including interest expense were 15%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction	13,494,493	10,259,978	(\$11,934,006)	(\$9,233,035)
Support Services:				
Pupil and Instructional Staff	1,345,960	1,164,093	(1,110,131)	(1,007,252)
General and School Administrative, and Fiscal	2,367,046	2,093,342	(2,361,733)	(2,061,701)
Operations and Maintenance	2,215,894	1,725,525	(2,165,894)	(1,669,378)
Pupil Transportation	829,517	738,880	(749,545)	(673,525)
Central	211,797	336,195	(188,316)	(310,781)
Operation of Non-Instructional Services	787,325	769,808	19,415	(209,620)
Extracurricular Activities	804,270	605,391	(622,883)	(399,968)
Interest and Fiscal Charges	2,227,991	1,414,284	(2,227,991)	(1,414,284)
Total Expenses	<u>\$24,284,293</u>	<u>\$19,107,496</u>	<u>(\$21,341,084)</u>	<u>(\$16,979,544)</u>

The District's Major Funds

The District has two major governmental funds: the General Fund and Debt Service Fund. Assets of the general fund comprised \$9,391,857 (69%) and the debt service fund comprised \$3,169,358 (23%) of the total \$13,546,471 governmental funds assets.

General Fund: Fund balance at June 30, 2006 was (\$751,638). The primary reasons for the decrease in fund balance were increases in instructional expense and interest and fiscal charges.

Debt Service Fund: Fund balance at June 30, 2006 was \$1,777,658 including \$1,029,858 of unreserved balance. The primary reasons for the increase in fund balance were increases in taxes revenue due to an increase in the amount available for advance.

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 2006, 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 \$16,398,404, compared to original budget estimates of \$15,891,015. Of the \$507,389 difference, most was due to a conservative estimate for taxes and intergovernmental revenue.

The District's ending unobligated cash balance was \$17,741 below the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$44,086,004 invested in land, buildings and improvements, and equipment. Table 4 shows fiscal 2006 balances compared to fiscal 2005:

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

	Governmental Activities	
	2006	2005 Restated
Land	\$884,550	\$884,550
Buildings and Improvements	42,176,925	43,770,268
Equipment	1,024,529	1,226,107
Total Net Capital Assets	<u>\$44,086,004</u>	<u>\$45,880,925</u>

The decrease in capital assets was due to depreciation expense exceeding current fiscal year additions. See Note 7 for additional information in the District's capital assets.

Debt

At June 30, 2006, the District had bonds outstanding. Table 5 summarizes debt outstanding.

Table 5
Outstanding Debt, at Year End

	Governmental Activities	
	2006	2005
Bond and Refunding	\$11,885,000	\$28,530,000
London 2006 Refunding Series 2001		
Current Interest Bonds	7,160,000	0
London 2006 Refunding Series 2001		
Capital Appreciation Bonds	999,955	0
London 2006 Refunding Series 2001		
Current Interest Bonds	6,730,000	0
London 2006 Refunding Series 2001		
Capital Appreciation Bonds	909,909	0
Energy Conservation Note	0	55,000
Premium on 2006 Refunding Series 2001	752,094	0
Premium on 2006 Refunding Series 2001	665,386	0
Total	<u>\$29,102,344</u>	<u>\$28,585,000</u>

See Note 14 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. The tax was effective January 1, 2006, and is a continuous levy.

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 Brad McKee, Treasurer at London City School District, 60 South Walnut Street, London, Ohio 43140 or e-mail at brad.mckee@london.k12.oh.us.

London City School District
Statement of Net Assets
June 30, 2006

	Governmental Activities	Component Unit
Assets:		
Equity in Pooled Cash and Investments	\$1,947,387	\$567,144
Restricted Cash and Investments	20,517	0
Receivables:		
Taxes	10,807,066	0
Accounts	9,539	0
Intergovernmental	357,262	51,430
Income Taxes	315,881	0
Deferred Bond Issuance Costs	305,729	0
Inventory	4,252	0
Nondepreciable Capital Assets	884,550	0
Depreciable Capital Assets, Net	43,201,454	54,104
Total Assets	57,853,637	672,678
Liabilities:		
Accounts Payable	133,607	0
Accrued Wages and Benefits	2,474,696	0
Accrued Interest Payable	94,219	0
Intergovernmental Payable	0	425,681
Unearned Revenue	7,727,566	1,711
Tax Anticipation Notes Payable	1,210,000	0
Long-Term Liabilities:		
Due Within One Year	1,496,183	0
Due In More Than One Year	28,691,852	0
Total Liabilities	41,828,123	427,392
Net Assets:		
Invested in Capital Assets, Net of Related Debt	14,079,389	54,104
Restricted for:		
Special Revenue	209,062	0
Debt Service	1,832,672	0
Capital Projects	209,152	0
Set-Aside	20,517	0
Unrestricted	(325,278)	191,182
Total Net Assets	\$16,025,514	\$245,286

See accompanying notes to the basic financial statements

London City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	
Governmental Activities:				
Instruction:				
Regular	\$10,688,689	\$347,194	\$65,272	\$0
Special	2,439,645	13,016	877,374	0
Vocational	287,435	0	25,066	0
Other	78,724	0	232,565	0
Support Services:				
Pupil	430,233	0	16,954	0
Instructional Staff	915,727	0	218,875	0
General Administration	115,654	0	0	0
School Administration	1,802,648	61	5,252	0
Fiscal	448,744	0	0	0
Operations and Maintenance	2,215,894	50,000	0	0
Pupil Transportation	829,517	0	0	79,972
Central	211,797	0	23,481	0
Operation of Non-Instructional Services	787,325	346,271	460,469	0
Extracurricular Activities	804,270	181,387	0	0
Interest and Fiscal Charges	2,227,991	0	0	0
Total Governmental Activities	24,284,293	937,929	1,925,308	79,972
Component Unit:				
London Academy	944,376	0	213,815	0

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

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year, Restated

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets	Component Unit
Governmental Activities	London Academy
(\$10,276,223)	\$0
(1,549,255)	0
(262,369)	0
153,841	0
(413,279)	0
(696,852)	0
(115,654)	0
(1,797,335)	0
(448,744)	0
(2,165,894)	0
(749,545)	0
(188,316)	0
19,415	0
(622,883)	0
(2,227,991)	0
(21,341,084)	0
0	(730,561)
452,315	0
6,860,211	0
2,363,308	0
8,054,305	857,489
468,895	0
30,858	0
82,703	4,723
712,451	4,986
19,025,046	867,198
(2,316,038)	136,637
18,341,552	108,649
\$16,025,514	\$245,286

London City School District
Balance Sheet
Governmental Funds
June 30, 2006

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$294,217	\$1,029,858	\$623,312	\$1,947,387
Restricted Cash and Investments	20,517	0	0	20,517
Receivables:				
Taxes	8,667,566	2,139,500	0	10,807,066
Accounts	9,109	0	430	9,539
Intergovernmental	0	0	357,262	357,262
Income Taxes	315,881	0	0	315,881
Interfund	84,567	0	0	84,567
Inventory	0	0	4,252	4,252
Total Assets	9,391,857	3,169,358	985,256	13,546,471
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	114,187	0	19,420	133,607
Accrued Wages and Benefits	2,117,398	0	357,298	2,474,696
Compensated Absences	29,144	0	0	29,144
Interfund Payable	0	0	84,567	84,567
Deferred Revenue	6,672,766	1,391,700	144,616	8,209,082
Tax Anticipation Notes Payable	1,210,000	0	0	1,210,000
Total Liabilities	10,143,495	1,391,700	605,901	12,141,096
Fund Balances:				
Reserved for Encumbrances	74,963	0	25,400	100,363
Reserved for Inventory	0	0	4,252	4,252
Reserved for Property Tax Advances	1,994,800	747,800	0	2,742,600
Reserved for Set-Aside	20,517	0	0	20,517
Unreserved, Undesignated, Reported in:				
General Fund	(2,841,918)	0	0	(2,841,918)
Special Revenue Funds	0	0	147,351	147,351
Debt Service Funds	0	1,029,858	0	1,029,858
Capital Projects Funds	0	0	202,352	202,352
Total Fund Balances	(751,638)	1,777,658	379,355	1,405,375
Total Liabilities and Fund Balances	\$9,391,857	\$3,169,358	\$985,256	\$13,546,471

See accompanying notes to the basic financial statements

London City School District
 Reconciliation of Total Governmental Fund Balance to
 Net Assets of Governmental Activities
 June 30, 2006

Total Governmental Fund Balance		\$1,405,375
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.		44,086,004
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Delinquent Property Taxes	336,900	
Intergovernmental	<u>144,616</u>	
		481,516
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.		(94,219)
Some liabilities reported in the statement of net assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds.		
Compensated Absences	<u>(1,056,547)</u>	
		(1,056,547)
Deferred bond issuance cost associated with long-term liabilities are not reported in the funds.		305,729
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.		<u>(29,102,344)</u>
Net Assets of Governmental Activities		<u><u>\$16,025,514</u></u>

See accompanying notes to the basic financial statements

London City School District
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$7,217,376	\$2,327,808	\$0	\$9,545,184
Revenue in lieu of taxes	468,895	0	0	468,895
Tuition and Fees	359,820	0	0	359,820
Investment Earnings	42,130	0	40,573	82,703
Intergovernmental	8,073,804	218,330	1,775,180	10,067,314
Extracurricular Activities	34,359	0	147,478	181,837
Charges for Services	50,000	0	346,271	396,271
Other Revenues	621,202	0	89,995	711,197
Total Revenues	16,867,586	2,546,138	2,399,497	21,813,221
Expenditures:				
Current:				
Instruction:				
Regular	9,004,923	0	95,208	9,100,131
Special	1,487,938	0	950,920	2,438,858
Vocational	269,913	0	15,952	285,865
Other	0	0	78,724	78,724
Support Services:				
Pupil	424,613	0	0	424,613
Instructional Staff	574,462	0	251,395	825,857
General Administration	115,654	0	0	115,654
School Administration	1,789,116	0	28,606	1,817,722
Fiscal	448,129	0	0	448,129
Operations and Maintenance	1,695,680	0	481,305	2,176,985
Pupil Transportation	772,461	0	0	772,461
Central	186,999	0	24,429	211,428
Operation of Non-Instructional Services	6,073	0	764,316	770,389
Extracurricular Activities	434,315	0	244,151	678,466
Capital Outlay	0	0	111,390	111,390
Debt Service:				
Principal Retirement	0	900,136	0	900,136
Interest and Fiscal Charges	80,185	1,059,040	0	1,139,225
Total Expenditures	17,290,461	1,959,176	3,046,396	22,296,033
Excess of Revenues Over (Under) Expenditures	(422,875)	586,962	(646,899)	(482,812)
Other Financing Sources (Uses):				
Proceeds from Sale of Assets	1,254	0	0	1,254
Payments to Refunded Bond Escrow Agent	0	(17,390,068)	0	(17,390,068)
Proceeds of Refunding Bonds	0	15,944,864	0	15,944,864
Premium on Bonds Sold	0	1,445,204	0	1,445,204
Transfers In	0	2,447	228,983	231,430
Transfers (Out)	(222,934)	0	(8,496)	(231,430)
Total Other Financing Sources (Uses)	(221,680)	2,447	220,487	1,254
Net Change in Fund Balance	(644,555)	589,409	(426,412)	(481,558)
Fund Balance Beginning of Year, Restated	(107,083)	1,188,249	805,767	1,886,933
Fund Balance End of Year	(\$751,638)	\$1,777,658	\$379,355	\$1,405,375

See accompanying notes to the basic financial statements

London City School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2006

Net Change in Fund Balance - Total Governmental Funds (5481,558)

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	40,451	
Depreciation Expense	<u>(1,835,372)</u>	(1,794,921)

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

Delinquent Property Taxes	130,650	
Intergovernmental	<u>23,130</u>	153,780

In the statement of activities, certain costs and proceeds associated with long-term debt obligations issued during the year are accrued and amortized over the life of the debt obligation. In governmental funds these costs and proceeds are recognized as financing sources and uses.

Bond Issuance Costs	312,023	
Premium on Bonds Issued	<u>(1,445,204)</u>	(1,133,181)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 900,136

In the statement of activities interest expense is accrued when incurred, whereas in governmental funds an interest expenditure is reported when due. 22,985

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

Compensated Absences	(4,709)	
Amortization of Bond Issuance Cost	(6,294)	
Amortization of Bond Premium	<u>27,724</u>	16,721

Change in Net Assets of Governmental Activities (52,316,038)

See accompanying notes to the basic financial statements

London City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	Private Purpose Trust	Agency
Assets:		
Equity in Pooled Cash and Investments	\$16,966	\$52,888
Receivables:		
Accounts	<u>0</u>	<u>50</u>
Total Assets	<u>16,966</u>	<u>\$52,938</u>
Liabilities:		
Accounts Payable	0	697
Due to Other Governments	0	830
Due to Students	<u>0</u>	<u>51,411</u>
Total Liabilities	<u>0</u>	<u>\$52,938</u>
Net Assets:		
Held in Trust	<u>16,966</u>	
Total Net Assets	<u>\$16,966</u>	

See accompanying notes to the basic financial statements

London City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2006

	Private Purpose Trust
Additions:	
Investment Earnings	\$296
Total Additions	296
Deductions:	
Scholarships	296
Total Deductions	296
Change in Net Assets	0
Net Assets Beginning of Year	16,966
Net Assets End of Year	\$16,966

See accompanying notes to the basic financial statements

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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, 2005 was 2,044. The District employed 166 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 Academy - London 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 Academy operates on a fiscal year ending June 30. Separately issued financial statements can be obtained from London Academy, 60 South Walnut Street, London, Ohio 43140.

The District also participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan, an insurance purchasing pool, and with the Metropolitan Educational Council (MEC) 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 more significant of the District's accounting policies are described below.

Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Accounting

Fund Financial Statements

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

Fund Accounting

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

Governmental Funds

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

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

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

Fiduciary Funds

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

Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

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

Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: 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, 2006, but which were levied to finance fiscal year 2007 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.

Unearned Revenue

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

Expenditures/Expenses

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

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

Equity in Pooled Cash and Investments

During fiscal year 2006, investments were limited to money market funds, certificates of deposit and STAR Ohio. Except for nonparticipating investment contracts and nonnegotiable certificate of deposit, investments are reported at fair value which is based on quoted market prices. Non-participating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2006. 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, 2006.

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 2006 amounted to \$42,130; and other governmental funds, \$40,573.

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

Inventory

Inventories are presented at cost on a first in, first out basis and are 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.

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 thousand dollars (\$5,000). The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets, other than land 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

Compensated Absences

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

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

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. None of the District's net assets are restricted by enabling legislation.

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

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

Interfund Transactions

On the 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.

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, 2006, the following funds had a deficit fund balances, which were created by the application of accounting principles generally accepted in the United States of America. The General Fund is liable for any deficits in these funds and provides transfers when cash is required.

<u>Fund</u>	<u>Deficit</u>
General Fund	\$751,638
Special Revenue Funds:	
Other Grants	2,416
Miscellaneous State Grants	1,031
Adult Basic Education	18,446
Title I	50,914
IDEA Preschool	1,096
E-Rate	2,142
Improving Teacher Quality	8,236
Miscellaneous Federal Grants	346
Trust	8,462

4. EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2006, \$3,248,631 of the District's bank balance of \$3,348,631 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

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

Investments

As of June 30, 2006, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighed Average Maturity (Years)</u>
Money Market	\$496,101	0.00
State Treasury Pool (STAROhio)	<u>17,591</u>	<u>0.00</u>
Total Fair Value	<u>\$513,692</u>	
Portfolio Weighted Average Maturity		0.00

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

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

Concentration of credit risk – The District's investment policy allows investments in Federal Agencies or Instrumentalities. The District has invested more than 3% of the District's investments in STAROhio and 97% in Money Market Funds.

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

5. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes for 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, 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 2006 were levied after April 1, 2005, on the assessed values as of December 31, 2004, 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 2006 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes for 2006 were levied after April 1, 2005, on the value as of December 31, 2004. 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, 2006, are available to finance fiscal year 2006 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, 2006, 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 2006 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 2006 taxes were collected are:

	<u>2005 Second-Half Collections</u>		<u>2006 First-Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real Property –				
Commercial/Industrial	\$42,561,032	16%	\$48,692,470	16%
Real Property –				
Residential/Agriculture	180,884,386	68%	206,097,720	68%
Tangible Personal	31,920,774	12%	32,183,519	12%
Public Utility	<u>10,640,258</u>	4%	<u>9,812,780</u>	4%
Total Assessed Value	<u>\$266,006,450</u>		<u>\$296,786,480</u>	
Tax rate per \$1,000 of assessed value	\$45.30		\$45.30	

Income Tax

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

6. RECEIVABLES

Receivables at June 30, 2006, consisted of property taxes, accounts (tuition and student fees) and intergovernmental and interfund. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Adult Basic Education	\$4,968
Special Education	116,824
Title III	5,335
Title I	109,403
Title V	6,790
IDEA Preschool	16,620
Improving Teacher Quality	66,287
Miscellaneous Federal Grants	440
Food Service	<u>30,595</u>
Total Governmental Activities	<u>\$357,262</u>

7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Restated Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$884,550	\$0	\$0	\$884,550
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	50,148,542	5,520	0	50,154,062
Equipment	<u>2,332,154</u>	<u>34,931</u>	<u>0</u>	<u>2,367,085</u>
Totals at Historical Cost	53,365,246	40,451	0	53,405,697
Less Accumulated Depreciation:				
Buildings and Improvements	(6,378,274)	(1,598,863)	0	(7,977,137)
Equipment	<u>(1,106,047)</u>	<u>(236,509)</u>	<u>0</u>	<u>(1,342,556)</u>
Total Accumulated Depreciation	<u>(7,484,321)</u>	<u>(1,835,372)</u>	<u>0</u>	<u>(9,319,693)</u>
Governmental Activities Capital Assets, Net	<u>\$45,880,925</u>	<u>(\$1,794,921)</u>	<u>\$0</u>	<u>\$44,086,004</u>

Depreciation expense was charged as follows:

Instruction:	
Regular	\$1,518,195
Support Services:	
Pupil	195
Instructional Staff	91,089
School Administration	17,921
Operations and Maintenance	1,000
Pupil Transportation	68,701
Operation of Non-Instructional Services	13,121
Extracurricular Activities	125,150
Total Depreciation Expense	<u><u>\$1,835,372</u></u>

8. INTERFUND TRANSACTIONS

The District had the following interfund receivables/payables outstanding and transfers in/out at June 30, 2006:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	\$84,567	\$0	\$0	\$222,934
Debt Service Fund	0	0	2,447	0
Other Governmental Funds	<u>0</u>	<u>84,567</u>	<u>228,983</u>	<u>8,496</u>
Total All Funds	<u>\$84,567</u>	<u>\$84,567</u>	<u>\$231,430</u>	<u>\$231,430</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. Transfers from the Other Governmental Funds were to close out old student activity funds.

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. 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, 2006, 2005, and 2004 were \$338,076, \$319,932, and \$291,576, respectively; 51% has been contributed for fiscal year 2006 and 100% for fiscal year 2005 and 2004.

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

The District's required contributions for pension obligations for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,075,572, \$1,115,748, and \$1,062,576, respectively; 84% has been contributed for fiscal year 2006 and 100% for fiscal year 2005 and 2004.

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, 2006, 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, 2006, 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 \$76,827 for the fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 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, 2006, employer contributions to fund health care benefits were 3.43 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 2006, the minimum pay was established at \$27,400. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$82,829.

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, 2005, were \$178,221,113 and the target level was \$267.3 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of 267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

12. EMPLOYEE BENEFITS

Compensated Absences

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

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

The classified personnel accumulate vacation based on the following schedule:

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

Each employee earns sick leave at the rate of one and one-fourth days per month. Sick leave shall accumulate during active employment on a continuous year-to-year basis. Maximum sick leave accumulation for classified employees is 260 days and for certified employees it is 300 days.

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

Any employee receiving retirement severance pay shall be entitled to a dollar amount equivalent to one fourth of all accumulated sick leave credited to that employee up to 65 days for certified employees and 75 for classified employees.

Health Care Benefits

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

13. NOTES PAYABLE

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

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

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

The annual maturities of the tax anticipation notes as of June 30, 2006, and related interest payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Tax Anticipation Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$215,000	\$64,744	\$279,744
2008	230,000	51,950	281,950
2009	240,000	38,438	278,438
2010	255,000	24,207	279,207
2011	<u>270,000</u>	<u>8,438</u>	<u>278,438</u>
Totals	<u>\$1,210,000</u>	<u>\$187,777</u>	<u>\$1,397,777</u>

14. LONG-TERM OBLIGATIONS

A summary of changes in long-term obligations for the year ended June 30, 2006, are as follows:

	Interest Rate	Issue Date	Maturity Date	Beginning Balance	Issued	Retired	Ending Balance	Due In One Year
Governmental Activities:								
General Obligation Bonds:								
Bond and Refunding*	4.92%	10/16/01	12/1/29	\$28,530,000	\$0	\$16,645,000	\$11,885,000	\$930,000
London 2006 Refunding Series 2001								
Current Interest Bonds	3.5%-4.0%	10/16/01	12/1/22	0	7,160,000	0	7,160,000	150,000
London 2006 Refunding Series 2001								
Capital Appreciation Bonds	10.15%	10/16/01	12/1/14	0	999,955	0	999,955	0
London 2006 Refunding Series 2001								
Current Interest Bonds	3.0%-4.35%	10/16/01	12/1/29	0	6,875,000	145,000	6,730,000	110,000
London 2006 Refunding Series 2001								
Capital Appreciation Bonds	10.33%	10/16/01	12/1/15	0	909,909	0	909,909	0
Premium on 2006 Refunding Series 2001		10/16/01	6/30/23	0	752,094	0	752,094	44,241
Premium on 2006 Refunding Series 2001		10/16/01	6/30/30	0	693,110	27,724	665,386	27,724
Energy Conservation Note	5.05%	6/1/96	6/1/07	55,000	0	55,000	0	0
Total General Obligation Bonds				28,585,000	17,390,068	16,872,724	29,102,344	1,261,965
Compensated Absences				1,093,496	197,129	204,934	1,085,691	234,218
Total Governmental Activities								
Long-Term Liabilities				\$29,678,496	\$17,587,197	\$17,077,658	\$30,188,035	\$1,496,183

* \$15,944,864 of the \$16,645,000 retired represents advance refunding.

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, 2007.

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the general and special revenue funds.

Premiums on the issuance of bonds is included in the debt and will be amortized over the life of the new debt.

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

Fiscal Year Ending June 30	Current Interest Bonds			Current Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$1,190,000	\$1,040,802	\$2,230,802	\$0	\$0	\$0
2008	1,270,000	1,000,455	2,270,455	0	0	0
2009	1,385,000	954,244	2,339,244	0	0	0
2010	1,670,000	898,771	2,568,771	0	0	0
2011	1,815,000	833,056	2,648,056	0	0	0
2012-2016	6,905,000	2,437,786	9,342,786	4,940,000	0	4,940,000
2017-2021	4,835,000	1,722,085	6,557,085	0	0	0
2022-2026	3,400,000	1,067,384	4,467,384	0	0	0
2027-2031	3,305,000	292,413	3,597,413	0	0	0
Total	<u>\$25,775,000</u>	<u>\$10,246,996</u>	<u>\$36,021,996</u>	<u>\$4,940,000</u>	<u>\$0</u>	<u>\$4,940,000</u>

15. ADVANCE REFUNDING

On January 5, 2006, the District issued \$8,159,955 (not including premium of \$752,094) in General Obligation bonds with an average interest rate of 4.12% which was used to partially advance refund \$15,944,864 of outstanding bonds with an average interest rate of 4.92%. The net proceeds of \$8,757,380 (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide all future debt service payments on the bonds. As a result, \$8,159,955 of the bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Assets.

The District partially advance refunded the bonds to reduce its total debt service payments over the next 16 years by \$366,361 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$276,573.

In October 13, 2005, the District issued \$7,784,909 (not including premium of \$693,110) in General Obligation bonds with an average interest rate of 4.37% which was used to partially advance refund \$15,944,864 of outstanding bonds with an average interest rate of 4.92%. The net proceeds of \$8,320,665 (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide all future debt service payments on the bonds. As a result, \$7,784,909 of the bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Assets.

The District partially advance refunded the bonds to reduce its total debt service payments over the next 23 years by \$449,986 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$296,497.

16. SET-ASIDES

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

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2006.

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Reserve Balance as of June 30, 2005	\$117,780	(\$29,578,270)
Current Year Set-aside Requirement	296,494	296,494
Qualified Disbursements	<u>(393,757)</u>	<u>(231,965)</u>
Set-aside Reserve Balance as of June 30, 2006	<u>\$20,517</u>	<u>(\$29,513,741)</u>
Restricted Cash as of June 30, 2006	<u>\$20,517</u>	

17. JOINTLY GOVERNED ORGANIZATION

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

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

18. RELATED ORGANIZATION

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

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, 2006.

Litigation

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

20. LONDON ACADEMY

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

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

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 2006, the Academy had no investments. At fiscal year end, the carrying amount of the Academy's deposits was \$567,144. The bank balance was \$589,552.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Academy's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2006, \$489,552 of the Academy's bank balance of \$589,552 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Academy's name.

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

21. CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2006, the District has implemented GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries”; GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation” and GASB Statement No. 47, “Accounting for Termination Benefits”.

Statement No. 42 establishes accounting and financial standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 46 establishes that any amount of the primary government’s net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to all termination benefits without limitation as to the period of time during which the benefits are offered.

There was no effect on fund balance/net assets as a result of the implementation of these new standards.

22. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was required to restate capital assets at June 30, 2005 due to an increase in the capitalization threshold to \$5,000 and an appraisal of the capital assets detail. Fund balances at June 30, 2005 were adjusted due to accounting errors in the General and Other Governmental Funds. This restatement had the following effect on net asset and fund balances at June 30, 2005:

	Governmental <u>Activities</u>	General <u>Fund</u>	Other <u>Governmental</u>
Net assets/Fund balances as previously reported, June 30, 2005	\$8,996,515	(\$112,609)	\$811,293
Restatement for capital assets	9,345,037	0	0
Accounting errors	<u>0</u>	<u>5,526</u>	<u>(5,526)</u>
Net assets/Fund balances restated, June 30, 2005	<u>\$18,341,552</u>	<u>(\$107,083)</u>	<u>\$805,767</u>

**REQUIRED
SUPPLEMENTARY
INFORMATION**

London City School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2006

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$6,415,093	\$6,619,922	\$6,542,535	(\$77,387)
Revenue in lieu of taxes	459,761	474,441	468,895	(5,546)
Tuition and Fees	375,300	387,283	382,756	(4,527)
Investment Earnings	41,309	42,628	42,130	(498)
Intergovernmental	7,916,534	8,169,304	8,073,804	(95,500)
Extracurricular Activities	33,690	34,765	34,359	(406)
Charges for Services	49,026	50,591	50,000	(591)
Other Revenues	600,302	619,470	612,228	(7,242)
Total Revenues	15,891,015	16,398,404	16,206,707	(191,697)
Expenditures:				
Current:				
Instruction:				
Regular	8,349,982	8,656,325	8,567,445	88,880
Special	1,423,964	1,476,206	1,461,049	15,157
Vocational	257,291	266,731	263,992	2,739
Support Services:				
Pupil	392,220	406,610	402,435	4,175
Instructional Staff	539,874	559,681	553,934	5,747
General Administration	97,339	100,910	99,874	1,036
School Administration	1,625,593	1,685,232	1,667,929	17,303
Fiscal	436,998	453,031	448,379	4,652
Operations and Maintenance	1,606,305	1,665,237	1,648,139	17,098
Pupil Transportation	703,422	729,229	721,742	7,487
Central	175,948	182,403	180,530	1,873
Operation of Non-Instructional Services	5,919	6,136	6,073	63
Extracurricular Activities	418,383	433,732	429,279	4,453
Debt Service:				
Interest and Fiscal Charges	78,150	81,017	80,185	832
Total Expenditures	16,111,388	16,702,480	16,530,985	171,495
Excess of Revenues Over (Under) Expenditures	(220,373)	(304,076)	(324,278)	(20,202)
Other financing sources (uses):				
Proceeds from Sale of Assets	1,230	1,269	1,254	(15)
Advances (Out)	(17,701)	(18,350)	(18,162)	188
Transfers In	11,339	11,701	11,564	(137)
Transfers (Out)	(227,800)	(236,158)	(233,733)	2,425
Total Other Financing Sources (Uses)	(232,932)	(241,538)	(239,077)	2,461
Net Change in Fund Balance	(453,305)	(545,614)	(563,355)	(17,741)
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	784,407	784,407	784,407	0
Fund Balance End of Year	\$331,102	\$238,793	\$221,052	(\$17,741)

See accompanying notes to the required supplementary information.

LONDON CITY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2006

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 2006.

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

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

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

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

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	(\$644,555)
Net Adjustment for Revenue Accruals	(649,315)
Net Adjustment for Expenditure Accruals	824,193
Encumbrances	<u>(93,678)</u>
Budget Basis	<u>(\$563,355)</u>

London City School District
Madison County
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2006

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>						
<i>Nutrition Cluster:</i>						
National School Breakfast Program	O5PU	10.553	\$ 42,666	\$ -	\$ 42,666	\$ -
National School Lunch Program	LLP4	10.555	191,836	-	191,836	-
Total Nutrition Cluster			234,502	-	234,502	-
Food Distribution Program	NA	10.550	-	39,656	-	39,656
Total United States Department of Agriculture			234,502	39,656	234,502	39,656
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
Adult Education - Basic Grants to States	ABS1	84.002	82,525	-	82,525	-
Title 1 Grants to Local Education Agencies	C1S1	84.010	350,839	-	350,839	-
<i>Special Education Cluster</i>						
Special Education - Grants to States	6BSF	84.027	434,982	-	434,982	-
Special Education - Preschool Grants	PGS1	84.173	11,092	-	11,092	-
Total Special Education Cluster			446,074	-	446,074	-
Safe and Drug-Free Schools and Communities - State Grants	DRS1	84.186	35,662	-	35,662	-
State Grants for Innovative Programs	C2S1	84.298	8,541	-	7,390	-
Education Technology State Grants	TJS1	84.318	11,543	-	11,543	-
Comprehensive School Reform Demonstration	RFCC	84.332	51,399	-	45,234	-
English Language Acquisition Grants	T3S1	84.365	22,782	-	22,782	-
Improving Teacher Quality State Grants	TRS1	84.367	116,115	-	105,645	-
Total United States Department of Education			1,125,480	-	1,107,694	-
Total Federal Financial Assistance			\$ 1,359,982	\$ 39,656	\$ 1,342,196	\$ 39,656

NA - Not Available

See accompanying notes to the schedule of federal awards expenditures

LONDON CITY SCHOOL DISTRICT
MADISON COUNTY
NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – CHILD NUTRITION CLUSTER

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

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

BALESTRA, HARR & SCHERER CPAs, INC.

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Ohio Society of Certified Public Accountants

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*

Members of the Board
London City School District
60 South Walnut Street
London, Ohio 43140-1246

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the London City School District (the District), Madison County, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 31, 2006, wherein we indicated the District implemented GASB Statements No. 42, 46, and 47. 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. Our consideration of the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

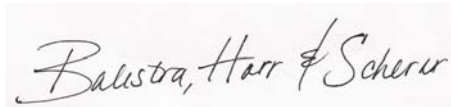
Compliance and Other Matters

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, contract 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 the management of the District in a separate letter dated December 22, 2006.

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

This report is intended solely for the information and use of the audit committee, 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.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

December 22, 2006

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

Members of the Board
London City School District
60 South Walnut Street
London, Ohio 43140-1246

Compliance

We have audited the compliance of London City School District (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 each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are 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 each of its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance 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.

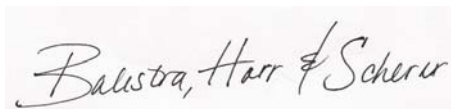
In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

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 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, regulations, 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 the audit committee, 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.

December 22, 2006

LONDON CITY SCHOOL DISTRICT
MADISON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 Section .505
JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under .510?	No
<i>(d)(1)(vii)</i>	Major Program (list):	Special Education Cluster CFDA # 84.027 & 84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 Section .505
JUNE 30, 2006
(Continued)**

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**LONDON CITY SCHOOL DISTRICT
MADISON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315 (b)
FOR THE YEAR ENDED JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2005-001	Reportable Condition: The District failed to update its capital asset records.	Yes	



Mary Taylor, CPA
Auditor of State

LONDON CITY SCHOOL DISTRICT

MADISON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 22, 2007**