

London Academy

Madison County

Regular Audit

July 1, 2005 through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

**BALESTRA, HARR & SCHERER, CPAs, INC.**  
528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

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Mary Taylor, CPA  
Auditor of State

Board of Directors  
London Academy  
60 South Walnut Street  
London, Ohio 43140

We have reviewed the *Independent Auditor's Report* of the London Academy, Madison County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 through 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 Academy is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

February 13, 2007

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London Academy  
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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 Academy  
60 South London St  
London, Ohio 43104

We have audited the accompanying financial statements of the business-type activities of the London Academy, Madison County, Ohio, (the Academy), a component unit of the London City School District, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the London Academy, Madison County, Ohio, as of June 30, 2006, and the respective changes in financial position and cash flows, 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 Academy'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 6 is not a required part of the basic financial statements but is 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.

As described in Note 14, the Academy implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting & Financial Reporting for Impairment of Capital Assets*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.

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

**LONDON ACADEMY  
MADISON COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Unaudited)**

The discussion and analysis of the financial performance of the London Academy, provides an overview of the Academy's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and the basic financial statements to enhance their understanding of the Academy's performance.

- Net assets increased \$136,637.
- Operating revenues accounted for \$862,475 in revenue.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements. These statements are organized so the reader can understand the financial position of the London Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of net assets represents the basic statement of position for the Academy. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

**Reporting the Academy as a Whole**

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2006?" The statement of net assets and the statement of revenues, expenses, and change in net assets answer 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 considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**Financial Analysis**

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.



The following tables represent the Academy's condensed financial information derived from the statement of net assets and the statement of revenues, expenses, and changes in net assets.

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

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Current Assets	\$618,574	\$299,547
Capital Assets	<u>54,104</u>	<u>3,857</u>
Total Assets	<u>672,678</u>	<u>303,404</u>
<b>Liabilities</b>		
Current Liabilities	<u>427,392</u>	<u>194,755</u>
<b>Net Assets</b>		
Invested in Capital		
Assets Net of Debt	54,104	3,857
Restricted	0	6,888
Unrestricted	<u>191,182</u>	<u>97,904</u>
Total Net Assets	<u><u>\$245,286</u></u>	<u><u>\$108,649</u></u>

Current Assets increased mainly due to an increase in equity in pooled cash and investments which was caused by an increase in enrollment to 108 students in 2006 compared to 47 students in 2005. Capital Assets increased in 2006 compared to 2005 due to an increase in capital asset additions of \$64,416. Current Liabilities increased in 2006 compared to 2005 mainly due to an increase in money owed to London City School District for personnel services provided by the District.

An analysis of operating activities in 2006 demonstrates payments for operating activities exceeding receipts. The revenue provided by noncapital financing activities covers the decrease in operating activities.

Purchased services, made up of mainly professional and technical services, comprise nearly 100 percent of operating expenses. The dependence upon state foundation revenues for operating activities is apparent. Foundation payments represented the majority of the operating revenue of the Academy.

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

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Foundation Payments	\$857,489	\$387,084
Other Revenue	<u>4,986</u>	<u>0</u>
Total Operating Revenues	862,475	387,084
Operating Expenses:		
Purchased Services	930,207	424,273
Depreciation	<u>14,169</u>	<u>1,285</u>
Total Operating Expenses	<u>944,376</u>	<u>425,558</u>
Operating Loss	(81,901)	(38,474)
Non-Operating Revenues:		
Investment Earnings	4,723	2,080
State and Federal Grants	<u>213,815</u>	<u>103,000</u>
Total Non-Operating Revenues	218,538	105,080
Change in Net Assets	136,637	66,606
Net Assets Beginning of Year	<u>108,649</u>	<u>42,043</u>
Net Assets Ending of Year	<u><u>\$245,286</u></u>	<u><u>\$108,649</u></u>

This is the fourth year of operation for the Academy. Foundation payments and purchased services increased from the prior year due to an increase in enrollment of 108 students in 2006 compared to 47 students in 2005. Federal grants increased mainly due to the last portion of the Community School grant of \$150,000 received in 2006. Deprecation expense increased due to capital asset additions of \$64,416 in 2006.

### **Budget**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy. The Academy has developed a five-year projection that is reviewed periodically by the Board of Directors. Fiscal year 2006 revenues and expenses varied significantly from corresponding projections included on the five-year projection. The main cause of the revenue increase variation was due to increased enrollment. The main cause of the expense decrease variation was due to decreased actual purchases of supplies, materials, and capital outlay.

## Capital Assets and Debt Administration

### *Capital Assets*

At the end of fiscal year 2006, the Academy had \$54,104 invested in furniture and equipment. Table 3 shows 2006 Capital Asset balances compared to 2005.

	<u>2006</u>	<u>2005</u>
Furniture and Equipment	<u>\$54,104</u>	<u>\$3,857</u>

The increase in capital assets from the prior year is due to the current fiscal year additions exceeding depreciation expense.

See Note 5 to the basic financial statements for further details on the Academy's capital assets.

### *Debt*

At June 30, 2006, the Academy had no debt.

### **Other Information**

Management is currently unaware of any known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

### **Contacting the Academy's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact Mr. Brad McKee, Treasurer of London City Schools, 60 South Walnut Street, London, Ohio 43140.

London Academy  
Statement of Net Assets  
June 30, 2006

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	<u>London Academy</u>
Assets:	
Equity in Pooled Cash and Investments	\$567,144
Receivables:	
Intergovernmental	<u>51,430</u>
Total Current Assets	<u>618,574</u>
Depreciable Capital Assets, Net	<u>54,104</u>
Total Assets	<u>672,678</u>
Liabilities:	
Current Liabilities:	
Intergovernmental Payable	425,681
Deferred Revenue	<u>1,711</u>
Total Current Liabilities	<u>427,392</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	54,104
Unrestricted	<u>191,182</u>
Total Net Assets	<u>\$245,286</u>

See accompanying notes to the basic financial statements

London Academy  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
For the Fiscal Year Ended June 30, 2006

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	London Academy
Operating Revenues:	
Foundation Payments	\$857,489
Other Revenues	4,986
	<hr/>
Total Operating Revenues	862,475
	<hr/>
Operating Expenses:	
Purchased Services	930,207
Depreciation	14,169
	<hr/>
Total Operating Expenses	944,376
	<hr/>
Operating Income (Loss)	(81,901)
	<hr/>
Non-Operating Revenues (Expenses):	
Investment Earnings	4,723
Federal Grants	208,815
State Grants	5,000
	<hr/>
Total Non-Operating Revenues (Expenses)	218,538
	<hr/>
Change in Net Assets	136,637
	<hr/>
Net Assets Beginning of Year	108,649
	<hr/>
Net Assets End of Year	\$245,286
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See accompanying notes to the basic financial statements

London Academy  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2006

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	London Academy
Cash Flows from Operating Activities:	
Cash Received from School Foundation	\$862,475
Cash Payments to Suppliers	<u>(699,281)</u>
Net Cash Provided (Used) by Operating Activities	<u>163,194</u>
Cash Flows from Noncapital Financing Activities:	
Non-Operating Grants Received	<u>164,096</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>164,096</u>
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	<u>(64,416)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(64,416)</u>
Cash Flows from Investing Activities:	
Earnings on Investments	<u>4,723</u>
Net Cash Provided (Used) by Cash Flows from Investing Activities	<u>4,723</u>
Net Increase (Decrease) in Cash and Cash Equivalents	267,597
Cash and Cash Equivalents Beginning of Year	<u>299,547</u>
Cash and Cash Equivalents End of Year	<u><u>567,144</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	(81,901)
Adjustments:	
Depreciation	14,169
Changes in Assets & Liabilities:	
Increase (Decrease) in Payables	<u>230,926</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$163,194</u></u>

See accompanying notes to the basic financial statements

**LONDON ACADEMY  
MADISON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

London Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status. The Academy's objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. It is to be operated in cooperation with the public schools 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 which are not available locally, and others, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. The Academy, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was approved for operation under a contract with the London City School District (the Sponsor). The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration.

The Academy operates under the direction of a six-member (five voting members) Board of Directors made up of:

- (a) Three persons employed and serving in administrator positions within the London City School District, which positions have been identified by the London City School District Board of Education. Each of the foregoing administrators serves on the Board of Directors in his/her official capacity as a representative of the London City School District Board of Education and its interests.
- (b) One person who is neither an officer nor employee of the London City School District who shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy. Such person has been elected by the London City School District Board of Education.

- (c) One person who is neither an officer nor employee of the London City School District who is a representative initially appointed by the Tri-Rivers Educational Computer Association (TRECA), and who serves on the Board in his official capacity as a representative of TRECA and TRECA's interests. However, the TRECA representative shall within one year following the incorporation of the Academy, be replaced by a person appointed to represent the interests of parents and students served by the conversion school to be operated by the Academy. Such person shall be elected by the London City School District Board of Education.
- (d) The Academy's Treasurer as a non-voting ex officio member who is also the London City School District Treasurer and serves the Board of Directors in his official capacity as a representative of the London City School District Board of Education and its interests.

Therefore, the Academy is a component unit of the London City School District. Additionally, the Academy entered into a contract with Tri-Rivers Educational Computer Association (TRECA) for management consulting services (See Note 9).

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### **A. Enterprise Accounting**

The Academy uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

### **B. Measurement Focus and Basis of Accounting**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. Operating statements present increases and decreases in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when earned and expenses are recognized when they are incurred.



### **C. Budgetary Process**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five year projection, which is to be updated annually.

### **D. 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 are 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.

### **E. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program. Foundation payments are recognized as operating revenues in the accounting period in which they are earned and become measurable.

Grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

### **F. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy reported restricted net assets at fiscal year end for state and federal grant cash balances. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first, then unrestricted resources as they are needed.

### **G. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as nonoperating.

## **H. Estimates**

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

### **NOTE 3 – 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 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.

### **NOTE 4 – PAYABLE**

Payables at June 30, 2006, consisted of intergovernmental payables in the amount of \$425,681. \$2,678 was due as an overpayment of foundation monies by the Ohio Department of Education and \$423,003 was due to London City School District for payment for personnel services provided by London City School District to the Academy. All intergovernmental payables are considered payable in full.

### **NOTE 5 – CAPITAL ASSETS**

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 Academy maintains a capitalization threshold of five hundred dollars. The Academy 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.

The Academy's only capital asset class is furniture and equipment and is depreciated using the straightline method over a useful life of 5 years.

A summary of capital assets at June 30, 2006 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Furniture and Equipment	\$6,427	\$64,416	\$0	\$70,843
Less Accumulated Depreciation:				
Furniture and Equipment	<u>(2,570)</u>	<u>(14,169)</u>	<u>0</u>	<u>(16,739)</u>
Governmental Activities Capital Assets, Net	<u>\$3,857</u>	<u>\$50,247</u>	<u>\$0</u>	<u>\$54,104</u>

## **NOTE 6 – RISK MANAGEMENT**

### **PROPERTY AND LIABILITY**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries and natural disasters. For fiscal year 2006, the Academy contracted with an insurance provider to provide insurance in the following coverage:

Commercial general liability: \$2,000,000 general aggregate limit with a \$1,000,000 single occurrence limit. The Academy maintains replacement cost insurance on business personal property in the amount of \$5,000. Settled claims have not exceeded this commercial coverage since the Academy's inception. There has been no reduction in coverage from the prior year.

## **NOTE 7 – FISCAL AGENT AND PAYMENTS TO SPONSOR**

The sponsorship agreement states that the Treasurer of the London City School District shall serve as the Chief Financial Officer (Treasurer) of the Academy.

The Treasurer of London City School District shall perform the following functions while serving as the Treasurer of the Academy:

- A. Maintain the financial records of the Academy in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;
- B. Comply with the policies and procedures regarding internal financial control of the Academy;
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

The Academy shall pay to Sponsor such other amounts as are mutually agreed, including fees for any services provided to the Academy by the Sponsor.

## **NOTE 8 - RELATED PARTY TRANSACTION**

The Academy is a component unit of the London City School District. The Academy and the Sponsor entered into a 5-year sponsorship agreement on July 15, 2002 whereby terms of the sponsorship were established. Pursuant to this agreement, the Sponsor's treasurer serves as the Academy's fiscal officer.

Also, the Academy is required annually to pay to the Sponsor, from funding provided to the Academy by the Ohio Department of Education pursuant to Section 3314.03(C) of the Ohio Revised Code, such amounts as are mutually agreed, including fees for any services to the Academy by the Sponsor.

In fiscal year 2006, the Academy paid \$423,003 to London City School District. This represents payment for personnel services provided by London City Schools to the Academy.

In fiscal year 2006, one representative from TRECA serves as a member of the Academy's Board of Directors. Payments made by the Academy to TRECA in fiscal year 2006 totaled \$12,190.

## **NOTE 9 - MANAGEMENT CONSULTING CONTRACT**

The Academy entered into a contract with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract, the following terms were agreed upon:

1. TRECA shall provide instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan and the Academy's assessment and accountability plan.
2. All personnel providing services to the Academy on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
3. The technical services provided by TRECA to the Academy shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
4. In exchange for the services and support (including equipment) provided by TRECA, the Academy paid TRECA a fee.
5. The Academy shall pay to TRECA \$3,500 per full-time high school student and \$2,500 per fulltime K – 8 students enrolled in the Academy per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.

## **NOTE 10 – CONTINGENCIES**

### **A. Grants**

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2006.

### **B. Litigation**

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18th, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public education system and this matter was sent to the Ohio Supreme Court. On February 16, 2005, the Ohio Supreme Court accepted the appeal from the Court of Appeals with oral argument on November 29, 2005. The effect of this suit, if any, on the Academy is not presently determinable.

## **NOTE 11 – PURCHASED SERVICES**

For the period July 1, 2005 through June 30, 2006, purchased services expenses were payments for professional and technical services in the amount of \$507,204.

Purchased services also included payments for personnel services provided by London City Schools to the Academy in the amount of \$423,003. This entire amount was shown as an intergovernmental payable at June 30, 2006.

## **NOTE 12 – OHIO DEPARTMENT OF EDUCATION ENROLLMENT REVIEW**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. The fiscal year 2006 review resulted in the discovery of an overpayment to the Academy in the amount of \$2,678. This amount has been reflected as a payable and was repaid to Academy in February 2007.

### **NOTE 13 – TAX EXEMPT STATUS**

The Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's nonprofit status. The Academy is an approved tax exempt organization under § 501(c)(3) of the Internal Revenue Code.

### **NOTE 14 – CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended June 30, 2006, the Academy has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets 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 net assets as a result of the implementation of these new standards.

# 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 Academy  
60 South London St  
London, Ohio 43104

We have audited the accompanying financial statements of the business-type activities of the London Academy, Madison County, Ohio, (the Academy), as of and for the year ended June 30, 2006, and have issued our report thereon dated December 22, 2006, wherein we indicated the Academy 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 Academy'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 Academy's 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 Academy in a separate letter dated December 22, 2006.


Members of the Board

London Academy

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*

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This report is intended solely for the information and use of the management and board of Directors 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





Mary Taylor, CPA  
Auditor of State

LONDON ACADEMY

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 27, 2007