

Village of New London

Financial Condition

As of

December 31, 2004 and 2005

Together with Auditor's Report



Mary Taylor, CPA

Auditor of State

Village Council
Village of New London
115 E. Main Street
New London, Ohio 44851

We have reviewed the *Independent Auditor's Report* of the Village of New London, Huron County, prepared by Kevin L. Penn, Inc., for the audit period January 1, 2004 through December 31, 2005. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 Village of New London is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 1, 2007

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VILLAGE OF NEW LONDON

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Independent Auditor's Report

Village of New London
Huron County
115 East Main Street
New London, Ohio 44851-1201

I have audited the accompanying financial statements of the Village of New London (the Village), as of and for the year ended December 31, 2004 and 2005. These financial statements are the responsibility of the Village's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America. Although I cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, I presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004 and 2005. Instead of the combined funds the accompanying financial statements present for 2004 and 2005, the revision requires presenting entity wide statements and also to present larger (i.e. major) funds separately for 2004 and 2005. While the Village does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since the Village does not use GAAP to measure its financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. My opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In my opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2004 and 2005, or its changes in financial position for the year then ended.

Also, in my opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Village of New London, Huron County, Ohio, as of December 31, 2004 and 2005 and its combined cash receipts and disbursements and reserves for encumbrances for the year then ended on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2004 and 2005. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted In the United States of America has determined is necessary to supplement, although not required to be part of the financial statements.

In accordance with Government Auditing Standards, I have also issued my report dated October 18, 2006, on my consideration of the Village's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal controls over financial reporting and compliance and the results of testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards. You should read it in conjunction with this report in assessing the results of my audit.

Kevin L. Penn, Inc.

October 18, 2006

Village of New London
Huron County
Combined Statement of Cash Receipts,
Disbursements
and Changes in Fund Cash Balances
All Governmental and Fiduciary Fund Types
For the Year Ended December 31, 2004

	Governmental Fund Types			Fiduciary	Totals	
	General	Special Revenue	Debt Service	Capital Projects	Fund Expendable Trust	(Memorandum Only)
Cash Receipts:						
Property Tax and Other Local Taxes	\$ 76,056	\$ 336,543	\$ -	\$ -	\$ -	\$ 412,599
Intergovernmental Receipts	172,791	105,825				278,616
Charges for Services	5,732	12,685		51,072	400	69,889
Fines, Licenses, and Penalties	30,291	698				30,989
Earnings on Investments	17,155	692		1,138	40	19,025
Office Lease	16,500					16,500
Other Revenue	67,896	959		6,374		75,229
Total Cash Receipts	386,421	457,402	-	58,584	440	902,847
Cash Disbursements:						
Current:						
Security of Persons and Property	358,618	9,582				368,200
Public Health Services	3,020	14,918				17,938
Community Environment	2,650					2,650
Transportation		74,461				74,461
General Government	239,561	45,755				285,316
Debt Service:						
Principal Payments			30,000	8,872		38,872
Interest Payments			2,010	3,075		5,085
Capital Outlay		25,685		66,006		91,691
Total Cash Disbursements	603,849	170,401	32,010	77,953	-	884,213
Total Receipts Over/(Under) Disbursements	(217,428)	287,001	(32,010)	(19,369)	440	18,634
Other Financing Receipts/(Disbursements)						
Transfers-In	267,584	39,232	57,010	30,119	316	394,261
Transfers-Out	(106,265)	(292,504)				(398,769)
Other Financing Sources	750					750
Other Financing Uses			(25,000)			(25,000)
Total Other Financing Receipts/(Disbursements)	162,069	(253,272)	32,010	30,119	316	(28,758)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(55,359)	33,729	-	10,750	756	(10,124)
Fund Cash Balance - January 1, 2004	498,158	151,173		125,855	33,814	809,000
Fund Cash Balance - December 31, 2004	\$ 442,799	\$ 184,902	\$ -	\$ 136,605	\$ 34,570	\$ 798,876
Reserves for Encumbrances, December 31, 2004	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

The notes to the financial statements are an integral part of this statement.

Village of New London
Huron County
Combined Statement of Cash Receipts, Disbursements
and Changes in Fund Cash Balances - Enterprise Funds
For the Year Ended December 31, 2004

Operating Cash Receipts	
Charges for Services	\$ 1,515,171
Other Revenue	84,443
Total Operating Cash Receipts	<u>1,599,614</u>
Operating Cash Disbursements:	
Personal Services	649,805
Contractual Services	266,833
Supplies and Materials	143,221
Capital Outlay	24,711
Total Operating Cash Disbursements	<u>1,084,570</u>
Operating Income	<u>515,044</u>
Non-Operating Cash Receipts	
Intergovernmental Receipts	
Other Non-Operating Cash Receipts	
Total Non-Operating Cash Receipts	<u>-</u>
Non-Operating Cash Disbursements	
Debt Service - Principal	199,482
Debt Service - Interest and Fiscal Charges	266,845
Other Non-Operating Cash Disbursements	
Total Non-Operating Cash Disbursements	<u>466,327</u>
Excess of Receipts Under Disbursements	
Before Interfund Transfers and Advances	48,717
Transfers-In	9,254
Transfers-Out	(4,746)
Net Disbursements Over Receipts	<u>53,225</u>
Fund Cash Balance - January 1, 2004	726,919
Fund Cash Balance - December 31, 2004	<u>\$ 780,144</u>
Reserves for Encumbrances, December 31, 2004	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

Village of New London
Huron County
Combined Statement of Cash Receipts, Disbursements
and Changes in Fund Cash Balances
All Governmental and Fiduciary Fund Types
For the Year Ended December 31, 2005

	Governmental Fund Types			Fiduciary	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Fund Expendable Trust	
Cash Receipts:					
Property Tax and Other Local Taxes	\$ 70,445	\$ 446,620	\$ -	\$ -	\$ 517,065
Intergovernmental Receipts	182,308	181,737	43,038		407,083
Charges for Services	20,928	12,920	29,187	380	63,415
Fines, Licenses, and Penalties	35,474	2,274			37,748
Earnings on Investments	47,796		122		47,918
Office Lease	18,000				18,000
Other Revenue		21,249	240,354		261,603
Total Cash Receipts	374,951	664,800	312,701	380	1,352,832
Cash Disbursements:					
Current:					
Security of Persons and Property	338,107	36,469	200		374,776
Public Health Services	2,009	18,551			20,560
Community Environment					-
Transportation	3,351	125,360			128,711
General Government	227,262	81,588			308,850
Debt Service:					
Principal Payments			9,330		9,330
Interest Payments			2,617		2,617
Capital Outlay	159,903	23,127	308,951		491,981
Total Cash Disbursements	730,632	285,095	321,098	-	1,336,825
Total Receipts Over/(Under) Disbursements	(355,681)	379,705	(8,397)	380	16,007
Other Financing Receipts/(Disbursements)					
Transfers-In	367,942	42,025	40,911	611	451,489
Transfers-Out	(57,544)	(398,726)			(456,270)
Other Financing Sources					-
Other Financing Uses					-
Total Other Financing Receipts/(Disbursements)	310,398	(356,701)	40,911	611	(4,781)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements					
	(45,283)	23,004	32,514	991	11,226
Fund Cash Balance - January 1, 2005	442,799	184,902	136,605	34,570	798,876
Fund Cash Balance - December 31, 2005	\$ 397,516	\$ 207,906	\$ 169,119	\$ 35,561	\$ 810,102
Reserves for Encumbrances, December 31, 2005	\$ -	\$ -	\$ -	\$ -	\$ -

The notes to the financial statements are an integral part of this statement.

Village of New London
Huron County
Combined Statement of Cash Receipts, Disbursements
and Changes in Fund Cash Balances - Enterprise
Funds
For the Year Ended December 31, 2005

Operating Cash Receipts	
Charges for Services	\$ 1,572,603
Other Revenue	104,846
Total Operating Cash Receipts	<u>1,677,449</u>
Operating Cash Disbursements:	
Personal Services	646,069
Contractual Services	282,364
Supplies and Materials	183,427
Capital Outlay	42,474
Total Operating Cash Disbursements	<u>1,154,334</u>
Operating Income	<u>523,115</u>
Non-Operating Cash Receipts	
Intergovernmental Receipts	<u>2,609</u>
Total Non-Operating Cash Receipts	<u>2,609</u>
Non-Operating Cash Disbursements	
Debt Service - Principal	265,132
Debt Service - Interest and Fiscal Charges	248,468
Other Non-Operating Cash Disbursements	
Total Non-Operating Cash Disbursements	<u>513,600</u>
Excess of Receipts Under Disbursements	
Before Interfund Transfers and Advances	12,124
Transfers-In	78,748
Transfers-Out	(73,967)
Net Disbursements Over Receipts	<u>16,905</u>
Fund Cash Balance - January 1, 2005	<u>780,144</u>
Fund Cash Balance - December 31, 2005	<u>\$ 797,049</u>
Reserves for Encumbrances, December 31, 2005	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF NEW LONDON
HURON COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of New London, Huron County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides water, sewer, and sanitation utilities, park operations, and police and fire services. The Village appropriates general fund money to support a volunteer fire department.

The Village's management believes these financial statements present all activities for which the Village is financially accountable, except debt service funds maintained by outside custodians are not included in these financial statements. Assets held by custodians are described in Note 9 to the financial statements.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Money market mutual funds (including STAR Ohio) are recorded at share values reported by the mutual fund.

**VILLAGE OF NEW LONDON
HURON COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance, and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

Income Tax Fund - This fund receives revenues from the Village income tax and is used to account for expenditures associated with the income tax department. Funds remaining are transferred to the General Fund and Capital Improvement Fund based upon the determination of Village Council.

3. Debt Service Fund

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village had the following significant debt service fund:

Building Bond Fund - This fund is used to accumulate resources for the payment of debt associated with the acquisition of the municipal building.

**VILLAGE OF NEW LONDON
HURON COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)

4. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise funds). The Village had the following significant capital project funds:

Capital Improvement Fund - This fund receives revenues allocated from the Income Tax Fund used for capital purchases.

Fire Fighting Facilities Fund - This fund receives revenues from fire protection contracts. Funds are used for fire equipment purchases and facility maintenance.

5. Enterprise Funds

These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sanitation Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Parks Department Fund - This fund receives monies from charges associated with the parks for rentals, camping, softball, the Firelands Festival, boat permits, and concessions. Revenues are used for the operation of recreational programs and maintenance of facilities.

**VILLAGE OF NEW LONDON
HURON COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)

6. Fiduciary Funds (Trust Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. The Village had the following significant fiduciary funds:

Cemetery Endowment Fund - This fund receives monies for the upkeep of specified cemetery buildings and lots.

Cemetery Trust Fund - This fund receives a twenty dollar charge on the sale of each cemetery lot for the upkeep of graves and buildings at the cemetery.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Village must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Village must also approve estimated resources.

**VILLAGE OF NEW LONDON
HURON COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. DEPOSITS AND INVESTMENTS

Legal Requirements. Monies held by the Village are classified by State statute into two categories. Active monies means an amount of public monies determined to be necessary to meet current demands upon the Village treasury. Active monies must be maintained either as cash in the Village treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Monies held by the Village which are not considered active are classified as inactive. Inactive monies may be deposited or invested 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 any other obligations or securities issued by any federal government agency or instrumentality;
3. Written repurchase and reverse repurchase agreements in the securities listed above;
4. Bond and other obligations of the State of Ohio, its political subdivision, or other units or agencies of this State or its political subdivisions;

**VILLAGE OF NEW LONDON
HURON COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)

2. DEPOSITS AND INVESTMENTS (continued)

5. Time certificates of deposit or savings or deposit accounts, including but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio).

Protection of the Village'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 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. At year-end, the carrying amount of the Village's deposits was \$768,677 for 2005 and \$601,093 for 2004 and the bank balance was \$822,619 for 2005 and \$621,827 for 2004. Of the bank balance, \$200,000 was covered by federal depository insurance for 2005 and 2004, and \$622,619 for 2005 and \$421,827 for 2004 was covered by collateral held by third party trustees pursuant to Section 135.181, Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions.

Investments. Statutory provisions require that the Village hold all securities acquired by the Village or deposit them with a qualified trustee pursuant to Section 135.18, Revised Code. Securities acquired under a repurchase agreement must be deposited with such a trustee unless the counterparty is a designated depository of the Village for the current period of designation of depositories, in which case the securities may be held in trust by the depository. At the end of each day, the Village withdraws surplus funds from the account and invests the monies in an overnight repurchase agreement. The Village does not purchase any specific security in this manner, but the investment is collateralized by pledged securities held by a third party in the name of the bank.

The Village has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio), during 2005 and 2004. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes.

**VILLAGE OF NEW LONDON
HURON COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)

2. DEPOSITS AND INVESTMENTS (continued)

STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2005 and 2004. At year end, the carrying amount of the Village's deposits with Star Ohio was \$838,474 for 2005 and \$977,927 for 2004 and the market value was \$835,615 for 2005 and \$977,927 for 2004.

GASB Statement 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that local governments disclose the carrying amounts and market value of investments, classified by risk. Category 1 includes investments that are insured or registered, or securities held by the Village or its agent in Village name. Category 2 includes uninsured and unregistered, with securities held by the counter-party trust department or agent in the Village. Category 3 includes uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Village. STAR Ohio is unclassified investments since they are not evidenced by securities that exist in physical or book entry form. Since STAR Ohio is the only investments, the categories described above do not apply.

3. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village. Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

**VILLAGE OF NEW LONDON
HURON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2004 Budgeted vs. Actual Receipts

Fund Type:	Budgeted Receipts	Actual Receipts	Variance
General	\$ 662,429	\$ 654,754	\$ (7,675)
Special Revenue	602,804	496,634	(106,170)
Debt Service	32,010	57,010	25,000
Capital Projects	72,301	88,703	16,402
Expendable Trust	790	756	(34)
Enterprise	1,608,229	1,608,868	639
Total	<u>\$ 2,978,563</u>	<u>\$ 2,906,725</u>	<u>\$ (71,838)</u>

2004 Budgeted vs Actual Budgetary Basis Expenditures

Fund Type:	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 742,731	\$ 710,113	\$ 32,618
Special Revenue	618,727	462,905	155,822
Debt Service	32,010	57,010	(25,000)
Capital Projects	185,463	77,953	107,510
Expendable Trust	32,395	-	32,395
Enterprise	1,753,913	1,555,643	198,270
Total	<u>\$ 3,365,239</u>	<u>\$ 2,863,624</u>	<u>\$ 501,615</u>

2005 Budgeted vs. Actual Receipts

Fund Type:	Budgeted Receipts	Actual Receipts	Variance
General	\$ 749,744	\$ 742,892	\$ (6,852)
Special Revenue	262,131	706,825	444,694
Debt Service	-	-	-
Capital Projects	322,420	353,613	31,193
Expendable Trust	690	991	301
Enterprise	1,793,121	1,758,806	(34,315)
Total	<u>\$ 3,128,106</u>	<u>\$ 3,563,127</u>	<u>\$ 435,021</u>

**VILLAGE OF NEW LONDON
HURON COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)

4. BUDGETARY ACTIVITY (continued)

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2005 Budgeted vs Actual Budgetary Basis Expenditures

Fund Type:	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 1,129,942	\$ 788,175	\$ 341,767
Special Revenue	790,363	683,821	106,542
Debt Service	-	-	-
Capital Projects	221,524	321,098	(99,574)
Expendable Trust	33,575	-	33,575
Enterprise	2,262,619	1,741,901	520,718
Total	<u>\$ 4,438,023</u>	<u>\$ 3,534,995</u>	<u>\$ 903,028</u>

5. LOCAL INCOME TAX

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2005 was as follows:

Reservoir Loan	\$ 314,000	5.00%
Ohio Water Development Authority Loan (1)	133,000	8.47%
Ohio Water Development Authority Loan (2)	679,084	7.45%
United States Department of Agriculture Rural Development	161,000	5.00%
Rural Water Line Bond	278,600	3.25%
Water System Improvement Bond	2,250,000	Variable
Sutton Equipment Loan	<u>153,231</u>	5.00%
Total	<u>\$3,968,915</u>	

**VILLAGE OF NEW LONDON
HURON COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)

6. DEBT

The Reservoir Loan relates to the construction of the reservoir in 1973. The Ohio Water Development Authority (OWDA) loans relate to sewer plant expansion projects that were mandated by the Ohio Environmental Protection Agency. The Water System Improvement Bonds were issued for the water plant expansion project in 1997. The Rural Water System Improvement Bonds were issued to extend water service to New London Township residents in 1999. The Sutton Equipment Loan was for the purchase of a tanker truck, garbage truck, utility truck, and park equipment in 2002. The United States Department of Agriculture Rural Development loan relates to the purchase of fire truck in 2005.

The aggregate amounts of long-term debt maturities for the five years following 2005 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 252,238	\$ 238,323	\$ 490,561
2007	\$ 269,128	\$ 224,198	\$ 493,326
2008	\$ 254,758	\$ 207,972	\$ 462,730
2009	\$ 238,500	\$ 192,856	\$ 431,356
2010	\$ 209,946	\$ 178,998	\$ 388,944
Thereafter	<u>\$2,744,345</u>	<u>\$1,453,581</u>	<u>\$4,197,926</u>
Total	<u>\$3,968,915</u>	<u>\$2,495,928</u>	<u>\$6,464,843</u>

7. PENSION PLAN

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Ohio Public Employees Retirement System

All Village full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans, as described below:

- The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan;
- The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings;
- The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

**VILLAGE OF NEW LONDON
HURON COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)

7. PENSION PLAN (continued)

Ohio Public Employees Retirement System

PERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Village to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory Village for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the Village was 13.55 percent of covered payroll. The Village's required contributions to OPERS for the fiscal years ended December 31, 2005, 2004, and 2003 were \$23,454, \$22,263, and \$21,864 respectively.

8. POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Ohio Public Employees Retirement System

The Ohio Revised Code provides statutory Village for employer contributions. The 2005 employer contribution rate was 13.55 percent of covered payroll, 4 percent was the portion that was used to fund health care for 2005.

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases.

**VILLAGE OF NEW LONDON
HURON COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)

8. POST-EMPLOYMENT BENEFITS (continued)

Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

At December 31, 2005, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 376,109. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

9. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability.
- Vehicles.
- Errors and omissions.

The Village also provides health insurance coverage to full time employees through a private carrier.

**VILLAGE OF NEW LONDON
HURON COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)

10. DEBT SERVICE TRUSTEED FUNDS

The Water Improvement trust agreement required the Village to establish a debt service fund to be maintained by a custodian bank. The Village has established this fund. At December 31, 2005, the custodian held \$307,066 in Village assets. These assets, and the related receipts and disbursements, are not reflected in the accompanying financial statements.

11. LEASE COMMITMENT

The Village has entered into lease agreements with the following: RS Office Solutions for a copy machine and Ford Motor Credit Company for a Police vehicle. Rental expense for the operating lease for the years ended December 31, 2004 and 2005 were \$7,720 and \$11,119.

The total future minimum rental payments required for the operating lease are as follows:

<u>December 31,</u>	
2006	11,119
2007	3,399
2008	3,399
2009	3,399
2010	850

12. CONTINGENT LIABILITIES

Management believes there are no pending claims or lawsuits.



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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards

Village of New London
Huron County
115 East Main Street
New London, Ohio 44851-1201

I have audited the financial statements of Village of New London as of and for the year ended December 31, 2004 and 2005, and have issued my report thereon dated October 18, 2006. I conducted my audit in accordance with generally accepted auditing standards 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 my audit, I considered Village of New London's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Village of New London's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as 2005-1 and 2005-2. I also noted certain additional matters that I reported to management of Village of New London in a separate letter dated October 18, 2006.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above, is a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of New London's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as items 2005-1 and 2005-2. I also noted certain additional matters that I reported to management of Village of New London in a separate letter dated October 18, 2006.

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

Kevin L. Penn, Inc.

October 18, 2006

Village of New London
Huron County

Schedule of Findings
December 31, 2004 and 2005

Finding Related to the Financial Statements
Required to be Reported in Accordance with GAGAS

2005-1

Reconciliation of Payroll Account

Condition:

The Village's payroll clearing account was not reconciled to a zero balance at the end of each month.

Criteria:

The payroll clearing account should be reconciled to a zero balance at the end of each month,

Effect:

Resulted in excess cash remaining in the payroll account that is not included on the Village's books.

Cause:

Oversight by management.

Recommendation:

In order to improve internal controls, I recommend that the payroll clearing account be reconciled to a zero balance monthly to ensure accuracy of financial reporting.

Auditee's Response:

At the end of 2006, the Clerk/Treasurer will write a payroll check and deposit this back into General Fund. This will bring this account back to zero.

Village of New London
Huron County

Schedule of Findings
December 31, 2004 and 2005

Finding Related to the Financial Statements
Required to be Reported in Accordance with GAGAS

2005-2

Purchase Orders

Condition:

28% of expenditures tested were not certified by Clerk/Treasurer prior to incurring the obligation.

Criteria:

The purchase order should be authorized by the Clerk/Treasurer prior to incurring the obligation.

Effect:

Failure to properly certify the availability of funds prior to incurring the obligation can result in overspending funds and negative cash balances.

Cause:

Oversight by management.

Recommendation:

I recommend that the Clerk/Treasurer certify the availability of funds prior to the obligation being incurred.

Auditee's Response:

In the year 2006 we corrected a lot of this, and will continue to insist everyone get a purchase order before a purchase is made.

Village of New London
Huron County

Schedule of Prior Audit Findings
December 31, 2004 and 2005

2003-001

Finding Summary:

The Clerk/Treasurer did not complete fiscal certificates for sixty percent of disbursement transactions tested. An additional three percent were certified after the obligations were incurred. Failure to properly certify the availability of funds can result in overspending funds and negative cash balances.

Fully Corrected?

No. Will be repeated as a non-compliance citation.

Current Status:

28% of expenditures tested were not certified by Clerk/Treasurer prior to incurring the obligation.

2003-002

Finding Summary:

The Village's payroll clearing account was not reconciled to a zero balance at the end of each month.

Fully Corrected?

No. Will be repeated as a reportable condition.

Current Status:

The payroll clearing account is not being reconciled to a zero balance at the end of each month.



Mary Taylor, CPA
Auditor of State

VILLAGE OF NEW LONDON

HURON 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
MARCH 15, 2007