

**NEW LONDON LOCAL
SCHOOL DISTRICT**

HURON COUNTY, OHIO

BASIC FINANCIAL STATEMENTS
(Audited)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2005

GINA BLACKMAN, TREASURER



**Auditor of State
Betty Montgomery**

Board of Education
New London Local School District
New London, Ohio

We have reviewed the *Independent Auditor's Report* of the New London Local School District, Huron County, prepared by Julian & Grube, Inc., for the audit period July 1, 2004 through June 30, 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.

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 New London Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 13, 2005

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**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor's Report

Board of Education
New London Local School District
2 Wildcat Drive
New London, Ohio 44851

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the New London Local School District, Huron County, (the “District”) as of and for the fiscal year ended June 30, 2005, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the New London Local School District, Huron County, as of June 30, 2005, and the respective changes in financial position and the respective budgetary comparison for the General fund and Classroom Facilities Maintenance special revenue fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2 “Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers” for the fiscal year ended June 30, 2005. In addition, the District has presented a prior period adjustment to correct amounts recorded as intergovernmental payable in the Classroom Facilities capital project fund, which is described in more detail in Note 3.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Page Two
Independent Auditor's Report
New London Local School District

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 receipts and expenditures of federal awards is presented for purposes of additional analysis as required by 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 of the District. 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

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
September 30, 2005

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The management's discussion and analysis of the New London Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities decreased \$317,747 which represents a 2.19% decrease from 2004.
- General revenues accounted for \$8,147,270 in revenue or 81.44% of all revenues. The District reported a \$24,131 gain on sale of capital assets which is reported as a special item. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,832,542 or 18.32% of total revenues of \$10,003,943.
- The District had \$10,321,690 in expenses related to governmental activities; \$1,832,542 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,147,270 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and classroom facilities maintenance fund. The general fund had \$8,343,545 in revenues and other financing sources and \$8,187,086 in expenditures. During fiscal year 2005, the general fund's fund balance increased \$156,459 from \$522,242 to \$678,701.
- The District's other major governmental fund is the classroom facilities maintenance fund. The classroom facilities maintenance fund had \$482,864 in revenues and other financing sources and \$55,634 in expenditures. During fiscal year 2005, the classroom facilities maintenance fund's fund balance increased \$427,230 from \$129,441 to \$556,671.

Using these Basic Financial Statements

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the 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. In the case of the District, the general fund and classroom facilities maintenance fund are by far the most significant funds, and the only governmental funds reported as major funds.

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take 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* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and classroom facilities maintenance fund.

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 financial 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 basic financial statements. The basic governmental fund financial statements can be found on pages 15-20 of this report.

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 21 and 22. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-48 of this report.

The District as a Whole

The table below provides a summary of the District's net assets for fiscal year 2005 and 2004. The balances for 2004 have been restated due to a prior-period adjustment (see Note 3.A of the notes to the financials).

	Net Assets	
	Governmental Activities <u>2005</u>	(Restated) Governmental Activities <u>2004</u>
<u>Assets</u>		
Current and other assets	\$ 4,648,807	\$ 4,667,109
Capital assets, net	<u>15,912,675</u>	<u>16,535,833</u>
Total assets	<u>20,561,482</u>	<u>21,202,942</u>
<u>Liabilities</u>		
Current liabilities	2,598,252	2,840,226
Long-term liabilities	<u>3,770,596</u>	<u>3,852,335</u>
Total liabilities	<u>6,368,848</u>	<u>6,692,561</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	12,968,348	13,352,234
Restricted	1,165,586	924,411
Unrestricted	<u>58,700</u>	<u>233,736</u>
Total net assets	<u>\$ 14,192,634</u>	<u>\$ 14,510,381</u>

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

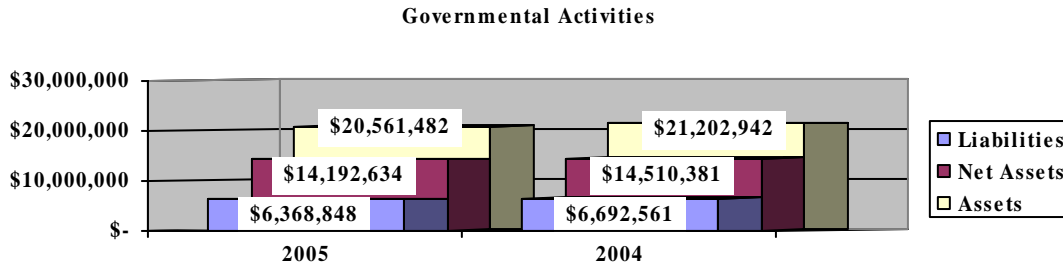
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$14,192,634. Of this total, \$58,700 is unrestricted in use.

At year-end, capital assets represented 77.39% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$12,968,348. 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, \$1,165,586, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$58,700 may be used to meet the District's ongoing obligations to the students and creditors.

The table below illustrates the District's assets, liabilities and net assets at June 30, 2005 and 2004:



The table below shows the change in net assets for fiscal years 2005 and 2004. The 2004 balances have been restated due to a prior period adjustment (see Note 3.A of the notes of the financial statements).

Change in Net Assets

	Governmental Activities 2005	(Restated) Governmental Activities 2004
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,059,733	\$ 936,243
Operating grants and contributions	772,809	650,335
Capital grants and contributions	-	48,400
General revenues:		
Property taxes	2,195,671	2,372,072
School district income tax	847,443	826,171
Grants and entitlements	5,055,742	4,810,181
Investment earnings	48,414	21,531
Other	-	9,830
Total revenues	9,979,812	9,674,763

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Change in Net Assets

	Governmental Activities 2005	(Restated) Governmental Activities 2004
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 5,002,949	\$ 4,970,900
Special	844,148	906,992
Vocational	224,009	195,429
Adult/continuing	11,371	18,458
Other	153,465	149,264
Support services:		
Pupil	316,918	311,445
Instructional staff	515,794	504,019
Board of education	9,837	30,010
Administration	752,106	791,765
Fiscal	207,707	211,410
Business	7,082	1,372
Operations and maintenance	809,363	919,654
Pupil transportation	449,112	461,784
Central	1,166	9,904
Operations of non-instructional services:		
Food service operations	402,432	381,438
Other non-instructional services	256	1,691
Extracurricular activities	422,708	390,799
Intergovernmental pass-through	7,091	-
Interest and fiscal charges	<u>184,176</u>	<u>176,088</u>
Total expenses	<u>10,321,690</u>	<u>10,432,422</u>
Special items (net)	<u>24,131</u>	<u>(141,683)</u>
Change in net assets	<u>(317,747)</u>	<u>(899,342)</u>
Beginning Balance (restated)	<u>14,510,381</u>	<u>15,409,723</u>
Ending Balance	<u>\$ 14,192,634</u>	<u>\$ 14,510,381</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$317,747. Total governmental expenses of \$10,321,690 were offset by program revenues of \$1,832,542, and general revenues of \$8,147,270. Program revenues supported 17.75% of the total governmental expenses. The District reported a \$24,131 gain on its sale of land which is reported as a special item.

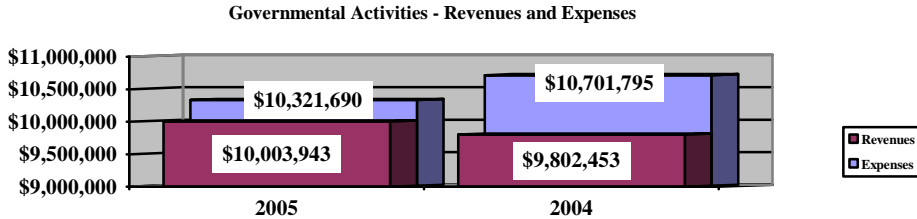
The primary sources of revenue for governmental activities are derived from property taxes, income taxes, and grants and entitlements. These revenue sources represent 80.96% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,235,942 or 60.42% of total governmental expenses for fiscal year 2005.

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005 and 2004.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table 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 grants and entitlements.

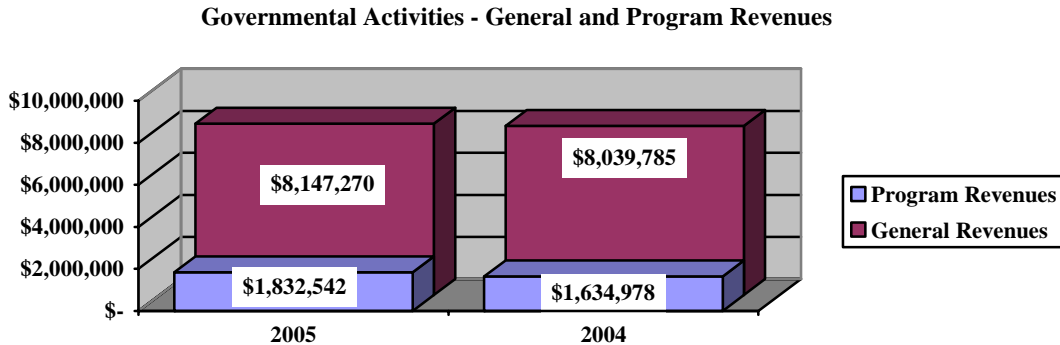
	Governmental Activities			
	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	(Restated) Total Cost of Services <u>2004</u>	(Restated) Net Cost of Services <u>2004</u>
Program expenses				
Instruction:				
Regular	\$ 5,002,949	\$ 4,279,837	\$ 4,970,900	\$ 4,268,268
Special	844,148	561,464	906,992	739,999
Vocational	224,009	221,309	195,429	193,087
Adult/continuing	11,371	11,371	18,458	18,458
Other	153,465	153,465	149,264	149,264
Support services:				
Pupil	316,918	316,589	311,445	306,431
Instructional staff	515,794	437,102	504,019	343,784
Board of education	9,837	9,837	30,010	30,010
Administration	752,106	739,826	791,765	777,290
Fiscal	207,707	200,238	211,410	205,566
Business	7,082	2,885	1,372	-
Operations and maintenance	809,363	755,177	919,654	913,166
Pupil transportation	449,112	448,913	461,784	461,693
Central	1,166	1,166	9,904	9,904
Operations of non-instructional services:				
Food service operations	402,432	(34,491)	381,438	(7,154)
Other operations of non-instructional services	256	47	1,691	397
Extracurricular activities	422,708	200,855	390,799	211,193
Intergovernmental	7,091	(618)	-	-
Interest and fiscal charges	184,176	184,176	176,088	176,088
Total expenses	<u>\$ 10,321,690</u>	<u>\$ 8,489,148</u>	<u>\$ 10,432,422</u>	<u>\$ 8,797,444</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 83.83% of instructional activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.25%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,865,968, which is higher than last year's total of \$1,658,126. For fiscal year 2004, the Classroom Facilities fund was presented as a major fund with a fund balance of \$329,744. Due to the completion of the Ohio School Facilities Commission (OSFC) project this fund is no longer presented as a major fund and is included as a nonmajor fund with a fund balance of \$0 as of June 30, 2005. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004. The 2004 balances have been restated due to a prior period adjustment (see Note 3.A. of the notes to the financials).

	Fund Balance June 30, 2005	(Restated) Fund Balance June 30, 2004	Increase (Decrease)	Percentage Change
General	\$ 678,701	\$ 522,242	\$ 156,459	29.96 %
Classroom Facilities Maintenance	556,671	129,441	427,230	330.06 %
Other Governmental	<u>630,596</u>	<u>1,006,443</u>	<u>(375,847)</u>	(37.34) %
Total	<u>\$ 1,865,968</u>	<u>\$ 1,658,126</u>	<u>\$ 207,842</u>	12.53 %

General Fund

The District's general fund balance increased \$156,459. The increase in fund balance can be attributed to several items. In fiscal year 2005 other revenues and earnings on investments increased while capital outlay in fiscal year 2005 is significantly less than 2004. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

	2005	(Restated) 2004	Increase	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>(Decrease)</u>	<u>Change</u>
<u>Revenues</u>				
Taxes	\$ 2,749,959	\$ 2,880,629	\$ (130,670)	(4.54) %
Earnings on investments	33,628	18,890	14,738	78.02 %
Intergovernmental	5,022,982	4,777,888	245,094	5.13 %
Other revenues	<u>536,976</u>	<u>694,704</u>	<u>157,728</u>	22.70 %
Total	<u>\$ 8,343,545</u>	<u>\$ 8,372,111</u>	<u>\$ 286,890</u>	3.43 %
<u>Expenditures</u>				
Instruction	\$ 5,065,417	\$ 5,113,128	\$ (47,711)	(0.93) %
Support services	2,444,650	2,928,977	(484,327)	(16.54) %
Extracurricular activities	212,518	207,840	4,678	2.25 %
Facilities acquisition and construction	2,600	6,444	(3,844)	(59.65) %
Capital outlay	12,941	146,298	(133,357)	(91.15) %
Debt service	<u>39,038</u>	<u>48,928</u>	<u>(9,890)</u>	(20.21) %
Total	<u>\$ 7,777,164</u>	<u>\$ 8,451,615</u>	<u>\$ (674,451)</u>	(7.98) %

Classroom Facilities Maintenance Fund

The classroom facilities maintenance fund had \$482,864 in revenues and \$55,634 in expenditures. During fiscal year 2005, the classroom facilities maintenance fund's fund balance increased \$427,230 from \$129,441 to \$556,671.

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 and the classroom facilities maintenance fund.

For the general fund, original and final budgeted revenues and other financing sources were \$8,195,890. Actual revenues and other financing sources for fiscal 2005 was \$8,312,195. This represents a \$116,305 increase over final budgeted revenues.

General fund original and final appropriations (appropriated expenditures including other financing uses) totaled \$8,476,210. The actual budget basis expenditures for fiscal year 2005 totaled \$8,279,963, which was \$196,247 less than the final budget appropriations.

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$15,912,675 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	2004
Land	\$ 63,150	\$ 85,480
Land improvements	1,074,705	1,147,587
Building and improvements	14,204,249	14,650,328
Furniture and equipment	494,625	538,033
Vehicles	75,946	114,405
Total	\$ 15,912,675	\$ 16,535,833

The overall decrease in capital assets of \$623,158 is due to depreciation expense of \$728,164 and disposals of \$49,348 (net of accumulated depreciation) exceeding capital outlay of \$154,354 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2005, the District had \$2,937,887 in general obligation bonds, \$20,230 in asbestos abatement loans and \$123,424 in capital leases outstanding. Of this total, \$167,258 is due within one year and \$2,914,283 is due greater than one year. The following table summarizes the bonds, loans and capital leases outstanding at June 30, 2005 and 2004.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2005	2004
General obligation bonds	\$ 2,937,887	\$ 3,018,342
Asbestos abatement loans	20,230	27,230
Capital leases	123,424	138,027
Total	\$ 3,081,541	\$ 3,183,599

At June 30, 2005, the District's overall legal debt margin was \$5,605,193, and an unvoted debt margin of \$91,069.

See Note 11 to the basic financial statements for additional information on the District's debt administration.

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

Current Financial Related Activities

Our district is struggling financially and will continue to do so unless revenues increase. We built a new K-12 school building through Ohio School Facilities Commission (OSFC) and local funding and occupied the new building in September, 2001. Some costs were incurred as part of this building project that had to be paid from local funds – we were required by OSFC to have 80 acres of land for the new building and had to buy it and Board offices were not included in the OSFC plan and had to be built. Our utility costs have tripled in the new building. These additional expenses have caused a decline in our carryover balance. Our revenues have been fairly flat for the last few years – somewhat due to the downward turn in the economy, but also our State funding has flattened due to State budget cuts and a flat or declining enrollment. The district participates in open enrollment which allows students to come in or leave the district. The number of students coming into the district has always exceeded the number leaving.

The District put a 4.5 mill levy on the November, 2004 ballot, which was defeated. Because of this levy defeat, several cost-savings measures were put in place during the 2004-05 school year and several more were put in place for the 2005-06 school year. Two staff members who retired at the end of the 2004-05 school year were not replaced and others were replaced by less experienced personnel. In fiscal year 2004-05, our expenses in the general fund increased from the prior year by .47%, while the prior year expenses were 5.4% higher than the year before.

In fiscal year 2005, we were ranked 95th on the Equity list for schools in the State of Ohio. What this means to us is that of the 614 school districts in Ohio, there are 519 schools who are wealthier than New London. This is an amazing fact considering the success we've seen in our report card. We have received an Effective rating on our report card each year for several years. Even though our resources are limited, we have made good use of those resources and have found success.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's 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 Ms. Gina Blackman, Treasurer, New London Local School District, 2 Wildcat Drive, New London, Ohio 44851-1299.

**BASIC
FINANCIAL STATEMENTS**

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 2,048,003
Cash with escrow agent	618
Receivables:	
Taxes.	2,516,150
Accounts.	13,051
Accrued interest.	3,577
Intergovernmental.	43,432
Materials and supplies inventory	23,976
Capital assets:	
Land	63,150
Depreciable capital assets, net	15,849,525
Capital assets, net	<u>15,912,675</u>
 Total assets.	 <u>20,561,482</u>
Liabilities:	
Accounts payable.	34,904
Accrued wages and benefits	819,365
Pension obligation payable.	195,089
Intergovernmental	18,633
Deferred revenue	1,521,449
Accrued interest payable	8,812
Long-term liabilities:	
Due within one year.	255,826
Due in more than one year	3,514,770
Total liabilities	<u>6,368,848</u>
Net Assets:	
Invested in capital assets, net of related debt.	12,968,348
Restricted for:	
Capital projects	347
Debt service.	352,079
State funded programs	37,516
Federally funded programs.	4,987
Student activities	105,301
Public school support	34,981
Other purposes	630,375
Unrestricted.	<u>58,700</u>
 Total net assets	 <u>\$ 14,192,634</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 5,002,949	\$ 585,991	\$ 137,121	\$ (4,279,837)
Special	844,148	-	282,684	(561,464)
Vocational	224,009	-	2,700	(221,309)
Adult/continuing	11,371	-	-	(11,371)
Other	153,465	-	-	(153,465)
Support services:				
Pupil	316,918	-	329	(316,589)
Instructional staff	515,794	6,045	72,647	(437,102)
Board of education	9,837	-	-	(9,837)
Administration	752,106	76	12,204	(739,826)
Fiscal	207,707	-	7,469	(200,238)
Business	7,082	3,852	345	(2,885)
Operations and maintenance	809,363	17,519	36,667	(755,177)
Pupil transportation	449,112	-	199	(448,913)
Central	1,166	-	-	(1,166)
Operation of non-instructional services:				
Food service operations	402,432	256,953	179,970	34,491
Other operation of non-instructional	256	-	209	(47)
Extracurricular activities	422,708	189,297	32,556	(200,855)
Intergovernmental pass-through	7,091	-	7,709	618
Interest and fiscal charges	184,176	-	-	(184,176)
Total governmental activities	\$ 10,321,690	\$ 1,059,733	\$ 772,809	(8,489,148)
General Revenues:				
Property taxes levied for:				
General purposes				1,903,034
Special revenue				38,287
Debt service				254,350
School district income tax				847,443
Grants and entitlements not restricted to specific programs				5,055,742
Investment earnings				48,414
Total general revenues				8,147,270
Special item:				
Gain on sale of land				24,131
Total general revenues and special item				8,171,401
Change in net assets				(317,747)
Net assets at beginning of year (restated)				14,510,381
Net assets at end of year				\$ 14,192,634

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Classroom Facilities Maintenance	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 824,659	\$ 546,323	\$ 605,435	\$ 1,976,417
Cash with fiscal agent	-	-	618	618
Receivables:				
Taxes	2,219,437	38,806	257,907	2,516,150
Accounts	8,819	-	4,232	13,051
Accrued interest	3,577	-	-	3,577
Intergovernmental	-	-	43,432	43,432
Materials and supplies inventory	-	-	23,976	23,976
Restricted assets:				
Equity in pooled cash and cash equivalents	71,586	-	-	71,586
Total assets	\$ 3,128,078	\$ 585,129	\$ 935,600	\$ 4,648,807
Liabilities:				
Accounts payable	\$ 20,394	\$ -	\$ 14,510	\$ 34,904
Accrued wages and benefits	742,831	-	76,534	819,365
Compensated absences payable	68,223	-	-	68,223
Pension obligation payable.	176,601	-	18,488	195,089
Intergovernmental payable.	16,929	-	1,704	18,633
Deferred revenue.	1,424,399	28,458	193,768	1,646,625
Total liabilities	2,449,377	28,458	305,004	2,782,839
Fund Balances:				
Reserved for encumbrances	81,145	12,625	21,852	115,622
Reserved for materials and supplies inventory.	-	-	23,976	23,976
Reserved for debt service	-	-	277,525	277,525
Reserved for property tax unavailable for appropriation	503,816	10,348	69,302	583,466
Reserved for school bus purchase	43,993	-	-	43,993
Reserved for textbooks	27,593	-	-	27,593
Unreserved, undesignated, reported in:				
General fund	22,154	-	-	22,154
Special revenue funds.	-	533,698	237,594	771,292
Capital projects funds.	-	-	347	347
Total fund balances	678,701	556,671	630,596	1,865,968
Total liabilities and fund balances	\$ 3,128,078	\$ 585,129	\$ 935,600	\$ 4,648,807

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances		\$	1,865,968
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			15,912,675
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	117,917	
Intergovernmental revenue		5,163	
Accrued interest		2,096	
			125,176
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.			(8,812)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(620,832)	
Capital lease obligation payable		(123,424)	
Asbestos loan payable		(20,230)	
General obligation bonds payable		(2,937,887)	
Total			(3,702,373)
Net assets of governmental activities		\$	14,192,634

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Classroom Facilities Maintenance</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 2,749,959	\$ 38,078	\$ 252,812	\$ 3,040,849
Tuition.	452,517	-	19,930	472,447
Earnings on investments.	33,628	10,834	4,510	48,972
Charges for services	-	-	256,953	256,953
Extracurricular.	-	-	271,228	271,228
Classroom materials and fees	47,565	-	-	47,565
Other local revenues.	11,540	-	42,128	53,668
Intergovernmental - state	5,012,444	4,930	195,656	5,213,030
Intergovernmental - federal	10,538	-	568,688	579,226
Total revenue	<u>8,318,191</u>	<u>53,842</u>	<u>1,611,905</u>	<u>9,983,938</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,124,808	-	214,114	4,338,922
Special.	554,722	-	289,426	844,148
Vocational.	221,296	-	2,713	224,009
Adult/continuing	11,371	-	-	11,371
Other.	153,220	-	245	153,465
Support services:				
Pupil.	316,562	-	3,409	319,971
Instructional staff	433,905	-	85,568	519,473
Board of education	9,837	-	-	9,837
Administration.	736,407	854	18,215	755,476
Fiscal	200,385	-	7,605	207,990
Business	-	-	3,972	3,972
Operations and maintenance.	747,554	54,780	6,785	809,119
Central.	-	-	-	-
Pupil transportation	409,922	-	180	410,102
Operation of non-instructional services.	-	-	256	256
Food service operations	-	-	395,761	395,761
Extracurricular activities.	212,518	-	221,512	434,030
Facilities acquisition and construction	2,600	-	107,824	110,424
Capital outlay	12,941	-	-	12,941
Debt service:				
Principal retirement	27,544	-	122,000	149,544
Interest and fiscal charges	11,494	-	140,838	152,332
Total expenditures	<u>8,187,086</u>	<u>55,634</u>	<u>1,620,423</u>	<u>9,863,143</u>
Excess of revenues over (under) expenditures.	<u>131,105</u>	<u>(1,792)</u>	<u>(8,518)</u>	<u>120,795</u>
Other financing sources (uses):				
Capital lease transaction	25,354	-	-	25,354
Transfers in	-	429,022	-	429,022
Transfers (out).	-	-	(429,022)	(429,022)
Sale of capital assets.	-	-	61,693	61,693
Total other financing sources (uses)	<u>25,354</u>	<u>429,022</u>	<u>(367,329)</u>	<u>87,047</u>
Net change in fund balances	156,459	427,230	(375,847)	207,842
Fund balances at beginning of year (restated) .	<u>522,242</u>	<u>129,441</u>	<u>1,006,443</u>	<u>1,658,126</u>
Fund balances at end of year.	<u>\$ 678,701</u>	<u>\$ 556,671</u>	<u>\$ 630,596</u>	<u>\$ 1,865,968</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds	\$	207,842
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Depreciation expense exceeds capital outlays in the current period accordingly.		
Capital asset additions	154,354	
Current year depreciation	<u>(728,164)</u>	(573,810)
The net effect of various miscellaneous transactions involving capital assets is to decrease net assets.		
Gain on sale of capital assets	24,131	
Sale of capital assets	(61,693)	
Loss absorbed by lessor in capital lease swap	<u>(11,786)</u>	(49,348)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	2,265	
Intergovernmental	(5,833)	
Accrued interest	<u>(558)</u>	(4,126)
Repayment of bond, loan and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		149,544
Capital lease obligation payable balance forgiven as part of the lease trade-in agreement. This reduces the liability on the statement of net assets.		
		12,413
Proceeds of capital leases are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		
		(25,354)
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds.		
		(31,844)
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>(3,064)</u>
Change in net assets of governmental activities	\$	<u>(317,747)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 2,669,368	\$ 2,669,373	\$ 2,707,988	\$ 38,615
Tuition.	446,063	446,064	452,517	6,453
Earnings on investments.	32,391	32,391	31,328	(1,063)
Classroom materials and fees	46,573	46,573	47,247	674
Other local revenues	114	99	100	1
Intergovernmental - state	4,940,959	4,940,968	5,012,443	71,475
Intergovernmental - federal	10,388	10,388	10,538	150
Total revenue	<u>8,145,856</u>	<u>8,145,856</u>	<u>8,262,161</u>	<u>116,305</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,267,875	4,267,875	4,169,056	98,819
Special.	592,836	592,836	579,108	13,728
Vocational.	232,008	232,008	226,636	5,372
Adult/continuing	17,108	17,108	16,712	396
Other.	156,147	156,147	152,532	3,615
Support services:				
Pupil.	320,989	320,989	313,557	7,432
Instructional staff	429,189	429,189	419,252	9,937
Board of education	14,335	14,335	14,003	332
Administration.	762,002	762,002	744,359	17,643
Fiscal	211,710	211,710	206,808	4,902
Operations and maintenance.	799,015	799,015	780,515	18,500
Pupil transportation	451,302	451,302	440,853	10,449
Extracurricular activities.	218,147	218,147	213,096	5,051
Facilities acquisition and construction.	3,051	3,051	2,980	71
Total expenditures	<u>8,475,714</u>	<u>8,475,714</u>	<u>8,279,467</u>	<u>196,247</u>
Excess of revenues under expenditures.	<u>(329,858)</u>	<u>(329,858)</u>	<u>(17,306)</u>	<u>312,552</u>
Other financing sources (uses):				
Refund of prior year expenditure	50,034	50,034	50,034	-
Refund of prior year receipt	(496)	(496)	(496)	-
Total other financing sources (uses)	<u>49,538</u>	<u>49,538</u>	<u>49,538</u>	<u>-</u>
Net change in fund balance	(280,320)	(280,320)	32,232	312,552
Fund balance at beginning of year.	656,574	656,574	656,574	-
Prior year encumbrances appropriated	114,182	114,182	114,182	-
Fund balance at end of year	<u>\$ 490,436</u>	<u>\$ 490,436</u>	<u>\$ 802,988</u>	<u>\$ 312,552</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
CLASSROOM FACILITIES MAINTENANCE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 30,289	\$ 54,913	\$ 37,314	\$ (17,599)
Earnings on investments	7,710	13,978	9,498	(4,480)
Intergovernmental - state	4,001	7,255	4,930	(2,325)
Total revenue	<u>42,000</u>	<u>76,146</u>	<u>51,742</u>	<u>(24,404)</u>
Expenditures:				
Current:				
Support services:				
Administration	850	2,101	854	1,247
Operations and maintenance	67,098	165,847	67,405	98,442
Total expenditures	<u>67,948</u>	<u>167,948</u>	<u>68,259</u>	<u>99,689</u>
Excess of revenues under expenditures	<u>(25,948)</u>	<u>(91,802)</u>	<u>(16,517)</u>	<u>75,285</u>
Other financing sources:				
Transfers in	-	-	429,022	429,022
Total other financing sources	<u>-</u>	<u>-</u>	<u>429,022</u>	<u>429,022</u>
Net change in fund balance	(25,948)	(91,802)	412,505	504,307
Fund balance at beginning of year	91,802	91,802	91,802	-
Prior year encumbrances appropriated	27,948	27,948	27,948	-
Fund balance at end of year	<u>\$ 93,802</u>	<u>\$ 27,948</u>	<u>\$ 532,255</u>	<u>\$ 504,307</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 355,545	\$ 36,738
Receivables:		
Accounts	-	50
Accrued interest	4,307	-
Total assets.	359,852	\$ 36,788
Liabilities:		
Accounts payable.	-	\$ 356
Deferred revenue	4,307	-
Due to students	-	36,432
Total liabilities	4,307	\$ 36,788
Net Assets:		
Held in trust for scholarships	355,545	
Total net assets	\$ 355,545	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 4,775
Gifts and contributions.	18,250
	23,025
Total additions.	23,025
Deductions:	
Scholarships awarded	28,336
	(5,311)
Change in net assets	(5,311)
Net assets at beginning of year.	360,856
Net assets at end of year	\$ 355,545

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The New London Local School District (the "District") is located in north-central Ohio in parts of Huron, Lorain, and Ashland counties. The District includes all of the Village of New London and portions of surrounding townships.

The District is organized in accordance with Sections 2 and 3, Article VI of the Constitution of the State of Ohio. Under such laws, there is no authority for a school district to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District currently operates 1 school that encompasses all District grades. The District employs 48 non-certified and 80 certified (including administrative) full-time and part-time employees to provide services to approximately 1,228 students in grades K through 12 and various community groups, which ranks it 432nd out of 614 public school districts in Ohio, and 5th largest of 7 districts in Huron County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activity provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below:

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, preschool 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 organizations' government board and (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 organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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 the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Lake Erie Educational Computer Association (LEECA)

The Lake Erie Educational Computer Association (LEECA) is a jointly governed organization comprised of 31 school districts. The jointly governed organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these districts supports LEECA based upon a per pupil charge, dependent upon the software package utilized. The LEECA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. LEECA is governed by a board of directors chosen from the general membership of the LEECA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located.

Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County, which serves as fiscal agent, located at 1885 Lake Avenue, Elyria, Ohio 44035.

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (Association) is a jointly governed organization among 14 districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the program administrator at the Huron-Erie School Employees Insurance Association, located at 2900 Columbus Avenue, Sandusky, Ohio 44870. Refer to Note 12.D. for further information on this Association.

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established as an insurance purchasing pool. The Plan is governed by a three-member Board of Directors. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program. Refer to Note 12.C. for further information on this group rating plan.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are two categories of funds: governmental and fiduciary.

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses 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 following are the District's 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 balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Classroom Facilities Maintenance - This fund is used to account for the proceeds of a special levy for the maintenance of facilities.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; (b) for grants and other resources whose use is restricted to a particular purpose, and (c) for the accumulation of resources for and 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 scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

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.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the District.

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. 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, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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 reports 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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private-purpose trust fund is reported using the economic resources measurement focus. The agency fund does not report a measurement focus as it does not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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 that the resources will be collected within the current fiscal year or are expected to be collected 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 property taxes, income 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 (see Note 5).

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.

**NEW LONDON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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, 2005, but which were levied to finance fiscal year 2006 operation, have been recorded as deferred revenue. Grants and 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.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds (except agency funds). The specific timetable for fiscal year 2005 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Huron County Budget Commission for tax rate determination. The Huron County Commissioners waived this requirement for the fiscal year ended June 30, 2005.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2005.

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original, appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal year 2005.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be re-appropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2005, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements and nonnegotiable certificates of deposit. The investments in STAR Ohio are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2005. 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, 2005.

**NEW LONDON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund, the Classroom Facilities capital projects fund, the Food Service, Special Trust, and Adult Education Public School Support, Classroom Facilities Maintenance, and District Managed Student Activities special revenue funds, the private-purpose funds and the Student-Managed Activity agency fund. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$33,628, which includes \$15,396 assigned from other District funds.

An analysis of the District’s investment account at year-end is provided in Note 4.

G. Inventory

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

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets that generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements 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 \$5,000. 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. The District does not possess infrastructure.

All reported capital assets except land 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>Governmental Activities Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the statement of net assets. The District had no interfund receivables/payables during fiscal year 2005.

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. 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 GASB Statement No. 16, "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 June 30, 2005, 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 at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, loans and capital leases are recognized as a liability on the fund financial statements when due.

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. 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 encumbrances, materials and supplies inventory, property tax revenue unavailable for appropriation, debt service, textbooks and school bus purchases. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Net Assets

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

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

N. Estimates

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

O. 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 governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set aside to create a reserve for textbooks and school bus purchases. See Note 17 for details.

P. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basis financial statements.

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The District had a special item this year resulting from the sale of land.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustments

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The District has presented a prior period adjustment to correct the amount owed to the Ohio School Facilities Commission (OSFC) for remaining funds recorded as \$380,701 at June 30, 2004. The actual payment in fiscal year 2005 was \$269,373.

During the previous year the Classroom Facilities and Debt Service funds were classified as major funds with fund balances of \$317,980 and \$329,744, respectively; however, these funds are reported as nonmajor funds this fiscal year and the Classroom Facilities Maintenance fund is reported as a major fund.

The implementation of GASB Statement No. 40 did not have any effect on financial statements of the District, however, additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 and the adjustment to properly state the ODE payable had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	General	Classroom Facilities Maintenance	Nonmajor	Total
Fund balances June 30, 2004	\$ 579,851	\$ 129,441	\$ 907,258	\$ 1,616,550
Adjustment for OSFC payable	-	-	111,328	111,328
GASB Technical Bulletin 2004-2	<u>(57,609)</u>	<u>-</u>	<u>(12,143)</u>	<u>(69,752)</u>
Restated fund balances, June 30, 2004	<u>\$ 522,242</u>	<u>\$ 129,441</u>	<u>\$ 1,006,443</u>	<u>\$ 1,658,126</u>

**NEW LONDON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The prior period adjustment had the following effect on net assets:

	<u>Total</u>
Net assets June 30, 2004	\$ 14,399,053
GASB 34 adjustments:	
Adjustment for OSFC payable	111,328
Governmental activities net assets, June 30, 2004	<u>\$ 14,510,381</u>

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Disadvantaged Pupil Impact Aid	\$ 284
Ohio Reads	11
Vocation Education Enhancement	13
Drug-Free Schools	3

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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.

A. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$457,213, exclusive of the \$442,771 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$339,555 of the District's bank balance of \$539,555 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

B. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase Agreement	\$ 442,771	\$ 442,771
STAR Ohio	<u>1,540,302</u>	<u>1,540,302</u>
Total	<u>\$ 1,983,073</u>	<u>\$ 1,983,073</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investment in STAR Ohio was rated AAAM and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 442,771	22.33
STAR Ohio	<u>1,540,302</u>	<u>77.67</u>
	<u>\$ 1,983,073</u>	<u>100.00</u>

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 457,213
Investments	1,983,073
Cash with fiscal agent	<u>618</u>
 Total	 <u>\$ 2,440,904</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,048,621
Private-purpose trust funds	355,545
Agency funds	<u>36,738</u>
 Total	 <u>\$ 2,440,904</u>

- D. Cash with Fiscal Agent:** At fiscal year-end, \$618 remained from pass through grants received from the County education service center; however, this amount is not part of the internal cash pool reported on the financial statements as “Equity in Pooled Cash and Cash Equivalents”.

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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 property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 5 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Ashland, Lorain and Huron Counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$503,816 in the general fund, \$69,302 in the debt service fund, and \$10,348 in the Classroom Facilities Maintenance fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2004 was \$472,363 in the general fund, \$63,901 in the debt service fund, and \$9,584 in the Classroom Facilities Maintenance fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Half Collections		2005 First Half Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 79,978,780	90.64	\$ 82,534,700	90.63
Public utility personal	4,423,140	5.01	4,073,146	4.47
Tangible personal property	<u>3,834,230</u>	<u>4.35</u>	<u>4,461,630</u>	<u>4.90</u>
Total	<u>\$ 88,236,150</u>	<u>100.00</u>	<u>\$ 91,069,476</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$31.55		\$31.55	
Debt Service	3.55		3.55	

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - SCHOOL DISTRICT INCOME TAX

The District has authorized, through voter approval, an annual 1% school district income tax levied on the school district income of individuals and estates. The tax is to be used for normal operating expenses of the District, and is credited to the general fund. Total income tax revenue credited to the general fund during fiscal year 2005, was \$847,443.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. 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 items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Taxes	\$ 2,516,150
Accounts	13,051
Intergovernmental	43,432
Accrued interest	<u>3,577</u>
Total	<u><u>\$ 2,576,210</u></u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 07/01/04	Additions	Deductions	Balance 06/30/05
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 85,480	\$ -	\$ (22,330)	\$ 63,150
Total capital assets, not being depreciated	<u>85,480</u>	<u>-</u>	<u>(22,330)</u>	<u>63,150</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,582,627	-	(38,415)	1,544,212
Buildings and improvements	16,793,453	129,000	(213,705)	16,708,748
Furniture and equipment	654,855	25,354	(13,096)	667,113
Vehicles	749,475	-	-	749,475
Total capital assets, being depreciated	<u>19,780,410</u>	<u>154,354</u>	<u>(265,216)</u>	<u>19,669,548</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(435,040)	(72,882)	38,415	(469,507)
Buildings and improvements	(2,143,125)	(559,847)	198,473	(2,504,499)
Furniture and equipment	(116,822)	(56,976)	1,310	(172,488)
Vehicles	(635,070)	(38,459)	-	(673,529)
Total accumulated depreciation	<u>(3,330,057)</u>	<u>(728,164)</u>	<u>238,198</u>	<u>(3,820,023)</u>
Governmental activities capital assets, net	<u><u>\$ 16,535,833</u></u>	<u><u>\$ (573,810)</u></u>	<u><u>\$ (49,348)</u></u>	<u><u>\$ 15,912,675</u></u>

**NEW LONDON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 664,026
Support Service:	
Instructional staff	359
Administration	7,119
Business	3,110
Pupil transportation	38,459
Central	1,166
Operation of non-instructional services:	
Food service operations	6,671
Extracurricular activities	<u>7,254</u>
Total depreciation expense	<u>\$ 728,164</u>

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2005, the District entered into capitalized leases for copier equipment. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$204,959. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2005 totaled \$27,544 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 39,038
2007	39,038
2008	39,038
2009	<u>25,736</u>
Total minimum lease payments	142,850
Less amount representing interest	<u>(19,426)</u>
Total	<u>\$ 123,424</u>

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 10 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to Classroom Facilities Maintenance fund from:
Classroom Facilities \$ 429,022

In accordance with OSFC guidelines and requirements, the District transferred unused local interest earned on bond proceeds to the Classroom Facilities Maintenance major special revenue fund in the amount of \$380,701. In addition, as allowable by OSFC, the District transferred unused demolition funding to the Classroom Facilities Maintenance major special revenue fund in the amount of \$48,321.

NOTE 11 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	<u>Outstanding 06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/05</u>	<u>Amounts Due in One Year</u>
Governmental Activities:					
<u>General Obligation Bonds:</u>					
Series 1999, improvement 5.25%, 12/01/22 maturity	\$ 2,650,000	\$ -	\$ (115,000)	\$ 2,535,000	\$ 130,000
Series 1999, improvement capital appreciation bonds 7.639% to 7.701% (average effective) 12/01/08, 09, 10, & 11 maturity	265,673	-	-	265,673	-
Series 1999, improvement capital appreciation bonds accrued interest	<u>102,669</u>	<u>34,545</u>	<u>-</u>	<u>137,214</u>	<u>-</u>
Total general obligation bonds	<u>3,018,342</u>	<u>34,545</u>	<u>(115,000)</u>	<u>2,937,887</u>	<u>130,000</u>
<u>General Obligation Loans:</u>					
Asbestos abatement, 1989 0%, 05/30/08 maturity	8,010	-	(2,000)	6,010	2,000
Asbestos abatement, 1995 0%, 05/31/08 maturity	<u>19,220</u>	<u>-</u>	<u>(5,000)</u>	<u>14,220</u>	<u>5,000</u>
Total general obligation loans	<u>27,230</u>	<u>-</u>	<u>(7,000)</u>	<u>20,230</u>	<u>7,000</u>
<u>Other Obligations:</u>					
Compensated absences	668,736	83,476	(63,157)	689,055	88,568
Capital lease	<u>138,027</u>	<u>25,354</u>	<u>(39,957)</u>	<u>123,424</u>	<u>30,258</u>
Total other obligations	<u>806,763</u>	<u>108,830</u>	<u>(103,114)</u>	<u>812,479</u>	<u>118,826</u>
Total long-term obligations, governmental activities	<u>\$ 3,852,335</u>	<u>\$ 143,375</u>	<u>\$ (225,114)</u>	<u>\$ 3,770,596</u>	<u>\$ 255,826</u>

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

- B.** On October 1, 1999, the District issued \$3,250,673 in general obligation bonds (Series 1999, School Facilities Improvement Bonds), which represent the District's share of a construction and renovation project approved and significantly funded by the Ohio School Facilities Commission (OSFC). These bonds are a general obligation of the District, for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to these bonds are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 3.80 (average) mill bonded debt tax levy.

In conjunction with the 3.80 mills which support the bond issue, the District also passed in fiscal 2000 a .5 mill levy to ultimately fund the maintenance costs of the new facility. Tax revenue from this levy has been reported in the special revenue funds.

This issue is comprised of current interest bonds, par value \$2,130,000, serial bonds, par value \$855,000, and capital appreciation bonds, par value \$580,000. The capital appreciation bonds mature each December 1, 2008 through 2011, (effective interest 7.639%, 7.701%, 7.634%, and 7.639%, respectively) at redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the governmental activities long-term obligations at June 30, 2005 was \$265,673. Total accreted interest of \$137,214 has been included in the statement of net assets at June 30, 2005. The current interest bonds maturing on or after December 1, 2008 are subject to early redemption at the sole option of the District, at the following redemption prices, plus accrued interest:

<u>Redemption Dates</u>	<u>Redemption Price</u>
December 1, 2008 through November 30, 2009	101% of par
December 1, 2009 and thereafter	100% of par

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2022.

In 1986 and in 1995 the District received loans from the U.S. Environmental Protection Agency for an asbestos abatement project. These loans are interest free provided the District remains current on repayment. These loans are general obligations of the District, for which the full faith and credit of the District is pledged for repayment. Payments are recorded as expenditures of the debt service fund; tax revenues provide the source for repayment.

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

- C. Principal and interest requirements to retire general obligation bonds and asbestos removal loans outstanding at June 30, 2005, are as follows:

Year Ending June 30	General Obligation Term Bonds	Capital Appreciation General Obligation Bonds	Asbestos Removal Loans	Total
2006	\$ 265,260	\$ -	\$ 7,000	\$ 272,260
2007	264,098	-	7,000	271,098
2008	262,566	-	6,230	268,796
2009	265,260	145,000	-	410,260
2010	-	145,000	-	145,000
2011 - 2015	516,242	290,000	-	806,242
2016 - 2020	1,300,835	-	-	1,300,835
2021 - 2023	<u>777,557</u>	<u>-</u>	<u>-</u>	<u>777,557</u>
Total Obligation	3,651,818	580,000	20,230	4,252,048
Less: Interest	<u>(1,116,818)</u>	<u>(177,113)</u>	<u>-</u>	<u>(1,293,931)</u>
Total	<u>\$ 2,535,000</u>	<u>\$ 402,887</u>	<u>\$ 20,230</u>	<u>\$ 2,958,117</u>

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$5,605,193 and an unvoted debt margin of \$91,069.

NOTE 12 - RISK MANAGEMENT

A. Property, Fleet, and Liability Insurance

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 a comprehensive property and casualty policy with the Indiana Insurance Company, which includes boiler coverage. The deductible is \$2,500 per incident. All vehicles are insured with Ohio School Plan and have a \$1,000 comprehensive deductible for collision and comprehensive bus coverage and a \$250 comprehensive deductible for automobiles and a \$500 collision deductible for automobiles. All board members, administrators and employees are covered under a school district liability policy with Ohio School Plan. The limits of this coverage are \$1,000,000 per occurrence and \$3,000,000 aggregate. Settled claims have not exceeded these commercial insurance coverage's in any of the past three years and there have been no significant reductions in insurance coverage from fiscal year 2004.

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 12 - RISK MANAGEMENT - (Continued)

B. Employee Dishonesty Bonds

The board president is covered with a surety bond for \$20,000 through the OSBA Board Program. The superintendent and the treasurer are covered by a \$20,000 and a \$100,000 surety bond respectively. The student activity clerk/treasurer's secretary is also covered by a surety bond in the amount of \$10,000. These bonds are all with the Western Surety Company. The remaining employees who handle money are covered with a public employees blanket bond in the amount of \$10,000. This coverage is provided by the State Auto Insurance Company. Settled claims have not exceeded these commercial insurance coverage's in any of the past three years. There have been no significant reductions in coverage from 2004.

C. Workers' Compensation

For fiscal year 2005, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. 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 Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan 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 Plan.

D. Huron-Erie School Employees Insurance Association

The District has contracted with the Huron-Erie School Employees Insurance Association (the "Association") to provide medical/surgical, dental, vision, and life insurance benefits for its employees and their covered dependents. The Association is a shared risk pool comprised of 14 school districts that provide public education within Erie and Huron Counties. The Districts pay monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for employees of participating school districts and their covered dependents. Claims are paid for all participants regardless of claims flow.

In the event of withdrawal, the District shall assume and be responsible for payment of all claims of its eligible employees, families, and dependents from the effective date of withdrawal, regardless of when such claims were incurred, processed, or presented to the Association, insurance provider, insurance consultant, or any other appropriate or authorized person or representative; provided further, any such claims, which are paid after the effective date of withdrawal by the Association insurance provider or insurance consultant, or charged to such parties, shall be reimbursed in full by any withdrawing member upon demand of the Association.

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$144,901, \$142,545 and \$139,507 respectively; 43.21% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$82,284 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

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 the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$557,150, \$559,611, and \$536,581, respectively; 83.49% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$91,996 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$4,865 made by the District and \$10,020 made by Plan members.

C. 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 Systems/State Teachers Retirement System. As of June 30, 2005, four of the five members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$39,796 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and 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 on 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.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$56,309 during the 2005 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of GAAP, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) is presented for the general fund and classroom facilities maintenance special revenue fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

**NEW LONDON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund and classroom facilities maintenance major special revenue fund are as follows:

Net Change in Fund Balance

	<u>General</u>	<u>Classroom Facilities Maintenance</u>
Budget basis	\$ 32,232	\$ 412,505
Net adjustment for revenue accruals	56,030	2,100
Net adjustment for expenditure accruals	660	-
Net adjustment for other sources/uses	(24,184)	-
Adjustment for encumbrances	<u>91,721</u>	<u>12,625</u>
GAAP basis	<u>\$ 156,459</u>	<u>\$ 427,230</u>

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local 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 District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2004	\$ (11,206)	\$ (104,276)
Current year set-aside requirement	159,448	159,448
Current year offsets	-	(42,244)
Qualifying disbursements	<u>(120,649)</u>	<u>(128,154)</u>
Total	<u>\$ 27,593</u>	<u>\$ (115,226)</u>
Cash balance carried forward to FY 2005	<u>\$ 27,593</u>	<u>\$ -</u>

The District had offsets and qualifying disbursement during the fiscal year that reduced the set-aside amounts below zero in the capital acquisition reserves, this extra amount may not be used to reduce the set-aside requirements of future years.

A schedule of the restricted assets at June 30, 2005 follows:

Amounts restricted for school bus purchase	\$ 43,993
Amounts restricted for textbooks	<u>27,593</u>
Total restricted assets	<u>\$ 71,586</u>

SUPPLEMENTAL DATA

NEW LONDON LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(D) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(D) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Nutrition Cluster:						
(A), (B) Food Donation	10.550	N/A	\$ -	\$ 59,562	\$ -	\$ 59,562
(A), (C) School Breakfast Program	10.553	047720-05-PU-2004	2,857	-	2,857	-
(A), (C) School Breakfast Program	10.553	047720-05-PU-2005	9,834	-	9,834	-
(A), (C) National School Lunch Program	10.555	047720-LL-P4-2004	25,654	-	25,654	-
(A), (C) National School Lunch Program	10.555	047720-LL-P4-2005	73,709	-	73,709	-
Total U.S. Department of Agriculture and Nutrition Cluster			<u>112,054</u>	<u>59,562</u>	<u>112,054</u>	<u>59,562</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Title I - Grants to Local Educational Agencies	84.010	047720-C1-S1-2004	-	-	14,328	-
Title I - Grants to Local Educational Agencies	84.010	047720-C1-S1-2005	207,802	-	190,903	-
Total Title I			<u>207,802</u>	-	<u>205,231</u>	-
Special Education Cluster:						
(G) Special Education - Grants to States	84.027	047720-6B-SF-2004	8,254	-	19,418	-
(G) Special Education - Grants to States	84.027	047720-6B-SF-2005	85,411	-	78,103	-
Total Special Education - Grants to States			<u>93,665</u>	-	<u>97,521</u>	-
(F), (G) Special Education - Preschool Grants	84.173	N/A	7,709	-	7,091	-
Total Special Education Cluster			<u>101,374</u>	-	<u>104,612</u>	-
(E) Federal Perkins Loan Program - Federal Capital Contributions	84.038	N/A	10,538	-	10,538	-
Safe and Drug-Free Schools and Communities - State Grants	84.186	047720-DR-S1-2004	-	-	358	-
Safe and Drug-Free Schools and Communities - State Grants	84.186	047720-DR-S1-2005	4,460	-	4,460	-
Total Safe and Drug-Free Schools			<u>4,460</u>	-	<u>4,818</u>	-
State Grants for Innovative Programs	84.298	047720-C2-S1-2005	4,682	-	4,080	-
Education Technology State Grants	84.318	047720-TJ-S1-2005	2,231	-	1,673	-
Improving Teacher Quality State Grants	84.367	047720-TR-S1-2004	-	-	5,036	-
Improving Teacher Quality State Grants	84.367	047720-TR-S1-2005	45,288	-	40,176	-
Total Improving Teacher Quality State Grants			<u>45,288</u>	-	<u>45,212</u>	-
Total U.S. Department of Education			<u>376,375</u>	-	<u>376,164</u>	-
U.S. DEPARTMENT OF HOMELAND SECURITY PASSED THROUGH THE OHIO EMERGENCY MANAGEMENT AGENCY						
Public Assistance Grants	97.036	FEMA-3198-EM-077031AA	5,445	-	5,445	-
Total U.S. Department of Homeland Security			<u>5,445</u>	-	<u>5,445</u>	-
Total Federal Financial Assistance			<u>\$ 493,874</u>	<u>\$ 59,562</u>	<u>\$ 493,663</u>	<u>\$ 59,562</u>

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.
 (B) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
 (C) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
 (D) This schedule was prepared on the cash basis of accounting.

- (E) Passed through Erie-Huron-Ottawa Career Center.
 (F) Passed through the Erie-Huron-Ottawa Educational Service Center.
 (G) Included as part of "Special Education Grant Cluster" in determining major programs.

JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

333 County Line Rd. West
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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Education
New London Local School District
2 Wildcat Drive
New London, Ohio 44851

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of New London Local School District (the “District”) as of and for the fiscal year ended June 30, 2005, which collectively comprise the District’s basic financial statements and have issued our report thereon dated September 30, 2005. During the fiscal year ended June 30, 2005, the New London Local School District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2 “Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers”. In addition, the District has presented a prior period adjustment to correct amounts recorded as intergovernmental payable in the Classroom Facilities capital project fund. 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 New London Local School District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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.

Board of Education
New London Local School District

Compliance and Other Matters

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

This report is intended solely for the information of the Board and management of the New London Local School District, 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 "Julian & Grube, Inc." The signature is written in dark ink and is positioned above the printed name of the firm.

Julian & Grube, Inc.
September 30, 2005

JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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

Board of Education
New London Local School District
2 Wildcat Drive
New London, Ohio 44851

Compliance

We have audited the compliance of the New London Local School 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 fiscal year ended June 30, 2005. During the fiscal year ended June 30, 2005, the New London Local School District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2 “Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers”. In addition, the District has presented a prior period adjustment to correct amounts recorded as intergovernmental payable in the Classroom Facilities capital project fund. The New London Local School District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the New London Local School District’s management. Our responsibility is to express an opinion on the New London Local School 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, *Audit 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 New London Local School District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the New London Local School District’s compliance with those requirements.

In our opinion, the New London Local School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2005.

Board of Education
New London Local School District

Internal Control Over Compliance

The management of the New London Local School 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 New London Local School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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. However, we noted a certain matter involving the internal control over compliance that we have reported to the management of the New London Local School District in a separate letter dated September 30, 2005.

This report is intended solely for the information of the Board and management of the New London Local School District, 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.



Julian & Grube, Inc.
September 30, 2005

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	Was 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 non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Was 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 Programs:	Title I - Grants to Local Educational Agencies - CFDA #84.010; Special Education Cluster: Special Education - Grants to States - CFDA #84.027 and Special Education - Preschool Handicapped - CFDA #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?	No

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2005**

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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**NEW LONDON LOCAL SCHOOL DISTRICT
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
DECEMBER 27, 2005**