

**NEW LONDON LOCAL
SCHOOL DISTRICT**

HURON COUNTY, OHIO

BASIC FINANCIAL STATEMENTS

(Audited)

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2006***

GINA BLACKMAN, TREASURER



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the New London Local School District, Huron County, prepared by Julian and Grube, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 10, 2007

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NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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, 2006, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2006 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis 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.



Julian & Grube, Inc.
November 28, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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, 2006. 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 2006 are as follows:

- In total, net assets of governmental activities decreased \$451,390 which represents a 3.18% decrease from 2005.
- General revenues accounted for \$8,442,851 in revenue or 83.51% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,667,434 or 16.49% of total revenues of \$10,110,285.
- The District had \$10,561,675 in expenses related to governmental activities; \$1,667,434 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,442,851 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund and classroom facilities maintenance fund. The general fund had \$8,546,338 in revenues and \$8,467,254 in expenditures. During fiscal year 2006, the general fund's fund balance increased \$79,084 from \$678,701 to \$757,785.
- The classroom facilities maintenance fund had \$59,896 in revenues and \$14,347 in expenditures. During fiscal year 2006, the classroom facilities maintenance fund's fund balance increased \$45,549 from \$556,671 to \$602,220.
- The debt service fund had \$243,912 in revenues and \$277,754 in expenditures. During fiscal year 2006, the debt service fund's fund balance decreased \$33,842 from \$346,827 to \$312,985.

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, debt service 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, 2006

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 2006?" 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, debt service 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, 2006

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 2006 and 2005.

	Net Assets	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Assets</u>		
Current and other assets	\$ 5,168,485	\$ 4,648,807
Capital assets, net	<u>15,261,700</u>	<u>15,912,675</u>
Total assets	<u>20,430,185</u>	<u>20,561,482</u>
<u>Liabilities</u>		
Current liabilities	2,896,275	2,598,252
Long-term liabilities	<u>3,792,666</u>	<u>3,770,596</u>
Total liabilities	<u>6,688,941</u>	<u>6,368,848</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	12,484,631	12,968,348
Restricted	1,140,586	1,165,586
Unrestricted	<u>116,027</u>	<u>58,700</u>
Total net assets	<u>\$ 13,741,244</u>	<u>\$ 14,192,634</u>

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

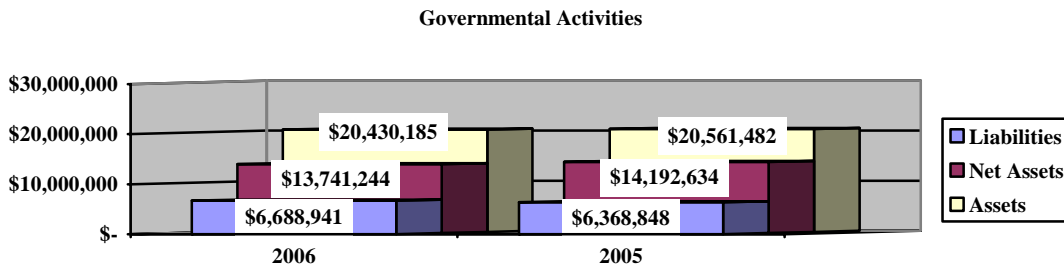
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$13,741,244. Of this total, \$116,027 is unrestricted in use.

At year-end, capital assets represented 74.70% 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, 2006, were \$12,484,631. 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, \$1,140,586, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$116,027 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, 2006:



The table below shows the change in net assets for fiscal years 2006 and 2005.

Revenues

Program revenues:

Charges for services and sales	\$ 986,314	\$ 1,059,733
Operating grants and contributions	669,344	772,809
Capital grants and contributions	11,776	-

General revenues:

Property taxes	1,887,252	2,195,671
School District income tax	925,618	847,443
Grants and entitlements	5,518,304	5,055,742
Investment earnings	<u>111,677</u>	<u>48,414</u>

Total revenues	<u>10,110,285</u>	<u>9,979,812</u>
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**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Change in Net Assets

	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 5,156,646	\$ 5,002,949
Special	986,999	844,148
Vocational	379,213	224,009
Adult/continuing	11,206	11,371
Other	24,186	153,465
Support services:		
Pupil	323,277	316,918
Instructional staff	520,671	515,794
Board of education	13,761	9,837
Administration	713,704	752,106
Fiscal	226,137	207,707
Business	5,834	7,082
Operations and maintenance	787,167	809,363
Pupil transportation	449,007	449,112
Central	-	1,166
Food service operations	399,545	402,432
Operations of non-instructional services	255	256
Extracurricular activities	389,449	422,708
Intergovernmental pass-through	618	7,091
Interest and fiscal charges	174,000	184,176
 Total expenses	 <u>10,561,675</u>	 <u>10,321,690</u>
 Special Items	 <u>-</u>	 <u>24,131</u>
 Change in net assets	 <u>(451,390)</u>	 <u>(317,747)</u>
 Beginning Balance	 <u>14,192,634</u>	 <u>14,510,381</u>
 Ending Balance	 <u>\$ 13,741,244</u>	 <u>\$ 14,192,634</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$451,390. Total governmental expenses of \$10,561,675 were offset by program revenues of \$1,667,434, and general revenues of \$8,442,851. Program revenues supported 15.79% of the total governmental expenses.

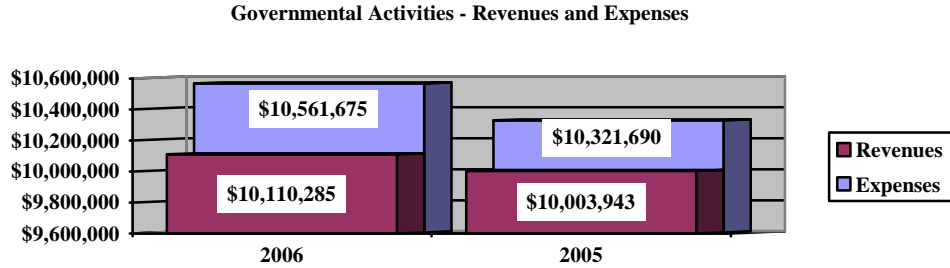
The primary sources of revenue for governmental activities are derived from property taxes, income taxes, and grants and entitlements. These revenue sources represent 82.40% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,558,250 or 62.09% of total governmental expenses for fiscal year 2006.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2006.



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 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program expenses				
Instruction:				
Regular	\$ 5,156,646	\$ 4,548,270	\$ 5,002,949	\$ 4,279,837
Special	986,999	680,153	844,148	561,464
Vocational	379,213	375,202	224,009	221,309
Adult/continuing	11,206	11,206	11,371	11,371
Other	24,186	24,186	153,465	153,465
Support services:				
Pupil	323,277	319,918	316,918	316,589
Instructional staff	520,671	459,964	515,794	437,102
Board of education	13,761	13,761	9,837	9,837
Administration	713,704	703,491	752,106	739,826
Fiscal	226,137	225,989	207,707	200,238
Business	5,834	5,789	7,082	2,885
Operations and maintenance	787,167	780,205	809,363	755,177
Pupil transportation	449,007	449,007	449,112	448,913
Central	-	-	1,166	1,166
Food service operations	399,545	(11,923)	402,432	(34,491)
Operations of non-instructional services	255	255	256	47
Extracurricular activities	389,449	134,150	422,708	200,855
Intergovernmental pass-through	618	618	7,091	(618)
Interest and fiscal charges	174,000	174,000	184,176	184,176
Total expenses	\$ 10,561,675	\$ 8,894,241	\$ 10,321,690	\$ 8,489,148

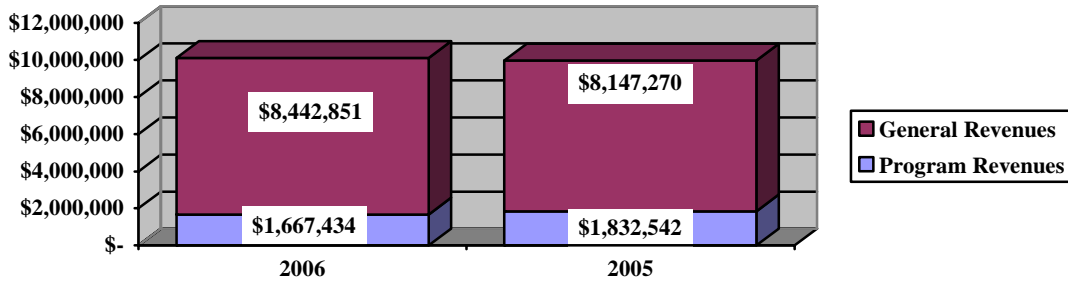
The dependence upon tax and other general revenues for governmental activities is apparent, 85.98% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.37%. The District's taxpayers, as a whole, are by far the 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, 2006**

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,936,668, which is higher than last year's total of \$1,865,968. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	<u>Fund Balance</u> <u>June 30, 2006</u>	<u>Fund Balance</u> <u>June 30, 2005</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
General	\$ 757,785	\$ 678,701	\$ 79,084	11.65 %
Classroom Facilities Maintenance	602,220	556,671	45,549	8.18 %
Debt Service	312,985	346,827	(33,842)	(9.76) %
Other Governmental	<u>263,678</u>	<u>283,769</u>	<u>(20,091)</u>	(7.08) %
Total	<u>\$ 1,936,668</u>	<u>\$ 1,865,968</u>	<u>\$ 70,700</u>	3.79 %

General Fund

The District's general fund balance increased \$79,084. The increase in fund balance can be attributed to several items. In fiscal year 2006 intergovernmental revenues and earnings on investments increased substantially while there is no capital outlay in fiscal year 2006. 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, 2006**

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 2,517,798	\$ 2,749,959	\$ (232,161)	(8.44) %
Earnings on investments	79,130	33,628	45,502	135.31 %
Intergovernmental	5,486,264	5,022,982	463,282	9.22 %
Other revenues	<u>463,146</u>	<u>511,622</u>	<u>(48,476)</u>	(9.47) %
 Total	 <u>\$ 8,546,338</u>	 <u>\$ 8,318,191</u>	 <u>\$ 228,147</u>	 2.74 %
<u>Expenditures</u>				
Instruction	\$ 5,327,425	\$ 5,065,417	\$ 262,008	5.17 %
Support services	2,904,058	2,854,572	49,486	1.73 %
Extracurricular activities	194,140	212,518	(18,378)	(8.65) %
Facilities acquisition and construction	2,593	2,600	(7)	(0.27) %
Capital outlay	-	12,941	(12,941)	(100.00) %
Debt service	<u>39,038</u>	<u>39,038</u>	<u>-</u>	- %
 Total	 <u>\$ 8,467,254</u>	 <u>\$ 8,187,086</u>	 <u>\$ 280,168</u>	 3.42 %

Classroom Facilities Maintenance Fund

The classroom facilities maintenance fund had \$59,896 in revenues and \$14,347 in expenditures. During fiscal year 2006, the classroom facilities maintenance fund's fund balance increased \$45,549 from \$556,671 to \$602,220.

Debt Service Fund

The debt service fund had \$243,912 in revenues and \$277,754 in expenditures. During fiscal year 2006, the debt service fund's fund balance decreased \$33,842 from \$346,827 to \$312,985.

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.

During the course of fiscal 2006, the District amended its general fund budget several times. For the general fund, original and final budgeted revenues and other financing sources were \$8,431,936. Actual revenues and other financing sources for fiscal 2006 was \$8,774,297. This represents a \$342,361 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$9,326,645 this was decreased to \$8,596,953 in the final budget. The actual budget basis expenditures for fiscal year 2006 totaled \$8,432,714, which was \$164,239 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, 2006

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$15,261,700 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 2006 balances compared to 2005:

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

	Governmental Activities	
	2006	2005
Land	\$ 63,150	\$ 63,150
Land improvements	1,001,823	1,074,705
Building and improvements	13,643,560	14,204,249
Furniture and equipment	446,184	494,625
Vehicles	106,983	75,946
 Total	 <u>\$ 15,261,700</u>	 <u>\$ 15,912,675</u>

The overall decrease in capital assets of \$650,975 is due to depreciation expense of \$715,775 exceeding capital outlay of \$64,800 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, 2006, the District had \$2,838,299 in general obligation bonds, \$13,230 in asbestos abatement loans and \$93,166 in capital leases outstanding. Of this total, \$174,769 is due within one year and \$2,769,926 is due within greater than one year. The following table summarizes the bonds, loans and capital leases outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2006	2005
General obligation bonds	\$ 2,838,299	\$ 2,937,887
Asbestos abatement loans	13,230	20,230
Capital leases	93,166	123,424
 Total	 <u>\$ 2,944,695</u>	 <u>\$ 3,081,541</u>

At June 30, 2006, the District's overall legal debt margin was \$5,570,758, and an unvoted debt margin of \$89,956.

See Note 10 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, 2006**

Current Financial Related Activities

Our district has struggled financially in recent years until a dramatic increase in our student count in fiscal year 2006. Prior to that, some of our financial facts are: we built a new K-12 school building through the 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 until FY 06. In past years, our revenues have been fairly flat – somewhat due to the downward turn in the economy, but also due to state budget cuts and a flat or declining enrollment until FY 06. 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-saving measures were put in place during the 2004-05 and the 2005-06 school years. Two staff members who retired at the end of the 2004-05 school year were not replaced and in that school year and in the 2005-06 school year other staff members who left or retired were replaced by less experienced personnel. The teaching and non-teaching staffs have both negotiated to pick up more of the cost of the health insurance for the district. Both groups have settled 3-year contracts, which will be in effect through the 2007-08 school year. By that time, the employee share of health insurance will be at 12%. In this era of rising health care costs, this increased employee share has helped to curtail the costs of health insurance in the 2004-05 and 2005-06 fiscal years.

In fiscal year 2006, New London Schools was ranked 103 on the District Ranking of OSFC Valuation per Pupil. What this means to us is that of the 614 school districts in Ohio, there are 511 schools who are wealthier than New London (based on property values). This is an amazing fact considering the success we have seen on our report card. We have received an Excellent rating on our report card for the last three 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, 2006

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 2,570,875
Receivables:	
Taxes.	2,551,826
Accounts.	1,544
Accrued interest.	1,269
Intergovernmental.	28,061
Materials and supplies inventory	14,910
Capital assets:	
Land	63,150
Depreciable capital assets, net	15,198,550
Capital assets, net	<u>15,261,700</u>
 Total assets.	 <u>20,430,185</u>
Liabilities:	
Accounts payable.	44,217
Accrued wages and benefits	847,072
Pension obligation payable.	193,387
Intergovernmental	46,207
Deferred revenue	1,757,032
Accrued interest payable	8,360
Long-term liabilities:	
Due within one year.	227,580
Due in more than one year.	<u>3,565,086</u>
 Total liabilities	 <u>6,688,941</u>
Net Assets:	
Invested in capital assets, net of related debt.	12,484,631
Restricted for:	
Capital projects	9,174
Debt service.	324,429
State funded programs	9,247
Federally funded programs.	3,044
Student activities	89,065
Public school support	37,016
Other purposes	668,611
Unrestricted.	<u>116,027</u>
 Total net assets	 <u>\$ 13,741,244</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, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 5,156,646	\$ 479,061	\$ 117,539	\$ 11,776
Special	986,999	-	306,846	-
Vocational	379,213	-	4,011	-
Adult/continuing	11,206	-	-	-
Other	24,186	-	-	-
Support services:				
Pupil	323,277	-	3,359	-
Instructional staff	520,671	-	60,707	-
Board of education	13,761	-	-	-
Administration	713,704	-	10,213	-
Fiscal	226,137	-	148	-
Business	5,834	-	45	-
Operations and maintenance	787,167	-	6,962	-
Pupil transportation	449,007	-	-	-
Operation of non-instructional	255	-	-	-
Extracurricular activities	389,449	248,690	6,609	-
Intergovernmental pass-through	618	-	-	-
Food service operations	399,545	258,563	152,905	-
Interest and fiscal charges	174,000	-	-	-
Total governmental activities	\$ 10,561,675	\$ 986,314	\$ 669,344	\$ 11,776
General Revenues:				
Property taxes levied for:				
General purposes				1,636,785
Special revenue				32,855
Debt service				217,612
School district income tax				925,618
Grants and entitlements not restricted to specific programs				5,518,304
Investment earnings				111,677
Total general revenues				8,442,851
Change in net assets				(451,390)
Net assets at beginning of year				14,192,634
Net assets at end of year				\$ 13,741,244

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Classroom Facilities Maintenance	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and cash equivalents	\$ 1,295,303	\$ 597,095	\$ 278,789	\$ 345,841	\$ 2,517,028
Receivables:					
Taxes	2,251,986	39,178	260,662	-	2,551,826
Accounts	906	-	-	638	1,544
Accrued interest	1,269	-	-	-	1,269
Intergovernmental	-	-	-	28,061	28,061
Materials and supplies inventory	-	-	-	14,910	14,910
Restricted assets:					
Equity in pooled cash and cash equivalents	53,847	-	-	-	53,847
Total assets	<u>\$ 3,603,311</u>	<u>\$ 636,273</u>	<u>\$ 539,451</u>	<u>\$ 389,450</u>	<u>\$ 5,168,485</u>
Liabilities:					
Accounts payable	\$ 30,541	\$ -	\$ -	\$ 13,676	\$ 44,217
Accrued wages and benefits	760,765	-	-	86,307	847,072
Compensated absences payable	173,461	-	-	-	173,461
Pension obligation payable.	171,663	-	-	21,724	193,387
Intergovernmental payable.	42,142	-	-	4,065	46,207
Deferred revenue.	1,666,954	34,053	226,466	-	1,927,473
Total liabilities	<u>2,845,526</u>	<u>34,053</u>	<u>226,466</u>	<u>125,772</u>	<u>3,231,817</u>
Fund Balances:					
Reserved for encumbrances	78,455	6,587	-	55,729	140,771
Reserved for materials and supplies inventory.	-	-	-	14,910	14,910
Reserved for debt service	-	-	278,789	-	278,789
Reserved for property tax unavailable for appropriation	252,978	5,125	34,196	-	292,299
Reserved for school bus purchase	7,798	-	-	-	7,798
Reserved for textbooks	46,049	-	-	-	46,049
Unreserved, undesignated, reported in:					
General fund	372,505	-	-	-	372,505
Special revenue funds.	-	590,508	-	183,927	774,435
Capital projects funds.	-	-	-	9,112	9,112
Total fund balances	<u>757,785</u>	<u>602,220</u>	<u>312,985</u>	<u>263,678</u>	<u>1,936,668</u>
Total liabilities and fund balances	<u>\$ 3,603,311</u>	<u>\$ 636,273</u>	<u>\$ 539,451</u>	<u>\$ 389,450</u>	<u>\$ 5,168,485</u>

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, 2006

Total governmental fund balances		\$ 1,936,668
<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.		15,261,700
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 169,172	
Accrued interest	1,269	
		170,441
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(8,360)
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	674,510	
Capital lease obligation payable	93,166	
Asbestos loan payable	13,230	
General obligation bonds payable	2,838,299	
Total		(3,619,205)
Net assets of governmental activities		\$ 13,741,244

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, 2006

	General	Classroom Facilities Maintenance	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes	\$ 2,517,798	\$ 31,945	\$ 211,872	\$ -	\$ 2,761,615
Tuition.	419,367	-	-	15,915	435,282
Earnings on investments.	79,130	23,139	-	10,235	112,504
Charges for services	-	-	-	258,563	258,563
Extracurricular.	-	-	-	248,690	248,690
Classroom materials and fees	43,779	-	-	-	43,779
Other local revenues.	-	-	-	9,472	9,472
Intergovernmental - state	5,479,421	4,812	32,040	147,741	5,664,014
Intergovernmental - federal	6,843	-	-	524,258	531,101
Total revenue	<u>8,546,338</u>	<u>59,896</u>	<u>243,912</u>	<u>1,214,874</u>	<u>10,065,020</u>
Expenditures:					
Current:					
Instruction:					
Regular	4,243,877	-	-	206,296	4,450,173
Special.	676,139	-	-	315,537	991,676
Vocational.	373,204	-	-	4,346	377,550
Adult/continuing	11,206	-	-	-	11,206
Other.	22,999	-	-	-	22,999
Support services:					
Pupil.	318,586	-	-	3,363	321,949
Instructional staff	433,713	-	-	78,212	511,925
Board of education	13,761	-	-	-	13,761
Administration.	675,396	830	5,494	9,433	691,153
Fiscal	223,236	-	-	148	223,384
Business	-	-	-	2,724	2,724
Operations and maintenance.	763,436	13,517	-	3,763	780,716
Pupil transportation	475,930	-	-	-	475,930
Operation of non-instructional services.	-	-	-	255	255
Food service operations	-	-	-	394,059	394,059
Extracurricular activities.	194,140	-	-	187,695	381,835
Facilities acquisition and construction	2,593	-	-	28,516	31,109
Intergovernmental pass through	-	-	-	618	618
Debt service:					
Principal retirement	30,258	-	137,000	-	167,258
Interest and fiscal charges	8,780	-	135,260	-	144,040
Total expenditures	<u>8,467,254</u>	<u>14,347</u>	<u>277,754</u>	<u>1,234,965</u>	<u>9,994,320</u>
Net change in fund balances	79,084	45,549	(33,842)	(20,091)	70,700
Fund balances at beginning of year.	<u>678,701</u>	<u>556,671</u>	<u>346,827</u>	<u>283,769</u>	<u>1,865,968</u>
Fund balances at end of year	<u>\$ 757,785</u>	<u>\$ 602,220</u>	<u>\$ 312,985</u>	<u>\$ 263,678</u>	<u>\$ 1,936,668</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, 2006

Net change in fund balances - total governmental funds	\$	70,700
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>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.</p>		
Capital asset additions	64,800	
Current year depreciation	<u>(715,775)</u>	(650,975)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Delinquent property taxes	51,255	
Intergovernmental	(5,163)	
Accrued interest	<u>(827)</u>	45,265
<p>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.</p>		
		167,258
<p>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.</p>		
		(29,960)
<p>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.</p>		
		<u>(53,678)</u>
Change in net assets of governmental activities	\$	<u><u>(451,390)</u></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, 2006

	<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	\$ 2,622,180	\$ 2,622,180	\$ 2,728,631	\$ 106,451
Tuition.	403,006	403,006	419,367	16,361
Earnings on investments.	65,547	65,547	68,262	2,715
Classroom materials and fees	42,323	42,323	44,041	1,718
Other local revenues	192	192	200	8
Intergovernmental - state	5,265,655	5,265,655	5,479,422	213,767
Intergovernmental - federal	6,576	6,576	6,843	267
Total revenue	<u>8,405,479</u>	<u>8,405,479</u>	<u>8,746,766</u>	<u>341,287</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,645,189	4,242,874	4,199,961	42,913
Special.	725,210	677,661	655,701	21,960
Vocational.	396,822	361,827	358,788	3,039
Adult	15,117	24,602	13,668	10,934
Other.	54,128	48,942	48,940	2
Support services:				
Pupil.	348,158	325,495	314,788	10,707
Instructional staff	479,817	439,871	433,828	6,043
Board of education	18,742	17,005	16,946	59
Administration.	765,804	711,353	692,404	18,949
Fiscal	248,398	226,079	224,590	1,489
Operations and maintenance.	873,678	816,194	789,939	26,255
Pupil transportation	537,958	503,130	486,396	16,734
Extracurricular activities.	214,748	199,227	194,165	5,062
Facilities acquisition and construction.	2,876	2,600	2,600	-
Total expenditures	<u>9,326,645</u>	<u>8,596,860</u>	<u>8,432,714</u>	<u>164,146</u>
Excess of revenues over (under) expenditures.	<u>(921,166)</u>	<u>(191,381)</u>	<u>314,052</u>	<u>505,433</u>
Other financing sources (uses):				
Refund of prior year expenditure	-	(93)	-	93
Refund of prior year receipt	26,457	26,457	27,531	1,074
Total other financing sources (uses)	<u>26,457</u>	<u>26,364</u>	<u>27,531</u>	<u>1,167</u>
Net change in fund balance	(894,709)	(165,017)	341,583	506,600
Fund balance at beginning of year.	802,988	802,988	802,988	-
Prior year encumbrances appropriated	91,721	91,721	91,721	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ 729,692</u>	<u>\$ 1,236,292</u>	<u>\$ 506,600</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
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<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	\$ 27,529	\$ 27,529	\$ 37,167	\$ 9,638
Earnings on investments.	16,337	16,337	22,057	5,720
Intergovernmental - state	3,564	3,564	4,812	1,248
Total revenue	<u>47,430</u>	<u>47,430</u>	<u>64,036</u>	<u>16,606</u>
Expenditures:				
Current:				
Support services:				
Administration.	23,485	2,954	830	2,124
Operations and maintenance.	568,825	71,541	20,103	51,438
Total expenditures	<u>592,310</u>	<u>74,495</u>	<u>20,933</u>	<u>53,562</u>
Net change in fund balance	(544,880)	(27,065)	43,103	70,168
Fund balance at beginning of year.	532,255	532,255	532,255	-
Prior year encumbrances appropriated	12,625	12,625	12,625	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ 517,815</u>	<u>\$ 587,983</u>	<u>\$ 70,168</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, 2006

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 359,471	\$ 33,469
Receivables:		
Accrued interest	-	-
Total assets.	359,471	\$ 33,469
Liabilities:		
Accounts payable.	-	\$ 342
Intergovernmental payable	-	69
Due to students	-	33,058
Total liabilities	-	\$ 33,469
Net Assets:		
Held in trust for scholarships	359,471	
Total net assets	\$ 359,471	

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, 2006

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 15,165
Gifts and contributions.	18,493
	33,658
Total additions.	33,658
Deductions:	
Scholarships awarded	29,732
	3,926
Change in net assets	3,926
Net assets at beginning of year.	355,545
Net assets at end of year	\$ 359,471

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, 2006**

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 49 non-certified and 80 certified (including administrative) full-time and part-time employees to provide services to approximately 1,271 students in grades K through 12 and various community groups, which ranks it 421st out of 615 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 organizations 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 organization's; 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 this 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, 2006

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 11.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 11.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 three categories of funds: governmental, proprietary and fiduciary. The District has no proprietary funds.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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.

Debt Service Fund - This fund is used for the accumulation of resources for and payment of, general long-term debt principal, interest and related cost.

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 and (b) for grants and other resources whose use is restricted to a particular purpose.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for 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
HURON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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
HURON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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, 2006, but which were levied to finance fiscal year 2007 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 2006 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 fiscal year ended June 30, 2006.
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 original and final Amended Certificate issued for fiscal year 2006.

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 2006.
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 2006, 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 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

**NEW LONDON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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 2006 amounted to \$79,130, which includes \$26,183 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

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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 2006.

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, 2006, 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, 2006, 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.

In the governmental fund financial statements, compensated absences are reported to the extent that a known liability for an employee’s retirement/resignation has been incurred by fiscal year-end. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees are paid.

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.

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
HURON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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. As of June 30, 2006, net assets restricted by enabling legislation were \$0 in the statement of net assets.

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 16 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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. During fiscal year 2006, the District had no transactions that would be classified as special items.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

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

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Nonmajor Funds</u>	
Public School Preschool	\$ 866
Ohio Reads	24
Aging Education 5th Quarter Grant	39
Poverty Aid	328
Drug-free Schools	8
Reducing Class Size	919
Miscellaneous Federal Grants	9

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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 result 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.

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;

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2006, the carrying amount of all District deposits was \$423,463, exclusive of the \$1,393,969 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, 2006, \$118,800 of the District's bank balance of \$476,005 was exposed to custodial risk as discussed below, while \$357,205 was covered by Federal Deposit Insurance Corporation.

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, 2006, 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	\$ 1,393,969	\$ 1,393,969
STAR Ohio	<u>1,146,383</u>	<u>1,146,383</u>
Total	<u>\$ 2,540,352</u>	<u>\$ 2,540,352</u>

**NEW LONDON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio and AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

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, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreement	\$ 1,393,969	54.87%
STAR Ohio	<u>1,146,383</u>	<u>45.13%</u>
	<u>\$ 2,540,352</u>	<u>100.00%</u>

C. Reconciliation of Cash and Investment 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, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 423,463
Investments	2,540,352
Total	<u>\$ 2,963,815</u>
<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,570,875
Private-purpose trust funds	359,471
Agency funds	<u>33,469</u>
Total	<u>\$ 2,963,815</u>

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.

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 5 - PROPERTY TAXES - (Continued)

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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2006, on the value as of December 31, 2005. 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.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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, 2006, are available to finance fiscal year 2007 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, 2006 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.

**NEW LONDON LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 5 - PROPERTY TAXES - (Continued)

The amount available as an advance at June 30, 2006 was \$252,978 in the general fund, \$34,196 in the debt service fund, and \$5,125 in the Classroom Facilities Maintenance fund. These amounts have been recorded as 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.

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 2006 taxes were collected are:

	2005 Second Half		2006 First Half	
	Half Collections		Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 82,534,700	90.63	\$ 84,152,650	93.55
Public utility personal	4,073,146	4.47	3,540,550	3.94
Tangible personal property	<u>4,461,630</u>	<u>4.90</u>	<u>2,263,161</u>	<u>2.51</u>
Total	<u>\$ 91,069,476</u>	<u>100.00</u>	<u>\$ 89,956,361</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	

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 2006, was \$925,618.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 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	\$ 2,551,826
Accounts	1,544
Accrued interest	1,269
Intergovernmental	<u>28,061</u>
Total	<u>\$ 2,582,700</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 7 - RECEIVABLES - (Continued)

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, 2006, was as follows:

	<u>Balance</u> <u>07/01/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/06</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 63,150	\$ -	\$ -	\$ 63,150
Total capital assets, not being depreciated	<u>63,150</u>	<u>-</u>	<u>-</u>	<u>63,150</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,544,212	-	-	1,544,212
Buildings and improvements	16,708,748	-	-	16,708,748
Furniture and equipment	667,113	5,000	-	672,113
Vehicles	749,475	59,800	-	809,275
Total capital assets, being depreciated	<u>19,669,548</u>	<u>64,800</u>	<u>-</u>	<u>19,734,348</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(469,507)	(72,882)	-	(542,389)
Buildings and improvements	(2,504,499)	(560,689)	-	(3,065,188)
Furniture and equipment	(172,488)	(53,441)	-	(225,929)
Vehicles	(673,529)	(28,763)	-	(702,292)
Total accumulated depreciation	<u>(3,820,023)</u>	<u>(715,775)</u>	<u>-</u>	<u>(4,535,798)</u>
Governmental activities capital assets, net	<u>\$ 15,912,675</u>	<u>\$ (650,975)</u>	<u>\$ -</u>	<u>\$ 15,261,700</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 660,279
<u>Support Services:</u>	
Instructional staff	359
Administration	7,119
Business	3,110
Pupil transportation	28,763
Extracurricular activities	7,614
Food service operations	6,671
Facilities and acquisitions	<u>1,860</u>
Total depreciation expense	<u>\$ 715,775</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

During a prior fiscal year, 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 2006 totaled \$30,258 paid by the general fund. Accumulated depreciation totaled \$102,480 resulting in a net book value of \$102,479 at June 30, 2006.

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, 2006:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 39,038
2008	39,038
2009	<u>25,736</u>
Total minimum lease payments	103,812
Less amount representing interest	<u>(10,646)</u>
Total	<u>\$ 93,166</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 10 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Outstanding <u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/06</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
<u>General Obligation Bonds:</u>					
Series 1999, improvement 5.25%, 12/01/22 maturity	\$ 2,535,000	\$ -	\$ (130,000)	2,405,000	\$ 135,000
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>137,214</u>	<u>30,412</u>	<u>-</u>	<u>167,626</u>	<u>-</u>
Total general obligation bonds	<u>2,937,887</u>	<u>30,412</u>	<u>(130,000)</u>	<u>2,838,299</u>	<u>135,000</u>
<u>General Obligation Loans:</u>					
Asbestos abatement, 1989 0%, 05/30/08 maturity	6,010	-	(2,000)	4,010	2,000
Asbestos abatement, 1995 0%, 05/31/08 maturity	<u>14,220</u>	<u>-</u>	<u>(5,000)</u>	<u>9,220</u>	<u>5,000</u>
Total general obligation loans	<u>20,230</u>	<u>-</u>	<u>(7,000)</u>	<u>13,230</u>	<u>7,000</u>
<u>Other Obligations:</u>					
Compensated absences	689,055	269,083	(110,167)	847,971	52,811
Capital lease	<u>123,424</u>	<u>-</u>	<u>(30,258)</u>	<u>93,166</u>	<u>32,769</u>
Total other obligations	<u>812,479</u>	<u>269,083</u>	<u>(140,425)</u>	<u>941,137</u>	<u>85,580</u>
Total long-term obligations, governmental activities	<u>\$ 3,770,596</u>	<u>\$ 299,495</u>	<u>\$ (277,425)</u>	<u>\$ 3,792,666</u>	<u>\$ 227,580</u>

- 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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, 2006 was \$265,673. Total accreted interest of \$167,626 has been included in the statement of net assets at June 30, 2006. 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, 2006

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

- C. Principal and interest requirements to retire general obligation bonds and asbestos removal loans outstanding at June 30, 2006, are as follows:

Year Ending <u>June 30</u>	General Obligation <u>Term Bonds</u>	Capital Appreciation General Obligation <u>Bonds</u>	Asbestos Removal <u>Loans</u>	Total <u>Long-term Debt</u>
2007	\$ 264,098	\$ -	\$ 7,000	\$ 271,098
2008	262,565	-	6,230	268,795
2009	-	145,000	-	145,000
2010	-	145,000	-	145,000
2011	-	145,000	-	145,000
2012 - 2016	1,041,551	145,000	-	1,186,551
2017 - 2021	1,300,130	-	-	1,300,130
2022 - 2023	<u>518,215</u>	<u>-</u>	<u>-</u>	<u>518,215</u>
Total Obligation	3,386,559	580,000	13,230	3,979,789
Less: Interest	<u>(981,559)</u>	<u>(314,327)</u>	<u>-</u>	<u>(1,295,886)</u>
Total	<u>\$ 2,405,000</u>	<u>\$ 265,673</u>	<u>\$ 13,230</u>	<u>\$ 2,683,903</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, 2006 are a voted debt margin of \$5,570,358 and an unvoted debt margin of \$89,956.

NOTE 11 - 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 Schools of Ohio Risk Sharing Authority (SORSA), which includes boiler coverage. The deductible is \$1,000 per incident. All vehicles are insured with S.O.R.S.A. and have a \$1,000 comprehensive deductible for collision and comprehensive bus coverage and a \$1,000 comprehensive deductible for automobiles and a \$1,000 collision deductible for automobiles. All board members, administrators and employees are covered under a school district liability policy with SORSA. The limits of this coverage are \$6,000,000 per occurrence and \$8,000,000 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 2005.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 11 - 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 \$50,000. This coverage is provided by the SORSA.

C. Workers' Compensation

For fiscal year 2006, 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
HURON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent 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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent 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 statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$122,832, \$109,400 and \$92,552 respectively; 44.95% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$67,623 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 12 - 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.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent 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 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$523,418, \$517,354 and \$519,639 respectively; 83.75% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$85,046 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2006 were \$5,006 made by the District and \$11,107 made by Plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$40,263 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 1.13 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$44,955 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

NOTE 14 - 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) presented for the general fund and major special revenue fund: Classroom facilities maintenance fund are presented 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
HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 14 - 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 major special revenue fund is as follows:

Net Change in Fund Balance

	<u>General</u>	<u>Classroom Facilities Maintenance</u>
Budget basis	\$ 341,583	\$ 43,103
Net adjustment for revenue accruals	(200,428)	(4,140)
Net adjustment for expenditure accruals	(133,514)	(1)
Net adjustment for other sources/uses	(27,531)	-
Adjustment for encumbrances	<u>98,974</u>	<u>6,587</u>
GAAP basis	<u>\$ 79,084</u>	<u>\$ 45,549</u>

NOTE 15 - 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 16 - 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, 2006, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ 27,593	\$ -
Current year set-aside requirement	163,411	163,411
Current year offsets	-	(41,980)
Qualifying disbursements	<u>(144,955)</u>	<u>(158,853)</u>
Total	<u>\$ 46,049</u>	<u>\$ (37,422)</u>
Cash balance carried forward to FY 2007	<u>\$ 46,049</u>	<u>\$ -</u>

The District did not have enough qualifying disbursements to reduce the set-aside amount below zero for the textbooks/instructional materials. Restricted cash fund balance and a reservation of fund balance has been established in the General fund of \$46,049.

The District had enough qualifying expenditures to reduce the set-aside amount below zero for the capital acquisition reserve, however this amount may not be carried forward to future years.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases. The balance in the monies restricted for school bus purchases was \$7,798 at June 30, 2006. This balance is reported as restricted equity in pooled cash and reserved fund balance.

A schedule of the restricted assets at June 30, 2006 follows:

Amounts restricted for school bus purchase	\$ 7,798
Amounts restricted for textbooks	<u>46,049</u>
Total restricted assets	<u>\$ 53,847</u>

SUPPLEMENTAL DATA

**NEW LONDON LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(E) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(E) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Nutrition Cluster: (A),(C) Food Donation	10.550	N/A	\$ -	\$ 16,970	\$ -	\$ 16,970
Total Food Donation			-	16,970	-	16,970
(A),(D) School Breakfast Program	10.553	047720-05PU-2005	3,352	-	3,352	-
(A),(D) School Breakfast Program	10.553	047720-05PU-2006	10,801	-	10,801	-
Total School Breakfast Program			14,153	-	14,153	-
(A),(D) National School Lunch Program	10.555	047720-LLP4-2005	30,698	-	30,698	-
(A),(D) National School Lunch Program	10.555	047720-LLP4-2006	86,090	-	86,090	-
Total National School Lunch Program			116,788	-	116,788	-
Total U.S. Department of Agriculture and Nutrition Cluster			130,941	16,970	130,941	16,970
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION						
Title I Grants to Local Educational Agencies	84.010	047720-C1S1-2005	6,192		13,500	
Title I Grants to Local Educational Agencies	84.010	047720-C1S1-2006	75,032		68,232	
Total Title I Grants to Local Educational Agencies			81,224		81,732	
Special Education Cluster:						
(B) Special Education Grants to States	84.027	047720-6BSF-2005	6,639		23,538	
(B) Special Education Grants to States	84.027	047720-6BSF-2006	243,273		216,970	
Total Special Education Grants to States			249,912		240,508	
(B),(G) Special Education-Preschool Grants	84.173	N/A	7,535		7,535	
Total Special Education Cluster			257,447		248,043	
(F) Federal Perkins Loan Program Federal Capital Contributions	84.038	N/A	6,843		6,843	
Total Federal Perkins Loan Program Federal Capital Contributions			6,843		6,843	
Safe and Drug-Free Schools and Communities State Grants	84.186	047720-DRS1-2006	4,210		3,807	
Total Safe and Drug-Free Schools and Communities State Grants			4,210		3,807	
State Grants for Innovative Programs	84.298	047720-C2S1-2005	-		602	
State Grants for Innovative Programs	84.298	047720-C2S1-2006	3,178		3,178	
Total State Grants for Innovative Programs			3,178		3,780	
Education Technology State Grants	84.318	047720-TJS1-2005	-		558	
Education Technology State Grants	84.318	047720-TJS1-2006	1,326		1,326	
Total Education Technology State Grants			1,326		1,884	
Improving Teacher Quality State Grants	84.367	047720-TRS1-2005	2,178		7,290	
Improving Teacher Quality State Grants	84.367	047720-TRS1-2006	44,528		41,692	
Total Improving Teacher Quality State Grants			46,706		48,982	
Total U.S. Department of Education			400,934		395,071	
Total Federal Financial Assistance			\$ 531,875	\$ 16,970	\$ 526,012	\$ 16,970

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



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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

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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 28, 2006. 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.".

Julian & Grube, Inc.
November 28, 2006



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**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, 2006. 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, 2006.

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.

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.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
November 28, 2006

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2006**

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:	Nutrition Cluster: Food Donation - CFDA #10.550; School Breakfast Program - CFDA #10.553; National School Lunch Program - CFDA #10.555; 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, 2006**

**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.



Mary Taylor, CPA
Auditor of State

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
JANUARY 25, 2007