

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

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2004***

GINA BLACKMAN, TREASURER



**Auditor of State
Betty Montgomery**

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 Trimble, Julian & Grube, Inc., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 16, 2004

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

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TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard
Suite B
Worthington, Ohio 43085

Telephone 614.846.1899
Facsimile 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, 2004, 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, 2004, and the respective changes in financial position and the respective budgetary comparison for the General fund in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments, GASB Statement No. 37, Basic Financial Statements for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures GASB Interpretation No. 6 Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences for the fiscal year ended June 30, 2004. In addition, the District had a change in accounting principle for its threshold for fixed assets as described in Note 2H.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2004 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Trimble, Julian & Grube, Inc.

Trimble, Julian & Grube, Inc.
November 9, 2004

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The management's discussion and analysis of the New London Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. 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 2004 are as follows:

- In total, net assets of governmental activities decreased \$1,010,670 which represents a 6.56% decrease from 2003.
- General revenues accounted for \$8,039,785 in revenue or 82.02% of all revenues. The District reported a \$127,690 gain on sale of capital assets which is reported as a special item. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,634,978 or 16.68% of total revenues of \$9,802,453.
- The District had \$10,432,422 in expenses related to governmental activities; \$1,634,978 of these expenses was offset by program specific charges for services, grants or contributions. The District reported a \$380,701 expense as a special item relating to a refund to Ohio School Facilities Commission. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,039,785 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund and classroom facilities fund. The general fund had \$8,372,111 in revenues and other financing sources and \$8,394,006 in expenditures. During fiscal year 2004, the general fund's fund balance decreased \$21,895 from \$601,746 to \$579,851.
- One of the District's other major governmental funds is the debt service fund. The debt service fund had \$311,379 in revenues and \$268,699 in expenditures. During fiscal year 2004, the debt service fund's fund balance increased \$42,680 from \$287,064 to \$329,744.
- The District's other major governmental fund is the classroom facilities fund. The classroom facilities fund had \$7,615 in revenues and \$450,983 in expenditures and other financing uses. During fiscal year 2004, the classroom facilities fund's fund balance decreased \$443,368 from \$761,348 to \$317,980.

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 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, 2004
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" 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 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* than 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 15-19 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. 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 22-48 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2004.

| | Net Assets |
|--|---|
| | Governmental Activities <u>2004</u> |
| <u>Assets</u> | |
| Current and other assets | \$ 4,667,109 |
| Capital assets | <u>16,535,833</u> |
| Total assets | <u>21,202,942</u> |
| <u>Liabilities</u> | |
| Current liabilities | 2,951,554 |
| Long-term liabilities | <u>3,852,335</u> |
| Total liabilities | <u>6,803,889</u> |
| <u>Net Assets</u> | |
| Invested in capital assets, net of related debt | 13,352,234 |
| Restricted | 813,083 |
| Unrestricted | <u>233,736</u> |
| Total net assets | <u>\$ 14,399,053</u> |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$14,399,053. Of this total, \$233,736 is unrestricted in use.

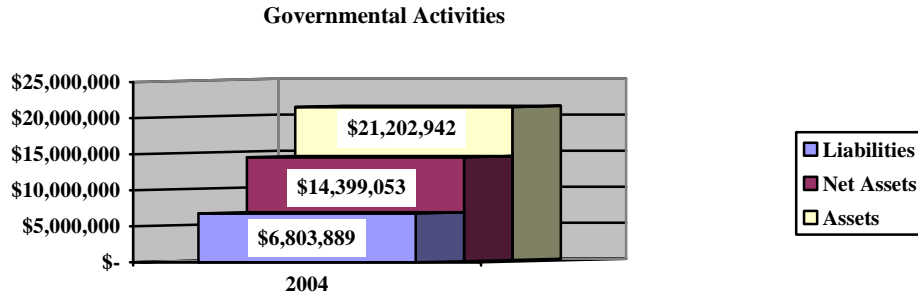
**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

At year-end, capital assets represented 77.99% 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, 2004, were \$13,352,234. 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, \$813,083, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$233,736 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, 2004:



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

| | Governmental Activities 2004 |
|------------------------------------|------------------------------------|
| <u>Revenues</u> | |
| Program revenues: | |
| Charges for services and sales | \$ 936,243 |
| Operating grants and contributions | 650,335 |
| Capital grants and contributions | 48,400 |
| General revenues: | |
| Property taxes | 2,372,072 |
| School District income tax | 826,171 |
| Grants and entitlements | 4,810,181 |
| Investment earnings | 21,531 |
| Miscellaneous | 9,830 |
| Special item | 127,690 |
| Total revenues | <u>9,802,453</u> |

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Change in Net Assets

| | Governmental Activities <u>2004</u> |
|--|---|
| <u>Expenses</u> | |
| Program expenses: | |
| Instruction: | |
| Regular | \$ 4,970,900 |
| Special | 906,992 |
| Vocational | 195,429 |
| Adult/continuing | 18,458 |
| Other | 149,264 |
| Support services: | |
| Pupil | 311,445 |
| Instructional staff | 504,019 |
| Board of education | 30,010 |
| Administration | 791,765 |
| Fiscal | 211,410 |
| Business | 1,372 |
| Operations and maintenance | 919,654 |
| Pupil transportation | 461,784 |
| Central | 9,904 |
| Food service operations | 381,438 |
| Operations of non-instructional services | 1,691 |
| Extracurricular activities | 390,799 |
| Interest and fiscal charges | 176,088 |
| Special item | <u>380,701</u> |
| Total expenses | <u>10,813,123</u> |
| Decrease in net assets | <u>\$ (1,010,670)</u> |

Governmental Activities

Net assets of the District's governmental activities decreased \$1,010,670. Total governmental expenses of \$10,813,123 were offset by program revenues of \$1,634,978, and general revenues of \$8,039,785. Program revenues supported 15.67% of the total governmental expenses. The District reported a \$127,690 gain on sale of capital assets which is reported as a special item. The District also reported a \$380,701 refund to Ohio School Facilities Commission as a special item.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes, and grants and entitlements. These revenue sources represent 81.70% of total governmental revenue.

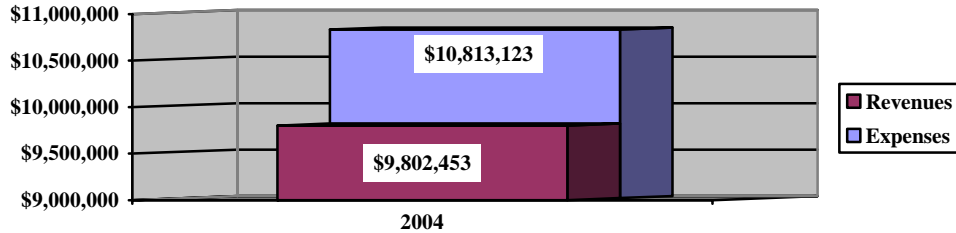
The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,241,043 or 57.72% of total governmental expenses for fiscal year 2004.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

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

Governmental Activities - Revenues and Expenses



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. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities

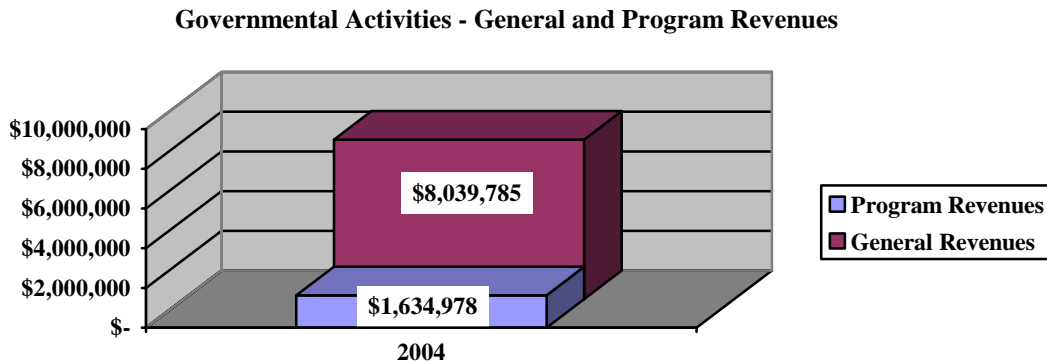
| | Total Cost of Services 2004 | Net Cost of Services 2004 |
|--|-----------------------------------|---------------------------------|
| Program expenses | | |
| Instruction: | | |
| Regular | \$ 4,970,900 | \$ 4,268,268 |
| Special | 906,992 | 739,999 |
| Vocational | 195,429 | 193,087 |
| Adult/continuing | 18,458 | 18,458 |
| Other | 149,264 | 149,264 |
| Support services: | | |
| Pupil | 311,445 | 306,431 |
| Instructional staff | 504,019 | 343,784 |
| Board of education | 30,010 | 30,010 |
| Administration | 791,765 | 777,290 |
| Fiscal | 211,410 | 205,566 |
| Business | 1,372 | - |
| Operations and maintenance | 919,654 | 913,166 |
| Pupil transportation | 461,784 | 461,693 |
| Central | 9,904 | 9,904 |
| Food service operations | 381,438 | (7,154) |
| Operations of non-instructional services | 1,691 | 397 |
| Extracurricular activities | 390,799 | 211,193 |
| Interest and fiscal charges | 176,088 | 176,088 |
| Total expenses | \$ 10,432,422 | \$ 8,797,444 |

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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The dependence upon tax and other general revenues for governmental activities is apparent, 86.03% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.33%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,616,550, which is lower than last year's total of \$1,969,462. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

| | Fund Balance June 30, 2004 | (Restated) Fund Balance June 30, 2003 | Increase (Decrease) | Percentage Change |
|----------------------|-------------------------------|---|------------------------|----------------------|
| General | \$ 579,851 | \$ 601,746 | \$ (21,895) | (3.64) % |
| Debt Service | 329,744 | 287,064 | 42,680 | 14.87 % |
| Classroom Facilities | 317,980 | 761,348 | (443,368) | (58.23) % |
| Other Governmental | <u>388,975</u> | <u>319,304</u> | <u>69,671</u> | 21.82 % |
| Total | <u>\$ 1,616,550</u> | <u>\$ 1,969,462</u> | <u>\$ (352,912)</u> | (17.92) % |

General Fund

The District's general fund balance decreased \$21,895 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. 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, 2004
UNAUDITED

| | <u>2004</u> <u>Amount</u> | <u>2003</u> <u>Amount</u> | <u>Increase</u> <u>(Decrease)</u> | <u>Percentage</u> <u>Change</u> |
|---|------------------------------|------------------------------|--------------------------------------|------------------------------------|
| <u>Revenues</u> | | | | |
| Taxes | \$ 2,880,629 | \$ 2,469,526 | \$ 411,103 | 16.65 % |
| Earnings on investments | 18,890 | 35,763 | (16,873) | (47.18) % |
| Intergovernmental | 4,777,888 | 4,805,859 | (27,971) | (0.58) % |
| Other revenues | <u>418,406</u> | <u>373,376</u> | <u>45,030</u> | 12.06 % |
| Total | <u>\$ 8,095,813</u> | <u>\$ 7,684,524</u> | <u>\$ 411,289</u> | 5.35 % |
| <u>Expenditures</u> | | | | |
| Instruction | \$ 5,113,128 | \$ 4,843,645 | \$ 269,483 | 5.56 % |
| Support services | 2,872,240 | 2,614,246 | 257,994 | 9.87 % |
| Extracurricular activities | 206,968 | 178,008 | 28,960 | 16.27 % |
| Facilities acquisition and construction | 6,444 | 15,554 | (9,110) | (58.57) % |
| Capital outlay | 146,298 | - | 146,298 | 100.00 % |
| Debt service | <u>48,928</u> | <u>13,531</u> | <u>35,397</u> | 261.60 % |
| Total | <u>\$ 8,394,006</u> | <u>\$ 7,664,984</u> | <u>\$ 729,022</u> | 9.51 % |

Debt Service Fund

The debt service fund had \$311,379 in revenues and \$268,699 in expenditures. During fiscal year 2004, the debt service fund's fund balance increased \$42,680 from \$287,064 to \$329,744.

Classroom Facilities Fund

The classroom facilities fund had \$7,615 in revenues and \$70,282 in expenditures and a \$380,701 refund to the Ohio School Facilities Commission. During fiscal year 2004, the classroom facilities fund's fund balance decreased \$443,368 from \$761,348 to \$317,980.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2004, the District amended its general fund budget several times. For the general fund, original and final budgeted revenues and other financing sources were \$8,028,911. Actual revenues and other financing sources for fiscal 2004 was \$7,979,227. This represents a \$49,684 decrease under original budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) totaled \$8,335,482 this was increased to \$8,371,082 in the final budget. The actual budget basis expenditures for fiscal year 2004 totaled \$8,264,351, which was \$106,731 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, 2004
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$16,535,833 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 2004 balances compared to 2003:

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

| | Governmental Activities | |
|---------------------------|-------------------------|-------------------|
| | 2004 | Restated 2003 |
| Land | \$ 85,480 | \$ 87,790 |
| Land improvements | 1,147,587 | 1,220,469 |
| Building and improvements | 14,650,328 | 15,209,333 |
| Furniture and equipment | 538,033 | 435,330 |
| Vehicles | 114,405 | 164,719 |
| Total | \$ 16,535,833 | \$ 17,117,641 |

The overall decrease in capital assets of \$581,808 is due to depreciation expense of \$725,796 and disposals of \$2,310 (net of accumulated depreciation) exceeding capital outlay of \$146,298 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, 2004, the District had \$3,018,342 in general obligation bonds, \$27,230 in asbestos abatement loans and \$138,027 in capital leases outstanding. Of this total, \$147,747 is due within one year and \$3,035,852 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 |
|--------------------------|----------------------------|----------------------------|
| | 2004 | 2003 |
| General obligation bonds | \$ 3,018,342 | \$ 3,107,682 |
| Asbestos abatement loans | 27,230 | 34,230 |
| Capital leases | 138,027 | 30,678 |
| Total | \$ 3,183,599 | \$ 3,172,590 |

At June 30, 2004, the District's overall legal debt margin was \$5,253,343, and an unvoted debt margin of \$88,236.

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, 2004
UNAUDITED**

Current Financial Related Activities

The District is struggling financially and will continue to do so unless revenues increase. We built a new K-12 school building through Ohio School Facilities Commission (OSFC) and local funding and occupied the new building in September, 2001. Some costs were incurred as part of this building project that had to be paid from local funds. The District was required by OSFC to have 80 acres of land for the new building which had to be purchased. In addition the District had to buy it and Board offices were not included in the OSFC plan and had to be built. The District utility costs have tripled in the new building. These additional expenses have caused a decline in our carryover balance. The District's revenues have been fairly flat for the last few years – somewhat due to the downward turn in the economy, but also the State funding has flattened due to State budget cuts and a flat or declining enrollment. The District doesn't have any new housing developments coming in, so that enrollment picture will probably not change any time soon; however, the District does participate in open enrollment and the count of students coming in to our school district has grown each year and is always a higher number than the students leaving our district through open enrollment.

Because of the District's financial projections that monies will run out by fiscal year 2007; there is a 4.5 mill levy on the November 2, 2004, ballot. A 4.5 mill levy will generate \$400,000 and will bring our 5 year forecast out of the negative situation in all of the years projected on that forecast, but will not bring enough additional revenue to allow for large salary increases or anything beyond basic necessities. Several cost-saving measures were put in place between fiscal year 2004 and fiscal year 2005 – some staff members who left were not replaced or were replaced with less experienced personnel. The appropriations adopted in September, 2004, reflect those savings in addition to eliminating most equipment purchasing and limiting new expenses for supplies beyond what was spent in fiscal year 2004. These appropriations reflect a 2.6% increase over last year, while fiscal year 2004 expenses were 5.4% higher than fiscal year 2003.

In fiscal year 2004, we were ranked 95th on the Equity list for schools in the State of Ohio. What this means to us is that of the 612 school districts in Ohio, there are 517 schools who are wealthier than New London. This is an amazing fact considering the success we've seen in our report card. We have received an Effective rating on our report card each year for several years. Even though our resources are limited, we have made good use of those resources and have found success.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Gina Blackman, Treasurer, New London Local School District, 2 Wildcat Drive, New London, Ohio 44851-1299.

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2004

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents. . . | \$ 2,160,129 |
| Receivables: | |
| Taxes. | 2,436,250 |
| Accounts. | 7,752 |
| Accrued interest | 3,288 |
| Intergovernmental | 38,934 |
| Materials and supplies inventory | 20,756 |
| Capital assets: | |
| Land | 85,480 |
| Depreciable capital assets, net | 16,450,353 |
| Capital assets, net. | 16,535,833 |
| Total assets. | 21,202,942 |
| Liabilities: | |
| Accounts payable. | 44,877 |
| Accrued wages and benefits | 819,734 |
| Pension obligation payable. | 189,700 |
| Intergovernmental | 393,780 |
| Deferred revenue | 1,491,950 |
| Accrued interest payable | 11,513 |
| Long-term liabilities: | |
| Due within one year. | 210,904 |
| Due in more than one year. | 3,641,431 |
| Total liabilities | 6,803,889 |
| Net Assets: | |
| Invested in capital assets, net of related debt. | 13,352,234 |
| Restricted for: | |
| Capital projects | 317,980 |
| Debt service. | 342,270 |
| Other purposes | 152,833 |
| Unrestricted. | 233,736 |
| Total net assets | \$ 14,399,053 |

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, 2004

| | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense)</u> |
|--|---------------------|---------------------------------------|---|---|--|
| | | <u>Charges for Services and Sales</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Revenue and Changes in Net Assets</u> |
| | | | | | <u>Governmental Activities</u> |
| Governmental activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$ 4,970,900 | \$ 493,071 | \$ 161,161 | \$ 48,400 | \$ (4,268,268) |
| Special | 906,992 | - | 166,993 | - | (739,999) |
| Vocational | 195,429 | - | 2,342 | - | (193,087) |
| Adult/continuing | 18,458 | - | - | - | (18,458) |
| Other | 149,264 | - | - | - | (149,264) |
| Support services: | | | | | |
| Pupil | 311,445 | - | 5,014 | - | (306,431) |
| Instructional staff | 504,019 | 9,256 | 150,979 | - | (343,784) |
| Board of education | 30,010 | - | - | - | (30,010) |
| Administration | 791,765 | 71 | 14,404 | - | (777,290) |
| Fiscal | 211,410 | - | 5,844 | - | (205,566) |
| Business | 1,372 | 1,372 | - | - | - |
| Operations and maintenance | 919,654 | 120 | 6,368 | - | (913,166) |
| Pupil transportation | 461,784 | - | 91 | - | (461,693) |
| Central | 9,904 | - | - | - | (9,904) |
| Operation of non-instructional services: | | | | | |
| Food service operations | 381,438 | 252,791 | 135,801 | - | 7,154 |
| Other non-instructional services | 1,691 | - | 1,294 | - | (397) |
| Extracurricular activities | 390,799 | 179,562 | 44 | - | (211,193) |
| Interest and fiscal charges | 176,088 | - | - | - | (176,088) |
| Total governmental activities | \$10,432,422 | \$ 936,243 | \$ 650,335 | \$ 48,400 | (8,797,444) |

General Revenues:

| | |
|---|------------------|
| Property taxes levied for: | |
| General purposes | 2,054,245 |
| Special revenue | 41,346 |
| Debt service | 276,481 |
| School district income tax | 826,171 |
| Grants and entitlements not restricted | |
| to specific programs | 4,810,181 |
| Investment earnings | 21,531 |
| Miscellaneous | 9,830 |
| Total general revenues | 8,039,785 |

Special items:

| | |
|---|----------------------|
| Refund to Ohio School Facilities Commission | (380,701) |
| Gain on sale of capital assets | 127,690 |
| Total general revenues and special items | 7,786,774 |
| Change in net assets | (1,010,670) |
| Net assets at beginning of year | 15,409,723 |
| Net assets at end of year | \$ 14,399,053 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

| | General | Debt Service | Classroom Facilities | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|-------------------------|---------------------------------|---|---|
| Assets: | | | | | |
| Equity in pooled cash and cash equivalents | \$ 738,836 | \$ 265,843 | \$ 698,396 | \$ 425,051 | \$ 2,128,126 |
| Receivables: | | | | | |
| Taxes | 2,149,434 | 249,303 | - | 37,513 | 2,436,250 |
| Accounts | 7,292 | - | 285 | 175 | 7,752 |
| Accrued interest | 3,288 | - | - | - | 3,288 |
| Intergovernmental | - | - | - | 38,934 | 38,934 |
| Materials and supplies inventory | - | - | - | 20,756 | 20,756 |
| Restricted assets: | | | | | |
| Equity in pooled cash and cash equivalents | 32,003 | - | - | - | 32,003 |
| Total assets | \$2,930,853 | \$ 515,146 | \$ 698,681 | \$ 522,429 | \$ 4,667,109 |
| Liabilities: | | | | | |
| Accounts payable | \$ 23,436 | \$ - | \$ - | \$ 21,441 | \$ 44,877 |
| Accrued wages and benefits | 753,660 | - | - | 66,074 | 819,734 |
| Compensated absences payable | 50,968 | - | - | - | 50,968 |
| Pension obligation payable. | 114,302 | - | - | 5,646 | 119,948 |
| Intergovernmental payable. | 11,711 | - | 380,701 | 1,368 | 393,780 |
| Deferred revenue. | 1,396,925 | 185,402 | - | 38,925 | 1,621,252 |
| Total liabilities | 2,351,002 | 185,402 | 380,701 | 133,454 | 3,050,559 |
| Fund Balances: | | | | | |
| Reserved for encumbrances | 94,396 | - | - | 90,051 | 184,447 |
| Reserved for materials and supplies inventory. | - | - | - | 20,756 | 20,756 |
| Reserved for debt service | - | 265,843 | - | - | 265,843 |
| Reserved for property tax unavailable for appropriation | 472,363 | 63,901 | - | 9,584 | 545,848 |
| Reserved for school bus purchase | 32,003 | - | - | - | 32,003 |
| Unreserved, undesignated, reported in: | | | | | |
| General fund | (18,911) | - | - | - | (18,911) |
| Special revenue funds. | - | - | - | 268,584 | 268,584 |
| Capital projects funds. | - | - | 317,980 | - | 317,980 |
| Total fund balances | 579,851 | 329,744 | 317,980 | 388,975 | 1,616,550 |
| Total liabilities and fund balances | \$2,930,853 | \$ 515,146 | \$ 698,681 | \$ 522,429 | \$ 4,667,109 |

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, 2004

| | | |
|--|------------|----------------------|
| Total governmental fund balances | | \$ 1,616,550 |
| <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. | | 16,535,833 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | |
| Taxes | \$ 115,652 | |
| Intergovernmental revenue | 10,996 | |
| Accrued interest | 2,654 | |
| Total | | 129,302 |
| 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 | 617,768 | |
| Pension obligation payable | 69,752 | |
| Capital lease obligation payable | 138,027 | |
| Asbestos loan payable | 27,230 | |
| General obligation bonds payable | 3,018,342 | |
| Accrued interest payable | 11,513 | |
| Total | | (3,882,632) |
| Net assets of governmental activities | | \$ 14,399,053 |

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, 2004

| | <u>General</u> | <u>Debt Service</u> | <u>Classroom Facilities</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------|-------------------------|---------------------------------|---|---|
| Revenues: | | | | | |
| From local sources: | | | | | |
| Taxes | \$2,880,629 | \$ 279,086 | \$ - | \$ 41,698 | \$ 3,201,413 |
| Tuition. | 370,436 | - | - | 13,415 | 383,851 |
| Charges for services | - | - | - | 252,629 | 252,629 |
| Earnings on investments. | 18,890 | - | 7,330 | 2,996 | 29,216 |
| Extracurricular. | - | - | - | 247,262 | 247,262 |
| Classroom materials and fees | 38,305 | - | - | - | 38,305 |
| Other local revenues. | 9,665 | - | 285 | 13,706 | 23,656 |
| Intergovernmental - state | 4,761,336 | 32,293 | - | 120,220 | 4,913,849 |
| Intergovernmental - federal | 16,552 | - | - | 570,363 | 586,915 |
| Total revenues | <u>8,095,813</u> | <u>311,379</u> | <u>7,615</u> | <u>1,262,289</u> | <u>9,677,096</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 4,019,403 | - | - | 254,108 | 4,273,511 |
| Special. | 721,383 | - | - | 168,874 | 890,257 |
| Vocational. | 206,832 | - | - | 2,961 | 209,793 |
| Adult/continuing | 18,458 | - | - | - | 18,458 |
| Other. | 147,052 | - | - | 681 | 147,733 |
| Support services: | | | | | |
| Pupil. | 303,964 | - | - | 6,406 | 310,370 |
| Instructional staff | 364,348 | - | - | 145,641 | 509,989 |
| Board of education | 20,000 | - | - | - | 20,000 |
| Administration. | 772,525 | 5,854 | - | 12,924 | 791,303 |
| Fiscal | 200,981 | - | - | 6,355 | 207,336 |
| Business | - | - | - | 1,372 | 1,372 |
| Operations and maintenance. | 809,135 | - | - | 27,840 | 836,975 |
| Pupil transportation | 401,287 | - | - | 100 | 401,387 |
| Operation of non-instructional services: | | | | | |
| Food service operations | - | - | - | 373,210 | 373,210 |
| Other non-instructional services. | - | - | - | 1,691 | 1,691 |
| Extracurricular activities. | 206,968 | - | - | 176,705 | 383,673 |
| Facilities acquisition and construction | 6,444 | - | 70,282 | 13,750 | 90,476 |
| Capital outlay | 146,298 | - | - | - | 146,298 |
| Debt service: | | | | | |
| Principal retirement | 38,949 | 117,000 | - | - | 155,949 |
| Interest and fiscal charges | 9,979 | 145,845 | - | - | 155,824 |
| Total expenditures | <u>8,394,006</u> | <u>268,699</u> | <u>70,282</u> | <u>1,192,618</u> | <u>9,925,605</u> |
| Excess of revenues over (under) expenditures. | <u>(298,193)</u> | <u>42,680</u> | <u>(62,667)</u> | <u>69,671</u> | <u>(248,509)</u> |
| Other financing sources (uses): | | | | | |
| Proceeds from capital lease transaction | 146,298 | - | - | - | 146,298 |
| Refund to Ohio School Facilities Commission. | - | - | (380,701) | - | (380,701) |
| Proceeds from sale of capital assets. | 130,000 | - | - | - | 130,000 |
| Total other financing sources (uses) | <u>276,298</u> | <u>-</u> | <u>(380,701)</u> | <u>-</u> | <u>(104,403)</u> |
| Net change in fund balances | (21,895) | 42,680 | (443,368) | 69,671 | (352,912) |
| Fund balances at beginning of year (restated) | | | | | |
| | <u>601,746</u> | <u>287,064</u> | <u>761,348</u> | <u>319,304</u> | <u>1,969,462</u> |
| Fund balances at end of year. | <u>\$ 579,851</u> | <u>\$ 329,744</u> | <u>\$ 317,980</u> | <u>\$ 388,975</u> | <u>\$ 1,616,550</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, 2004

| | |
|---|-------------------------------------|
| Net change in fund balances - total governmental funds | \$ (352,912) |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$725,796) exceeds capital outlays (\$146,298) in the current period. | (579,498) |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. | (2,310) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (2,333) |
| 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. | 155,949 |
| Proceeds of capital leases are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. | (146,298) |
| 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. | (20,264) |
| Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | <u>(63,004)</u> |
| Change in net assets of governmental activities | <u><u>\$ (1,010,670)</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, 2004

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with</u> |
|--|-------------------------|-------------------|-------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | | <u>Final Budget</u> |
| | | | | <u>Positive</u> |
| | | | | <u>(Negative)</u> |
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes | \$ 2,629,952 | \$ 2,629,952 | \$ 2,613,677 | \$ (16,275) |
| Tuition. | 372,743 | 372,743 | 370,436 | (2,307) |
| Earnings on investments. | 25,120 | 25,120 | 24,965 | (155) |
| Classroom materials and fees | 38,544 | 38,544 | 38,305 | (239) |
| Other local revenues | 1,597 | 1,597 | 1,587 | (10) |
| Intergovernmental - state | 4,790,983 | 4,790,983 | 4,761,336 | (29,647) |
| Intergovernmental - federal | 16,655 | 16,655 | 16,552 | (103) |
| Total revenues. | <u>7,875,594</u> | <u>7,875,594</u> | <u>7,826,858</u> | <u>(48,736)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 4,041,409 | 4,018,169 | 4,006,923 | 11,246 |
| Special. | 722,720 | 733,030 | 716,553 | 16,477 |
| Vocational. | 226,612 | 235,277 | 224,678 | 10,599 |
| Adult/continuing. | 25,391 | 26,306 | 25,174 | 1,132 |
| Other. | 147,966 | 151,921 | 146,703 | 5,218 |
| Support services: | | | | |
| Pupil. | 303,997 | 310,144 | 301,403 | 8,741 |
| Instructional staff | 356,317 | 362,595 | 353,276 | 9,319 |
| Board of education | 13,775 | 14,605 | 13,657 | 948 |
| Administration. | 784,074 | 790,115 | 777,383 | 12,732 |
| Fiscal | 206,025 | 206,084 | 204,267 | 1,817 |
| Operations and maintenance. | 868,855 | 881,069 | 861,441 | 19,628 |
| Pupil transportation | 421,249 | 421,536 | 417,654 | 3,882 |
| Extracurricular activities. | 210,209 | 213,407 | 208,415 | 4,992 |
| Facilities acquisition and construction. | 6,883 | 6,824 | 6,824 | - |
| Total expenditures | <u>8,335,482</u> | <u>8,371,082</u> | <u>8,264,351</u> | <u>106,731</u> |
| Excess of revenues over (under) expenditures. | <u>(459,888)</u> | <u>(495,488)</u> | <u>(437,493)</u> | <u>57,995</u> |
| Other financing sources: | | | | |
| Refund of prior year expenditure | 25,421 | 25,421 | 25,264 | (157) |
| Proceeds from sale of capital assets. | 127,896 | 127,896 | 127,105 | (791) |
| Total other financing sources. | <u>153,317</u> | <u>153,317</u> | <u>152,369</u> | <u>(948)</u> |
| Net change in fund balance | (306,571) | (342,171) | (285,124) | 57,047 |
| Fund balance at beginning of | | | | |
| year (restated) | 805,983 | 805,983 | 805,983 | - |
| Prior year encumbrances appropriated | 135,715 | 135,715 | 135,715 | - |
| Fund balance at end of year | <u>\$ 635,127</u> | <u>\$ 599,527</u> | <u>\$ 656,574</u> | <u>\$ 57,047</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, 2004

| | Private-Purpose Trust | |
|---|----------------------------------|---------------|
| | Scholarship | Agency |
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ 360,856 | \$ 37,588 |
| Receivables: | | |
| Accounts | - | 132 |
| Accrued interest | 284 | - |
| Total assets. | 361,140 | \$ 37,720 |
| Liabilities: | | |
| Accounts payable. | - | \$ 377 |
| Deferred revenue | 284 | - |
| Due to students | - | 37,343 |
| Total liabilities | 284 | \$ 37,720 |
| Net Assets: | | |
| Held in trust for scholarships | 360,856 | |
| Total net assets | \$ 360,856 | |

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, 2004

| | Private-Purpose Trust |
|--|----------------------------------|
| | Scholarship |
| Additions: | |
| Interest | \$ 4,214 |
| Gifts and contributions. | 16,934 |
| | 21,148 |
| Total additions. | 21,148 |
| Deductions: | |
| Scholarships awarded | 23,017 |
| | (1,869) |
| Change in net assets | (1,869) |
| Net assets at beginning of year. | 362,725 |
| | 362,725 |
| Net assets at end of year | \$ 360,856 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 50 non-certified and 82 certified (including administrative) full-time and part-time employees to provide services to approximately 1,216 students in grades K through 12 and various community groups, which ranks it 436 out of 613 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". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations' resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves 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 BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 two categories of funds: governmental and fiduciary.

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and principal and interest and certain long-term obligations from governmental resources when the government is obligated in some manner for payment. It is also used to account for the accumulation of resources and payment of general obligation bonds and loans payable.

Classroom Facilities - This fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; 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.

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

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.

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).

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, 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, 2004, but which were levied to finance fiscal year 2005 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 2004 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.

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2004.
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. 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 object 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 2004.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. 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 2004, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), 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 nonnegotiable certificates of deposit are reported at cost.

**NEW LONDON LOCAL SCHOOL DISTRICT
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

The District has invested funds in STAR Ohio during fiscal 2004. 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, 2004.

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 2004 amounted to \$18,890, which includes \$7,951 assigned from other District funds.

An analysis of the Treasurer’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. During fiscal year 2004, the District increased its capitalization threshold from \$1,000 to \$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:

| Description | Governmental Activities <u>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
HURON COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 2004.

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, 2004, 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, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 and school bus purchases. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Net Assets

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

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

N. Estimates

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

O. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set aside to create a reserve for 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 and after nonoperating revenues/expenses in proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basis financial statements. The District had no interfund activity during fiscal year 2004.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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 2004, the District incurred transactions that would be classified as special items. The first special item relates to the sale of capital assets (the land and the Jennings building). The other special item involves the refund due to the Ohio School Facilities Commission relating to the completed construction of the District's school facilities project. The gain related to the sale of capital assets and the repayment to Ohio School Facilities Commission are reflected as special items on the Statement of Activities.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds.

GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

In addition to implementing GASB Statement No. 34, the District switched from the purchase method to the consumption method of accounting for inventory of materials and supplies. This change in accounting principle had no effect on fund balance at June 30, 2003.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

| | <u>General</u> | <u>Debt Service</u> | <u>Classroom Facilities</u> | <u>Nonmajor</u> | <u>Total</u> |
|--|-------------------|-------------------------|---------------------------------|-------------------|---------------------|
| Fund balance June 30, 2003 | \$ 594,359 | \$ 287,064 | \$ 761,348 | \$ 315,632 | \$ 1,958,403 |
| Fund reclassifications | 1,343 | - | - | 3,672 | 5,015 |
| Implementation of GASB Interpretation No. 6 | <u>6,044</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>6,044</u> |
| Restated fund balance, June 30, 2003 | <u>\$ 601,746</u> | <u>\$ 287,064</u> | <u>\$ 761,348</u> | <u>\$ 319,304</u> | <u>\$ 1,969,462</u> |

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

| | <u>Total</u> |
|---|----------------------|
| Restated fund balance, June 30, 2003 | \$ 1,969,462 |
| GASB 34 adjustments: | |
| Long-term (deferred) assets | 131,635 |
| Capital assets | 17,117,641 |
| Accrued interest payable | (11,909) |
| Pension obligation | (70,438) |
| Long-term liabilities | <u>(3,726,668)</u> |
| Governmental activities net assets, June 30, 2003 | <u>\$ 15,409,723</u> |

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund - The general fund unencumbered fund balance and prior year encumbrances at the beginning of the year have been restated from \$804,658 to \$805,983 and \$135,615 to \$133,715, respectively, due to fund reclassifications to properly reflect their intended purpose in accordance with GASB Statement No. 34.

B. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

| | <u>Deficit</u> |
|--------------------------------|----------------|
| <u>Nonmajor Funds</u> | |
| Disadvantaged Pupil Impact Aid | \$ 48 |
| Ohio Reads | 4 |
| Summer School Intervention | 69 |
| Reducing Class Size | 118 |
| Miscellaneous Federal Grants | 3 |

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 resulted from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 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 monies 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 accounts, including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the finance 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 may 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 or 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 2% 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
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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$1,471,090 and the bank balance was \$1,537,077. Of the bank balance:

1. \$200,000 was covered by federal deposit insurance deposited with the District; and
2. \$1,337,077 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

**NEW LONDON LOCAL SCHOOL DISTRICT
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

| | <u>Reported Amount</u> | <u>Fair Value</u> |
|-------------------------|----------------------------|-----------------------|
| Investment in STAR Ohio | \$ 1,087,483 | \$ 1,087,483 |
| Total investments | <u>\$ 1,087,483</u> | <u>\$ 1,087,483</u> |

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

| | <u>Equity in Pooled Cash</u> | <u>Investments</u> |
|--|----------------------------------|---------------------|
| GASB Statement No. 9 | \$ 2,558,573 | \$ - |
| Investments of the cash management pool: | | |
| Investment in STAR Ohio | <u>(1,087,483)</u> | <u>1,087,483</u> |
| GASB Statement No. 3 | <u>\$ 1,471,090</u> | <u>\$ 1,087,483</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.

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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. 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.

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 5 - PROPERTY TAXES - (Continued)

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, 2004, are available to finance fiscal year 2004 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, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$472,363 in the general fund, \$63,901 in the debt service fund, and \$9,584 in the Classroom Facilities Maintenance fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2003 was \$200,747 in the general fund, \$29,410 in the debt service fund, and \$4,427 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 2004 taxes were collected are:

| | 2003 Second Half Collections | | 2004 First Half Collections | |
|--|---------------------------------|----------------|--------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/residential and other real estate | \$ 71,508,670 | 88.77 | \$ 79,978,780 | 90.64 |
| Public utility personal | 5,062,470 | 6.28 | 4,423,140 | 5.01 |
| Tangible personal property | <u>3,988,560</u> | <u>4.95</u> | <u>3,834,230</u> | <u>4.35</u> |
| Total | <u>\$ 80,559,700</u> | <u>100.00</u> | <u>\$ 88,236,150</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation for: | | | | |
| Operations | \$ 31.80 | | \$ 31.55 | |
| Debt Service | 3.80 | | 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 2004, was \$826,171.

**NEW LONDON LOCAL SCHOOL DISTRICT
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 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 | \$ 2,436,250 |
| Accounts | 7,752 |
| Intergovernmental | 38,934 |
| Accrued interest | <u>3,288</u> |
| Total | <u>\$ 2,486,224</u> |

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

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to fund reclassifications, asset category reclassifications, changes in the District's capital asset policy (See Note 2.H.) and to include the depreciation of capital assets in accordance with GASB 34.

| | Balance <u>6/30/03</u> | <u>Adjustments</u> | Restated Balance <u>6/30/03</u> |
|---|---------------------------|-----------------------|---------------------------------------|
| Governmental Activities | | | |
| Capital assets, not being depreciated: | | | |
| Land | \$ - | \$ 87,790 | \$ 87,790 |
| Total capital assets, not being depreciated | <u>-</u> | <u>87,790</u> | <u>87,790</u> |
| Capital assets, being depreciated: | | | |
| Land improvements | 1,742,253 | (159,626) | 1,582,627 |
| Buildings and improvements | 16,842,753 | (17,011) | 16,825,742 |
| Furniture and equipment | 2,309,633 | (1,801,076) | 508,557 |
| Vehicles | <u>-</u> | <u>749,475</u> | <u>749,475</u> |
| Total capital assets, being depreciated | <u>20,894,639</u> | <u>(1,228,238)</u> | <u>19,666,401</u> |
| <i>Less: accumulated depreciation:</i> | <u>-</u> | <u>(2,636,550)</u> | <u>(2,636,550)</u> |
| Governmental activities capital assets, net | <u>\$ 20,894,639</u> | <u>\$ (3,776,998)</u> | <u>\$ 17,117,641</u> |

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

| | Restated Balance <u>06/30/03</u> | <u>Additions</u> | <u>Deductions</u> | Balance <u>06/30/04</u> |
|---|--|---------------------|-------------------|----------------------------|
| Governmental Activities | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 87,790 | \$ - | \$ (2,310) | \$ 85,480 |
| Total capital assets, not being depreciated | <u>87,790</u> | <u>-</u> | <u>(2,310)</u> | <u>85,480</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 1,582,627 | - | - | 1,582,627 |
| Buildings and improvements | 16,825,742 | - | (32,289) | 16,793,453 |
| Furniture and equipment | 508,557 | 146,298 | - | 654,855 |
| Vehicles | 749,475 | - | - | 749,475 |
| Total capital assets, being depreciated | <u>19,666,401</u> | <u>146,298</u> | <u>(32,289)</u> | <u>19,780,410</u> |
| <i>Less: accumulated depreciation</i> | | | | |
| Land improvements | (362,158) | (72,882) | - | (435,040) |
| Buildings and improvements | (1,616,409) | (559,005) | 32,289 | (2,143,125) |
| Furniture and equipment | (73,227) | (43,595) | - | (116,822) |
| Vehicles | (584,756) | (50,314) | - | (635,070) |
| Total accumulated depreciation | <u>(2,636,550)</u> | <u>(725,796)</u> | <u>32,289</u> | <u>(3,330,057)</u> |
| Governmental activities capital assets, net | <u>\$ 17,117,641</u> | <u>\$ (579,498)</u> | <u>\$ (2,310)</u> | <u>\$ 16,535,833</u> |

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular \$ 648,997

Support Services:

| | |
|----------------------------|--------------|
| Instructional staff | 359 |
| Administration | 7,119 |
| Board of education | 3,110 |
| Pupil transportation | 50,314 |
| Central | 2,332 |
| Extracurricular activities | 6,894 |
| Food service operations | <u>6,671</u> |

Total depreciation expense \$ 725,796

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2004, 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 fixed assets consisting of equipment have been capitalized in the amount of \$192,701. 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 2004 totaled \$38,949 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2004:

| <u>Fiscal Year Ending June 30,</u> | <u>Amount</u> |
|------------------------------------|-------------------|
| 2005 | \$ 36,065 |
| 2006 | 36,065 |
| 2007 | 36,065 |
| 2008 | 36,065 |
| 2009 | <u>21,411</u> |
| Total minimum lease payments | 165,671 |
| Less amount representing interest | <u>(27,644)</u> |
| Total | <u>\$ 138,027</u> |

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 10 - LONG-TERM OBLIGATIONS

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

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

This issue is comprised of current interest bonds, par value \$2,130,000, serial bonds, par value \$855,000, and capital appreciation bonds, par value \$580,000. The capital appreciation bonds mature each December 1, 2008 through 2011, (effective interest 7.639%, 7.701%, 7.634%, and 7.639%, respectively) at a 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, 2004 was \$265,673. Total accreted interest of \$102,669 has been included in the statement of net assets at June 30, 2004. 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.

- B.** 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 BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

C. The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$15,671 from \$540,661 to \$556,332 due to the implementation of GASB Interpretation No. 6 and due to fund reclassifications described in Note 3.A. In addition, pension obligations of \$61,295 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2003 was a decrease of \$45,624 from \$3,774,546 to \$3,728,922. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

| | Restated Balance Outstanding <u>06/30/03</u> | <u>Additions</u> | <u>Reductions</u> | Balance Outstanding <u>06/30/04</u> | Amounts Due in <u>One Year</u> |
|--|---|-------------------|---------------------|---|--------------------------------------|
| Governmental Activities: | | | | | |
| <u>General Obligation Bonds:</u> | | | | | |
| Series 1999, improvement 5.25%, 12/01/22 maturity | \$ 2,760,000 | \$ - | \$ (110,000) | \$ 2,650,000 | \$ 115,000 |
| 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>82,009</u> | <u>20,660</u> | <u>-</u> | <u>102,669</u> | <u>-</u> |
| Total general obligation bonds | <u>3,107,682</u> | <u>20,660</u> | <u>(110,000)</u> | <u>3,018,342</u> | <u>115,000</u> |
| <u>General Obligation Loans:</u> | | | | | |
| Asbestos abatement, 1989 0%, 05/30/08 maturity | 10,010 | - | (2,000) | 8,010 | 2,000 |
| Asbestos abatement, 1995 0%, 05/31/08 maturity | <u>24,220</u> | <u>-</u> | <u>(5,000)</u> | <u>19,220</u> | <u>5,000</u> |
| Total general obligation loans | <u>34,230</u> | <u>-</u> | <u>(7,000)</u> | <u>27,230</u> | <u>7,000</u> |
| <u>Other Obligations:</u> | | | | | |
| Compensated absences | 556,332 | 200,934 | (88,530) | 668,736 | 63,157 |
| Capital lease | <u>30,678</u> | <u>146,298</u> | <u>(38,949)</u> | <u>138,027</u> | <u>25,747</u> |
| Total other obligations | <u>587,010</u> | <u>347,232</u> | <u>(127,479)</u> | <u>806,763</u> | <u>88,904</u> |
| Total long-term obligations, governmental activities | <u>\$ 3,728,922</u> | <u>\$ 367,892</u> | <u>\$ (244,479)</u> | <u>\$ 3,852,335</u> | <u>\$ 210,904</u> |

**NEW LONDON LOCAL SCHOOL DISTRICT
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

D. Principal and interest requirements to retire general obligation bonds and asbestos removal loans outstanding at June 30, 2004, 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> | <u>Total</u> |
|-------------------------------|--|---|-------------------------------------|---------------------|
| 2005 | \$ 255,837 | \$ - | \$ 7,000 | \$ 262,837 |
| 2006 | 265,260 | - | 7,000 | 272,260 |
| 2007 | 264,098 | - | 7,000 | 271,098 |
| 2008 | 262,566 | 145,000 | 6,230 | 413,796 |
| 2009 | 265,260 | 145,000 | - | 410,260 |
| 2010 - 2014 | 257,367 | 290,000 | - | 547,367 |
| 2015 - 2019 | 1,297,828 | - | - | 1,297,828 |
| 2020 - 2023 | <u>1,039,439</u> | <u>-</u> | <u>-</u> | <u>1,039,439</u> |
| Total Obligation | 3,907,655 | 580,000 | 27,230 | 4,514,885 |
| Less: Interest | <u>(1,257,655)</u> | <u>(211,658)</u> | <u>-</u> | <u>(1,469,313)</u> |
| Total | <u>\$ 2,650,000</u> | <u>\$ 368,342</u> | <u>\$ 27,230</u> | <u>\$ 3,045,572</u> |

E. 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, 2004 are a voted debt margin of \$5,253,343 and an unvoted debt margin of \$88,236.

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 Indiana Insurance Company, which includes boiler coverage. The deductible is \$500 per incident. All vehicles are insured with Ohio School Plan and have a \$1,000 comprehensive deductible for collision and comprehensive bus coverage and a \$250 comprehensive deductible for automobiles and a \$500 collision deductible for automobiles. All board members, administrators and employees are covered under a school district liability policy with Ohio School Plan. The limits of this coverage are \$1,000,000 per occurrence and \$3,000,000 aggregate. Settled claims have not exceeded these commercial insurance coverages in any of the past three years and there have been no significant reductions in insurance coverage from fiscal year 2003.

B. Employee Dishonesty Bonds

The board president is covered with a surety bond for \$20,000 through the OSBA Board Program. The superintendent and the treasurer are covered by a \$20,000 and a \$100,000 surety bond respectively. The student activity clerk/treasurer's secretary is also covered by a surety bond in the amount of \$10,000. These bonds are all with the Western Surety Company. The remaining employees who handle money are covered with a public employees blanket bond in the amount of \$10,000. This coverage is provided by the State Auto Insurance Company. Settled claims have not exceeded these commercial insurance coverages in any of the past three years. There have been no significant reductions in coverage from 2003.

C. Workers' Compensation

For fiscal year 2003, 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.

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 11 - RISK MANAGEMENT - (Continued)

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.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14% for 2004, 9.09% was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$142,545, \$139,507, and \$126,028, respectively; 43.15% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$81,036, represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

**NEW LONDON LOCAL SCHOOL DISTRICT
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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$559,611, \$536,581, and \$528,902, respectively; 83.39% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$92,936, represents the unpaid contribution for fiscal year 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$39,972 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003 (the latest information available), net health care costs paid by STRS were \$352.301 million and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available) were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, (the latest information available) SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$75,088 during the 2004 fiscal year.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 is 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).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

| | <u>General Fund</u> |
|---|---------------------|
| Budget basis | \$ (285,124) |
| Net adjustment for revenue accruals | 268,955 |
| Net adjustment for expenditure accruals | (243,837) |
| Net adjustment for other sources/uses | 123,929 |
| Adjustment for encumbrances | 114,182 |
| GAAP basis | \$ (21,895) |

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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.

C. State School Funding Decision

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

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

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, 2004, the reserve activity was as follows:

| | <u>Textbooks</u> | <u>Capital Acquisition</u> |
|--|--------------------|----------------------------|
| Set-aside cash balance as of June 30, 2003 | \$ (9,691) | \$ (91,276) |
| Current year set-aside requirement | 154,202 | 154,202 |
| Current year offsets | - | (41,391) |
| Qualifying disbursements | <u>(155,717)</u> | <u>(125,811)</u> |
| Total | <u>\$ (11,206)</u> | <u>\$ (104,276)</u> |
| Cash balance carried forward to FY 2005 | <u>\$ (11,206)</u> | <u>\$ (104,276)</u> |

The District had offsets and qualifying disbursement during the fiscal year that reduced the set-aside amounts below zero in the textbook and capital acquisition reserves, these extra amounts may be used to reduce the set-aside requirements of future years.

A schedule of the restricted assets at June 30, 2004 follows:

| | |
|--|------------------|
| Amounts restricted for school bus purchase | <u>\$ 32,003</u> |
| Total restricted assets | <u>\$ 32,003</u> |

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard
Suite B
Worthington, Ohio 43085

Telephone 614.846.1899
Facsimile 614.846.2799

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of New London Local School District (the “District”) as of and for the fiscal year ended June 30, 2004, which collectively comprise the District’s basic financial statements and have issued our report thereon dated November 9, 2004. During the fiscal year ended June 30, 2004, the New London Local School District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments; GASB Statement No. 37, Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus; GASB Statement No. 38, Certain Financial Statement Note Disclosures; GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, and GASB Statement No. 41, Budgetary Comparison Schedule - Perspective Differences. In addition, the District had a change in accounting principle for its threshold for fixed assets as disclosed in Note 2.H. 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.

Board of Education
New London Local School District

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.

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 and use of the management, Board of Education of the New London Local School District and is not intended to be and should not be used by anyone other than these specified parties.



Trimble, Julian & Grube, Inc.
November 9, 2004



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**NEW LONDON LOCAL SCHOOL DISTRICT
HURON COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 28, 2004**