

**NEW LEBANON LOCAL
SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

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

CATHLEEN LEICHLITER, TREASURER



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the New Lebanon Local School District, Montgomery 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 Lebanon Local School District is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

May 2, 2005

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**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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TRIMBLE, JULIAN & GRUBE, INC.

"SERVING OHIO LOCAL GOVERNMENTS"

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Independent Auditor's Report

Board of Education
New Lebanon Local School District
278 East Main Street
New Lebanon, Ohio 45345

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the New Lebanon Local School District, Montgomery County, (the "District"), Ohio, 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 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 Lebanon Local School District, Montgomery County, Ohio, as of June 30, 2004, and the respective changes in financial position, thereof and the respective budgetary comparison for the General fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) 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 Statement No. 39, Determining Whether Certain Organizations Are Component Units, 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 fiscal year ended June 30, 2004. In addition, capital assets have been restated due to implementing GASB Statement No. 34 and for prior year errors and omissions as disclosed in Note 9.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by 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.

A handwritten signature in cursive script that reads "Trimble, Julian & Grube, Inc." The signature is written in dark ink and is positioned above the typed name of the firm.

Trimble, Julian & Grube, Inc.
April 7, 2005

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY 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 Lebanon 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 increased \$2,235,722 which represents a 9.68% increase from 2003.
- General revenues accounted for \$12,039,079 in revenue or 93.49% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$838,578 or 6.51% of total revenues of \$12,877,657.
- The District had \$10,641,935 in expenses related to governmental activities; \$838,578 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$12,039,079 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and classroom facilities fund. The general fund had \$8,695,687 in revenues and other financing sources and \$9,243,589 in expenditures. During fiscal year 2004, the general fund's fund balance decreased \$547,902 from \$42,665 to a deficit of \$505,237.
- The District's classroom facilities fund had \$3,696,564 in revenues and \$14,074,158 in expenditures. During fiscal year 2004, the classroom facilities fund's fund balance decreased \$10,377,594 from \$10,796,723 to \$419,129.

Using these Basic Financial Statements

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and classroom facilities fund are by far the most significant funds, and the only governmental funds reported as major funds.

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY 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 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 LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 20. 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 21-48 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	\$ 11,932,436
Capital assets	<u>24,481,326</u>
Total assets	<u>36,413,762</u>
<u>Liabilities</u>	
Current liabilities	6,161,541
Long-term liabilities	<u>4,923,974</u>
Total liabilities	<u>11,085,515</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	22,075,424
Restricted	4,169,844
Unrestricted (deficit)	<u>(917,021)</u>
Total net assets	<u>\$ 25,328,247</u>

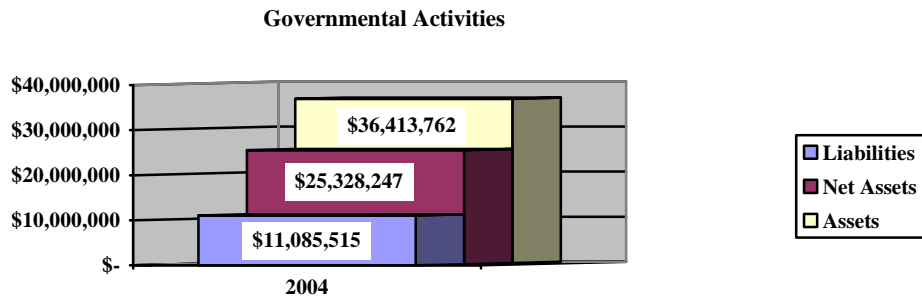
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$25,328,247. Of this total, \$4,169,844 is restricted in use.

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

At year-end, capital assets represented 67.23% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$22,075,424. 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, \$4,169,844, represents resources that are subject to external restriction on how they may be used.



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	\$ 423,346
Operating grants and contributions	366,884
Capital grants and contributions	48,348
General revenues:	
Property and income taxes	3,217,239
Grants and entitlements	6,027,786
Restricted grants and entitlements	2,436,060
Investment earnings	117,551
Other	240,443
Total revenues	<u>12,877,657</u>

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY 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	\$ 4,862,279
Special	865,005
Other	207,569
Support services:	
Pupil	447,318
Instructional staff	387,319
Board of education	171,479
Administration	980,259
Fiscal	218,702
Business	112,047
Operations and maintenance	874,713
Pupil transportation	492,338
Central	34,365
Food service operations	476,650
Extracurricular activities	305,103
Interest and fiscal charges	<u>206,789</u>
Total expenses	<u>10,641,935</u>
Change in net assets	2,235,722
Net assets at beginning of year	<u>23,092,525</u>
Net assets at end of year	<u>\$ 25,328,247</u>

Governmental Activities

Net assets of the District's governmental activities increased \$2,235,722. Total governmental expenses of \$10,641,935 were offset by program revenues of \$838,578 and general revenues of \$12,039,079. Program revenues supported 7.88% of the total governmental expenses.

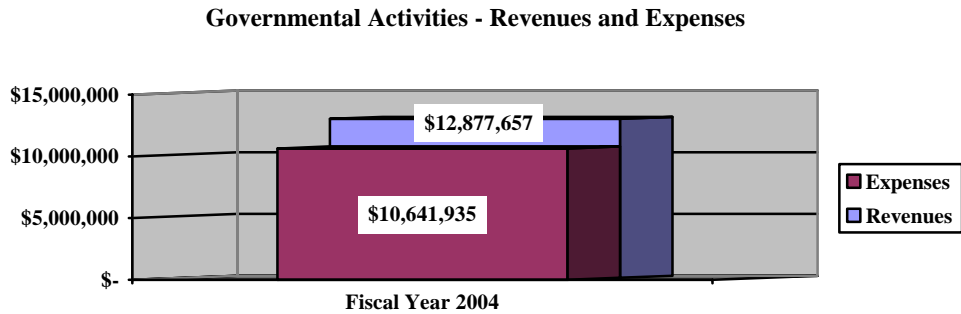
The primary sources of revenue for governmental activities are derived from property and income taxes, and grants and entitlements. These revenue sources represent 90.71% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,934,853 or 55.77% of total governmental expenses for fiscal year 2004.

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY 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.



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

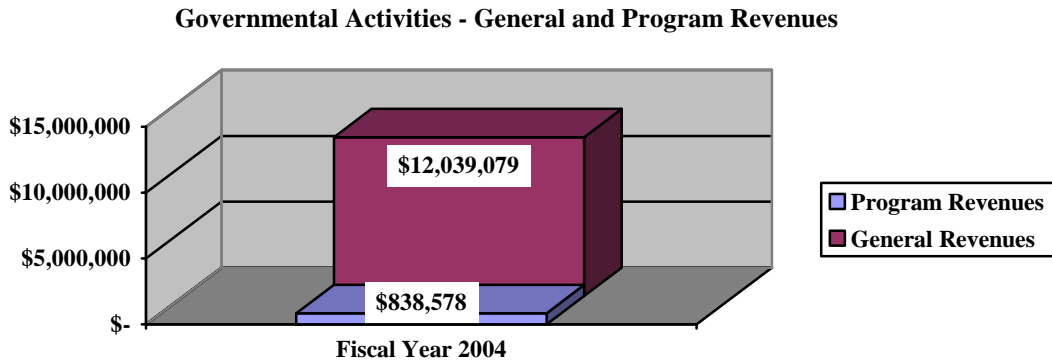
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses		
Instruction:		
Regular	\$ 4,862,279	\$ 4,683,447
Special	865,005	742,755
Other	207,569	207,569
Support services:		
Pupil	447,318	445,706
Instructional staff	387,319	363,705
Board of education	171,479	171,479
Administration	980,259	963,306
Fiscal	218,702	218,702
Business	112,047	112,047
Operations and maintenance	874,713	869,512
Pupil transportation	492,338	491,665
Central	34,365	29,365
Food service operations	476,650	110,728
Extracurricular activities	305,103	186,582
Interest and fiscal charges	206,789	206,789
Total expenses	<u>\$ 10,641,935</u>	<u>\$ 9,803,357</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 94.93% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 92.12%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY 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 for fiscal year 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$923,243, which is lower than last year's total of \$11,707,841. 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	\$ (505,237)	\$ 42,665	\$ (547,902)	(1,284.20) %
Classroom Facilities	419,129	10,796,723	(10,377,594)	(96.12) %
Other Governmental	<u>1,009,351</u>	<u>868,453</u>	<u>140,898</u>	16.22 %
Total	<u>\$ 923,243</u>	<u>\$11,707,841</u>	<u>\$ (10,784,598)</u>	(92.11) %

General Fund

The District's general fund balance decreased \$547,902 (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 related to decreasing revenues and increased expenditures. Expenditures exceed revenues and other financing sources for fiscal year 2004 by \$547,902. 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 LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY 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	\$ 2,472,963	\$ 3,011,981	\$ (539,018)	(17.90) %
Tuition	17,540	13,026	4,514	34.65 %
Earnings on investments	19,332	6,814	12,518	183.71 %
Intergovernmental	5,968,708	5,836,942	131,766	2.26 %
Other revenues	<u>213,699</u>	<u>373,028</u>	<u>(159,329)</u>	<u>(42.71) %</u>
Total	<u>\$ 8,692,242</u>	<u>\$ 9,241,791</u>	<u>\$ (549,549)</u>	<u>(5.95) %</u>
<u>Expenditures</u>				
Instruction	\$ 5,509,805	\$ 5,592,121	\$ (82,316)	(1.47) %
Support services	3,507,782	3,448,635	59,147	1.72 %
Extracurricular activities	198,131	195,170	2,961	1.52 %
Facilities acquisition and construction	797	150	647	431.33 %
Debt service	<u>27,074</u>	<u>-</u>	<u>27,074</u>	<u>100.00 %</u>
Total	<u>\$ 9,243,589</u>	<u>\$ 9,236,076</u>	<u>\$ 7,513</u>	<u>0.08 %</u>

Classroom Facilities Fund

The District's classroom facilities fund had \$3,696,564 in revenues and \$14,074,158 in expenditures. During fiscal year 2004, the classroom facilities fund's fund balance decreased \$10,377,594 from \$10,796,723 to \$419,129.

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 budgeted revenues and other financing sources were \$9,238,044 and final budgeted revenues and other financing sources were \$9,299,497. Actual revenues and other financing sources for fiscal 2004 was \$9,248,677. This represents a \$50,820 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$9,244,647 were increased to \$9,306,100 in final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$9,186,012, which was \$120,088 less than the final budget appropriations.

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY 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 \$24,481,326 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. 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	\$ 35,490	\$ 35,490
Land improvements	99,662	116,716
Building and improvements	455,197	482,428
Furniture and equipment	618,368	734,831
Vehicles	113,880	153,222
Construction in progress	23,158,729	9,084,571
 Total	 \$ 24,481,326	 \$ 10,607,258

The overall increase in capital assets of \$13,874,068 is due to capital outlays of \$14,148,533 exceeding depreciation expense of \$272,795 and disposals of \$1,670 (net of accumulated depreciation) in the fiscal year. \$14,074,158 of the increase in capital outlay is a result of building improvements going on in the District.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2004, the District had \$74,140 in energy conservation notes and \$4,480,000 in general obligation bonds outstanding. Of this total, \$197,813 is due within one year and \$4,356,327 is due within greater than one year. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2004	2003
Energy conservation notes	\$ 74,140	\$ 96,953
General obligation bonds	4,480,000	4,650,000
 Total	 \$ 4,554,140	 \$ 4,746,953

At June 30, 2004, the District's overall legal debt margin was \$4,598,395, and an unvoted debt margin of \$94,705.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

Current Financial Related Activities

The District faces many challenges. As the preceding information shows, the District relies heavily upon property and income taxes, as well as state and federal grants. The district has made extensive cuts in personnel in order to balance the budget in the past two years and the citizens must pass levies to generate additional revenue in the very near future to meet ordinary operating expenses and to avoid further financial cuts.

One challenge facing the District is the completion of a 5 year construction project undertaken through the Ohio School Facilities Commission (OSFC). Although the school buildings are now occupied, there is still work to be completed, and the project close-out process is just beginning.

Another challenge involves dealing with the effects of declining enrollment. The District is anticipating a lower than normal increase in State funding due to declining enrollment. Enrollment has been on the decline in the past few years, and the trend continues. The District must address the declining enrollment issue and the impact it has on funding.

Perhaps the biggest challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional education system, one that was found to be neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property wealth. 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. At this time, the District is unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

With decreases and uncertainties in State funding, declining enrollment, and two desperately needed operating issues on the ballot in FY05, cost cutting measures are inevitable now, as well as in the near future. All of the District's financial abilities will be needed to meet the financial challenges of the future.

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. Cathleen Lechliter, Treasurer, New Lebanon Local School District, 278 E. Main Street, New Lebanon, Ohio 45345.

**BASIC
FINANCIAL STATEMENTS**

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 3,466,367
Cash with escrow agent	172,609
Receivables:	
Taxes	3,509,628
Accounts	21,350
Intergovernmental	4,735,272
Prepayments.	8,051
Materials and supplies inventory	19,159
Capital assets:	
Land	35,490
Construction in progress.	23,158,729
Depreciable capital assets, net	1,287,107
Capital assets, net.	24,481,326
 Total assets.	 36,413,762
 Liabilities:	
Accounts payable.	40,866
Contracts payable.	1,556,500
Retainage payable	172,609
Accrued wages and benefits	1,206,325
Pension obligation payable.	262,266
Intergovernmental payable	78,170
Deferred revenue	2,808,381
Accrued interest payable	36,424
Long-term liabilities:	
Due within one year.	246,854
Due within more than one year	4,677,120
Total liabilities	11,085,515
 Net Assets:	
Invested in capital assets, net of related debt.	22,075,424
Restricted for:	
Capital projects	3,574,401
Debt service.	595,443
Unrestricted (deficit)	(917,021)
Total net assets	\$ 25,328,247

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 4,862,279	\$ 66,062	\$ 64,422	\$ 48,348	\$ (4,683,447)
Special	865,005	-	122,250	-	(742,755)
Other	207,569	-	-	-	(207,569)
Support services:					
Pupil.	447,318	-	1,612	-	(445,706)
Instructional staff	387,319	-	23,614	-	(363,705)
Board of education	171,479	-	-	-	(171,479)
Administration.	980,259	-	16,953	-	(963,306)
Fiscal.	218,702	-	-	-	(218,702)
Business.	112,047	-	-	-	(112,047)
Operations and maintenance	874,713	-	5,201	-	(869,512)
Pupil transportation.	492,338	-	673	-	(491,665)
Central	34,365	-	5,000	-	(29,365)
Operation of non-instructional services:					
Food service operations	476,650	238,763	127,159	-	(110,728)
Extracurricular activities.	305,103	118,521	-	-	(186,582)
Interest and fiscal charges	206,789	-	-	-	(206,789)
Total governmental activities	<u>\$ 10,641,935</u>	<u>\$ 423,346</u>	<u>\$ 366,884</u>	<u>\$ 48,348</u>	<u>(9,803,357)</u>

General Revenues:

Property and income taxes for:	
General purposes	2,559,092
Special revenue	38,057
Debt service.	429,500
Capital projects	190,590
Grants and entitlements not restricted	
to specific programs.	6,027,786
Grants and entitlements restricted	
to Ohio Schools Facilities Construction	2,436,060
Investment earnings	117,551
Miscellaneous	240,443
Total general revenues.	<u>12,039,079</u>
Change in net assets	2,235,722
Net assets at beginning of year.	<u>23,092,525</u>
Net assets at end of year	<u>\$ 25,328,247</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 39,807	\$ 1,975,629	\$ 1,355,414	\$ 3,370,850
Cash with escrow agent	-	172,609	-	172,609
Receivables:				
Taxes	2,718,738	-	790,890	3,509,628
Accounts	14,553	-	6,797	21,350
Intergovernmental	-	4,712,715	22,557	4,735,272
Interfund receivable	127,000	-	-	127,000
Advances to other funds	190,600	-	-	190,600
Prepayments	8,051	-	-	8,051
Materials and supplies inventory	13,398	-	5,761	19,159
Restricted assets:				
Equity in pooled cash and cash equivalents	95,517	-	-	95,517
Total assets	<u>\$ 3,207,664</u>	<u>\$ 6,860,953</u>	<u>\$ 2,181,419</u>	<u>\$ 12,250,036</u>
Liabilities:				
Accounts payable	\$ 26,757	\$ -	\$ 14,109	\$ 40,866
Contracts payable	-	1,556,500	-	1,556,500
Retainage payable	-	172,609	-	172,609
Accrued wages and benefits	1,144,063	-	62,262	1,206,325
Pension obligation payable.	145,742	-	8,754	154,496
Intergovernmental payable.	74,129	-	4,041	78,170
Interfund payable.	-	-	127,000	127,000
Advances from other funds.	-	-	190,600	190,600
Deferred revenue.	2,322,210	4,712,715	765,302	7,800,227
Total liabilities	<u>3,712,901</u>	<u>6,441,824</u>	<u>1,172,068</u>	<u>11,326,793</u>
Fund Balances:				
Reserved for encumbrances	39,667	6,887,613	10,032	6,937,312
Reserved for materials and supplies inventory.	13,398	-	5,761	19,159
Reserved for prepayments	8,051	-	-	8,051
Reserved for property tax unavailable for appropriation	96,976	-	32,971	129,947
Reserved for advances.	190,600	-	-	190,600
Reserved for instructional materials	95,517	-	-	95,517
Reserved for debt service.	-	-	534,716	534,716
Unreserved, undesignated (deficit), reported in:				
General fund	(949,446)	-	-	(949,446)
Special revenue funds.	-	-	(14,464)	(14,464)
Capital projects funds.	-	(6,468,484)	440,335	(6,028,149)
Total fund balances (deficit)	<u>(505,237)</u>	<u>419,129</u>	<u>1,009,351</u>	<u>923,243</u>
Total liabilities and fund balances	<u>\$ 3,207,664</u>	<u>\$ 6,860,953</u>	<u>\$ 2,181,419</u>	<u>\$ 12,250,036</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$	923,243
<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.			24,481,326
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	271,748	
Intergovernmental revenue		4,720,098	
Total			4,991,846
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		369,834	
Pension obligation payable		107,770	
Energy conservation bonds		74,140	
General obligation bonds payable		4,480,000	
Accrued interest payable		36,424	
Total			(5,068,168)
Net assets of governmental activities		\$	25,328,247

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 2,472,963	\$ -	\$ 628,396	\$ 3,101,359
Tuition.	17,540	-	-	17,540
Earnings on investments.	19,332	98,219	-	117,551
Charges for services.	-	-	238,763	238,763
Extracurricular.	-	-	118,521	118,521
Classroom materials and fees	-	-	48,522	48,522
Other local revenues.	213,699	-	24,969	238,668
Intergovernmental - State.	5,966,784	3,598,345	197,019	9,762,148
Intergovernmental - Federal	1,924	-	320,187	322,111
Total revenues.	<u>8,692,242</u>	<u>3,696,564</u>	<u>1,576,377</u>	<u>13,965,183</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,604,477	-	174,020	4,778,497
Special.	697,759	-	164,901	862,660
Other.	207,569	-	-	207,569
Support services:				
Pupil.	437,171	-	4,271	441,442
Instructional staff	351,896	-	33,054	384,950
Board of education	171,479	-	-	171,479
Administration.	928,477	-	23,629	952,106
Fiscal	203,363	-	-	203,363
Business	59,857	-	50,276	110,133
Operations and maintenance.	873,133	-	-	873,133
Pupil transportation	450,592	-	2,228	452,820
Central.	31,814	-	2,551	34,365
Food service operations	-	-	461,580	461,580
Extracurricular activities.	198,131	-	74,818	272,949
Facilities acquisition and construction . . .	797	14,074,158	52,860	14,127,815
Debt service:				
Principal retirement	22,813	-	170,000	192,813
Interest and fiscal charges	4,261	-	221,291	225,552
Total expenditures	<u>9,243,589</u>	<u>14,074,158</u>	<u>1,435,479</u>	<u>24,753,226</u>
Excess of revenues over (under) expenditures.	<u>(551,347)</u>	<u>(10,377,594)</u>	<u>140,898</u>	<u>(10,788,043)</u>
Other financing sources:				
Proceeds from sale of capital assets	<u>3,445</u>	<u>-</u>	<u>-</u>	<u>3,445</u>
Total other financing sources	<u>3,445</u>	<u>-</u>	<u>-</u>	<u>3,445</u>
Net change in fund balances	(547,902)	(10,377,594)	140,898	(10,784,598)
Fund balances at beginning of year (restated)				
	42,665	10,796,723	868,453	11,707,841
Fund balances (deficit) at end of year . . .	<u>\$ (505,237)</u>	<u>\$ 419,129</u>	<u>\$ 1,009,351</u>	<u>\$ 923,243</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY 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	\$	(10,784,598)
<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 capital outlays (\$14,148,533) exceeds depreciation expense (\$272,795) in the current period.		13,875,738
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		(1,670)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(1,089,301)
Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		192,813
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.		18,763
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.		23,977
Change in net assets of governmental activities	\$	<u>2,235,722</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY 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 Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 2,867,112	\$ 2,883,986	\$ 2,845,322	\$ (38,664)
Tuition	17,058	17,162	17,540	378
Earnings on investments	20,291	20,415	20,865	450
Other local revenues	16,512	16,613	16,979	366
Intergovernmental - State	5,946,360	5,988,350	5,966,784	(21,566)
Intergovernmental - Federal	1,872	1,883	1,924	41
Total revenues	<u>8,869,205</u>	<u>8,928,409</u>	<u>8,869,414</u>	<u>(58,995)</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,485,858	4,542,557	4,539,828	2,729
Special	722,036	691,636	689,639	1,997
Other	125,480	217,480	216,012	1,468
Support services:				
Pupil	475,673	441,586	441,478	108
Instructional staff	377,500	358,800	342,430	16,370
Board of education	149,528	184,528	177,630	6,898
Administration	1,025,078	931,966	894,616	37,350
Fiscal	245,174	229,174	184,958	44,216
Business	63,312	67,362	63,378	3,984
Operations and maintenance	895,137	910,340	814,832	95,508
Pupil transportation	428,879	461,879	440,984	20,895
Central	25,992	28,992	28,723	269
Extracurricular activities	195,000	209,800	194,633	15,167
Facilities acquisition and construction	-	1,000	797	203
Debt service:				
Principal retirement	24,000	23,500	22,813	687
Interest and fiscal charges	6,000	5,500	4,261	1,239
Total expenditures	<u>9,244,647</u>	<u>9,306,100</u>	<u>9,057,012</u>	<u>249,088</u>
Excess of revenues over (under) expenditures	<u>(375,442)</u>	<u>(377,691)</u>	<u>(187,598)</u>	<u>190,093</u>
Other financing sources (uses):				
Refund of prior year expenditure	221,070	222,418	227,318	4,900
Advances in	144,418	145,299	148,500	3,201
Advances (out)	-	-	(129,000)	(129,000)
Proceeds from sale of capital assets	3,351	3,371	3,445	74
Total other financing sources (uses)	<u>368,839</u>	<u>371,088</u>	<u>250,263</u>	<u>(120,825)</u>
Net change in fund balance	(6,603)	(6,603)	62,665	69,268
Fund balance at beginning of year	(80,304)	(80,304)	(80,304)	-
Prior year encumbrances appropriated	86,907	86,907	86,907	-
Fund balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,268</u>	<u>\$ 69,268</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 18,893
Total assets.	<u>\$ 18,893</u>
Liabilities:	
Due to students	\$ 18,893
Total liabilities	<u>\$ 18,893</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The New Lebanon Local School District (the "District") is located in west-central Montgomery County, including all of the Village of New Lebanon, and portions of surrounding townships. The District serves an area of approximately 39 square miles.

The District was organized in 1922, 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 elementary school, 1 middle school, and 1 comprehensive high school. The District employs 76 non-certified and 97 (including administrative) certified full-time and part-time employees to provide services to approximately 1,319 students in grades K through 12 and various community groups, which ranks it 409th out of 613 public school districts in Ohio.

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 activities 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", and as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food 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 organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; (2) the District is legally entitled to or can otherwise access the organization's resources; (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

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

JOINTLY GOVERNED ORGANIZATIONS

Miami Valley Career Technology Center

The Miami Valley Career Technology Center is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide for the vocational and special education needs of its students. The Board of Education is comprised of 17 members elected from the 27 participating school districts. The school accepts non-tuition students from the District as a member school, however, it is considered to be a separate political subdivision and not part of the District. Financial information is available from Debbie Whitton, Treasurer, at 6800 Hoke Road, Clayton, Ohio 45315.

Southwestern Ohio Educational Purchasing Cooperative (SOEPC)

SOEPC is a purchasing cooperative made up of nearly one hundred school districts in Montgomery and surrounding counties. The Montgomery County Educational Service Center acts as fiscal agent for the group. The purpose of the cooperative is to obtain lower prices for materials and supplies commonly used by the member districts. The members are obligated to pay all fees, charges and assessments as established by SOEPC. Each member district has one voting representative. Title to any and all equipment and supplies purchased by SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from SOEPC shall forfeit its claim to any and all SOEPC assets. One year's prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the District's general fund. Financial information is available from SOEPC by contacting Robert Brown, Director, at 1831 Harshman Road, Dayton, Ohio 45424.

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 through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

B. Fund Accounting

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

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE 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.

Classroom Facilities Fund - The classroom facilities capital projects 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) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

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 has no trust funds. 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 LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE 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.

Agency funds do not report a measurement focus as they do 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 Nonexchange 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 6).

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE 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, 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 operations, 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. 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 Montgomery County Budget Commission for tax rate determination.

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE 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 may not exceed the appropriation totals. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.
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 prior to June 30, 2004; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the final appropriation amounts including all amendments and modifications.
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 repurchase agreements and federal agency securities. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education or statutory requirements, investment earnings are assigned to the general and classroom facilities funds. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$19,332, which includes \$18,290 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

Governmental capital assets are those assets generally related to governmental activities. These assets 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 deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$500. 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 any infrastructure.

All reported capital assets except land and construction in progress 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:

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

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

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 five 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, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

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

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, 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 are recognized as a liability on the fund financial statements when due.

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 debt service, advances, instructional materials, encumbrances, materials and supplies inventory, prepayments, and property tax revenue unavailable for appropriation. 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 first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

O. 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.

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a instructional materials reserve. This reserve is required by state statute. A schedule of statutory reserves is presented in Note 16.

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

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

Q. Interfund Activity

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

R. 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. Neither type of transaction occurred during fiscal year 2004.

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. 39, "Determining Whether Certain Organizations are Component Units", 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, 39 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. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity." 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.

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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.

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>Classroom Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$ 37,229	\$ 4,921,723	\$ 946,479	\$ 5,905,431
Fund reclassifications	-	-	(78,078)	(78,078)
Prior period adjustment	-	5,875,000	-	5,875,000
Implementation of GASB Interpretation No. 6	<u>5,436</u>	<u>-</u>	<u>52</u>	<u>5,488</u>
Restated fund balance, June 30, 2003	<u>\$ 42,665</u>	<u>\$ 10,796,723</u>	<u>\$ 868,453</u>	<u>\$ 11,707,841</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	\$ 11,707,841
GASB 34 adjustments:	
Long-term (deferred) assets	6,081,147
Capital assets	10,607,258
Accrued interest payable	(55,187)
Pension obligation	(78,789)
Long-term liabilities	<u>(5,169,745)</u>
Governmental activities net assets, June 30, 2003	<u>\$ 23,092,525</u>

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

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

	<u>Deficit</u>
<u>Major Funds</u>	
General	\$ 505,237
<u>Nonmajor Funds</u>	
Food Service	182,545
Summer Intervention	7,733
Special Education	53,867
Vocational Education	1,288
Title I	54,839
Drug Free Schools	4,820
Classroom Reductions	13,459
Miscellaneous Federal Grants	10,712

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. These deficit fund balances are the result of adjustments for accrued liabilities.

C. Compliance

The following fund had expenditures in excess of appropriations contrary to Ohio Revised Code Section 5705.41(B):

	<u>Excess</u>
<u>Nonmajor Funds</u>	
Food Service	\$ 47,863

The Treasurer will review appropriations to ensure they are sufficient prior to expenditures being made.

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.

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

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

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;
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 to 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.

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

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

Cash with Escrow Agent: At fiscal year end, the District had \$172,609 in depository accounts for retainage obligations related to classroom facilities project undertaken by the District. The balance in these depository accounts are included in the amount of “deposits” reported below.

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

Deposits: At year-end, the carrying amount of the District’s deposits was \$883,388 and the bank balance was \$1,193,346. Of the bank balance:

1. \$130,074 was covered by federal deposit insurance; and
2. \$1,063,272 was uninsured and uncollateralized 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 deposit 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.

	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase agreements	\$ 750,928	\$ 750,928	\$ 750,928
Federal agency securities	<u>2,023,553</u>	<u>2,023,553</u>	<u>2,023,553</u>
 Total investments	 <u>\$ 2,774,481</u>	 <u>\$ 2,774,481</u>	 <u>\$ 2,774,481</u>

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

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

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>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 3,657,869	\$ -
Investments of the cash management pool:		
Repurchase agreements	(750,928)	750,928
Federal agency securities	<u>(2,023,553)</u>	<u>2,023,553</u>
GASB Statement No. 3	<u>\$ 883,388</u>	<u>\$ 2,774,481</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund Loans

Interfund balances consist of the following interfund loans receivable and payable, as reported on the fund financial statements at June 30, 2004.

<u>Interfund Loans Receivable</u>	<u>Interfund Loans Payable</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 127,000

The primary purpose of these interfund loans is to cover costs in specific funds where revenues were not received by June 30. These interfund loans will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the Statement of Net Assets.

B. Advances To/From Other Funds

Interfund balances consist of the following long-term advances to/from other funds, as reported on the fund financial statements at June 30, 2004.

<u>Advances To Other Funds</u>	<u>Advances From Other Funds</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 190,600

NOTE 6 - PROPERTY TAXES

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

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 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.

The District receives property taxes from Montgomery County. The County Auditor 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 amounts available as an advance at June 30, 2004 was \$96,976 in the general fund, \$20,185 in the bond retirement fund, \$11,013 in the permanent improvement fund, and \$1,773 in the classroom facilities maintenance fund. The amounts available as an advance at June 30, 2003 was \$135,639 in the general fund, \$32,496 in the bond retirement fund, \$6,764 in the permanent improvement fund, and \$2,861 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.

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

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	\$ 89,352,630	94.93	\$ 90,072,060	95.11
Public utility personal	3,039,240	3.23	2,936,690	3.10
Tangible personal property	<u>1,739,635</u>	<u>1.84</u>	<u>1,696,742</u>	<u>1.79</u>
Total	<u>\$ 94,131,505</u>	<u>100.00</u>	<u>\$ 94,705,492</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 38.45		\$ 41.53	
Permanent Improvement	2.00		2.80	
Debt Service	5.12		5.12	

NOTE 7 - INCOME TAX

The District levies a voted tax of .75 of 1% for general obligations on the income of residents and of estates. The tax was effective January 1, 1998 and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund and totaled \$764,744 for fiscal 2004.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), 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 principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Taxes	\$ 3,509,628
Accounts	21,350
Intergovernmental	<u>4,735,272</u>
Total	<u>\$ 8,266,250</u>

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

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

NOTE 9 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated as of June 30, 2003 based on implementing GASB Statement No. 34, and for prior year's errors and omissions.

	<u>Balance</u> <u>6/30/03</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>6/30/03</u>
Governmental Activities:			
Capital assets, not being depreciated:			
Land	\$ -	\$ 35,490	\$ 35,490
Construction in progress	<u>9,084,571</u>	<u>-</u>	<u>9,084,571</u>
Total capital assets, not being depreciated	<u>9,084,571</u>	<u>35,490</u>	<u>9,120,061</u>
Capital assets, being depreciated:			
Land improvements	541,914	(200,840)	341,074
Buildings and improvements	2,217,591	(390,941)	1,826,650
Furniture and equipment	2,300,509	59,471	2,359,980
Vehicles	<u>219,186</u>	<u>53,055</u>	<u>272,241</u>
Total capital assets, being depreciated	<u>5,279,200</u>	<u>(479,255)</u>	<u>4,799,945</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(3,312,748)</u>	<u>(3,312,748)</u>
Governmental activities capital assets, net	<u>\$ 14,363,771</u>	<u>\$ (3,756,513)</u>	<u>\$ 10,607,258</u>

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

NOTE 9 - 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	\$ 35,490	\$ -	\$ -	\$ 35,490
Construction in progress	<u>9,084,571</u>	<u>14,074,158</u>	<u>-</u>	<u>23,158,729</u>
Total capital assets, not being depreciated	<u>9,120,061</u>	<u>14,074,158</u>	<u>-</u>	<u>23,194,219</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	341,074	-	-	341,074
Buildings and improvements	1,826,650	-	-	1,826,650
Furniture and equipment	2,359,980	74,375	(83,111)	2,351,244
Vehicles	<u>272,241</u>	<u>-</u>	<u>-</u>	<u>272,241</u>
Total capital assets, being depreciated	<u>4,799,945</u>	<u>74,375</u>	<u>(83,111)</u>	<u>4,791,209</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(224,358)	(17,054)	-	(241,412)
Buildings and improvements	(1,344,222)	(27,231)	-	(1,371,453)
Furniture and equipment	(1,625,149)	(189,168)	81,441	(1,732,876)
Vehicles	<u>(119,019)</u>	<u>(39,342)</u>	<u>-</u>	<u>(158,361)</u>
Total accumulated depreciation	<u>(3,312,748)</u>	<u>(272,795)</u>	<u>81,441</u>	<u>(3,504,102)</u>
Governmental activities capital assets, net	<u>\$ 10,607,258</u>	<u>\$ 13,875,738</u>	<u>\$ (1,670)</u>	<u>\$ 24,481,326</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 137,456
Special	6,793

Support Services:

Pupil	4,926
Instructional staff	1,634
Administration	16,903
Fiscal	10,365
Business	1,914
Operations and maintenance	4,365
Pupil transportation	39,342
Extracurricular activities	34,085
Food service operations	<u>15,012</u>
Total depreciation expense	<u>\$ 272,795</u>

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS

- A.** The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$18,537 from \$404,255 to \$422,792 due to the implementation of GASB Interpretation No. 6 and due to fund reclassifications described in Note 3.A. In addition, pension obligations of \$65,026 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 total effect on governmental activities long-term obligations was a decrease of \$46,489 from \$5,216,234 to \$5,169,745.
- B.** On April 1, 2001, the District issued \$4,530,000 in general obligation bonds (Series 2001, 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). OSFC has awarded the District a \$19,327,026 grant for the project, and will make quarterly disbursements to the District until the project is completed. 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 3.77 (average) mill bonded debt tax levy.

In conjunction with the 3.77 mills which support the bond issue, the District also passed in fiscal 2001 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.

The Series 1987 general obligation bonds outstanding, which were issued to provide funds for the acquisition and construction of equipment and facilities, are general obligations of the District, for which the full faith and credit of the District are pledged for repayment. Payments of principal and interest relating to these bonds are recorded as expenditures in the debt service fund. The source of payment is derived from a current 1.35 mill bonded debt tax levy.

Energy conservation notes outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Payments of principal and interest relating to these notes are recorded as expenditures in the general fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of energy conservation notes without voter approval, and the subsequent repayment of the notes from operating revenues.

The following is a description of the District's bonds and notes outstanding as of June 30, 2004:

Purpose	Interest Rate	Issue Date	Maturity Date	Balance			Balance Outstanding 06/30/04	Amounts Due in One Year
				Outstanding 06/30/03	Additions	Reductions		
Facilities improvement	5.080%	01/01/01	12/01/23	\$ 4,290,000	\$ -	\$ (125,000)	\$ 4,165,000	\$ 130,000
Building renovations	6.875%	01/01/87	12/01/10	360,000	-	(45,000)	315,000	45,000
Energy conservation notes	4.83	09/29/97	09/30/08	96,953	-	(22,813)	74,140	22,813
Total long-term obligations, governmental activities				<u>\$ 4,746,953</u>	<u>\$ -</u>	<u>\$ (192,813)</u>	<u>\$ 4,554,140</u>	<u>\$ 197,813</u>

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

- C. The following is a summary of the District's future annual debt service requirements to maturity for general obligation bonds and energy conservation notes:

Year Ending June 30	General Obligation Series 1997 Building Renovation			General Obligation Series 1997 Energy Conservation		
	Principal	Interest	Total	Principal	Interest	Total
	2005	\$ 45,000	\$ 20,109	\$ 65,109	\$ 22,813	\$ 3,168
2006	45,000	17,016	62,016	22,813	2,066	24,879
2007	45,000	13,922	58,922	22,813	965	23,778
2008	45,000	10,828	55,828	5,701	69	5,770
2009	45,000	7,734	52,734	-	-	-
2010 - 2014	90,000	6,188	96,188	-	-	-
Total	<u>\$ 315,000</u>	<u>\$ 75,797</u>	<u>\$ 390,797</u>	<u>\$ 74,140</u>	<u>\$ 6,268</u>	<u>\$ 80,408</u>

Year Ending June 30	General Obligation Series 2001 Facilities Improvement		
	Principal	Interest	Total
2005	\$ 130,000	\$ 137,757	\$ 267,757
2006	135,000	134,463	269,463
2007	140,000	130,954	270,954
2008	145,000	127,220	272,220
2009	155,000	123,257	278,257
2010 - 2014	870,000	544,616	1,414,616
2015 - 2019	1,135,000	374,349	1,509,349
2020 - 2024	1,455,000	152,380	1,607,380
Total	<u>\$ 4,165,000</u>	<u>\$ 1,724,996</u>	<u>\$ 5,889,996</u>

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

D. During the year ended June 30, 2004, the following changes occurred in liabilities. Compensated absences will be paid from the fund from which the employee is paid.

	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:					
Compensated absences	\$ 422,792	\$ -	\$ (52,958)	\$ 369,834	\$ 49,041
General obligation bonds	4,650,000	-	(170,000)	4,480,000	175,000
Energy conservation notes	<u>96,953</u>	<u>-</u>	<u>(22,813)</u>	<u>74,140</u>	<u>22,813</u>
Total long-term obligations, governmental activities	<u>\$ 5,169,745</u>	<u>\$ -</u>	<u>\$ (245,771)</u>	<u>\$ 4,923,974</u>	<u>\$ 246,854</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 \$4,598,395, an unvoted debt margin of \$94,705, and an Energy Conservation debt margin of \$778,209.

NOTE 11 - RISK MANAGEMENT

The District does not have a "self-insurance" fund with formalized risk management programs. The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters.

During fiscal year 2004, The District purchased from Nationwide Insurance Company (through the Ohio School Boards Association) general liability insurance, which carried a \$1 million per occurrence/\$3 million annual aggregate limitation.

Fleet and property/casualty insurance are purchased through commercial carriers and traditionally funded, as are all benefit plans offered to employees.

Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three years. There has been no significant reduction in amounts of insurance coverage from fiscal 2003.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13. As such, no funding provisions are required by the District.

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

NOTE 11 - RISK MANAGEMENT - (Continued)

OSBA WORKERS' COMPENSATION GROUP RATING PLAN

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (the "Plan"), an insurance purchasing pool. 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. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

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 \$204,279, \$204,779, and \$186,195, respectively; 37.14% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$128,412 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 LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE 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 \$669,410, \$665,273, and \$657,801, respectively; 83.31% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$111,692 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$4,871 made by the District and \$8,247 made by plan members.

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 6.20 percent of wages paid.

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.

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

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 \$47,815 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For 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 \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$100,833 during the 2004 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (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);

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (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:

	<u>General Fund</u>
Budget basis	\$ 62,665
Net adjustment for revenue accruals	(177,172)
Net adjustment for expenditure accruals	(253,001)
Net adjustment for other sources/uses	(246,818)
Adjustment for encumbrances	<u>66,424</u>
GAAP basis	<u>\$ (547,902)</u>

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. State School Funding Decision

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

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

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

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:

	Instructional <u>Materials</u>	Capital <u>Maintenance</u>
Set-aside cash balance as of June 30, 2003	\$ 25,662	\$ (4,971,605)
Current year set-aside requirement	184,422	184,422
Current year offsets	-	(173,595)
Qualifying disbursements	<u>(114,567)</u>	<u>(10,827)</u>
Total	<u>\$ 95,517</u>	<u>\$ (4,971,605)</u>
Balance carried forward to FY 2005	<u>\$ 95,517</u>	<u>\$ (4,971,605)</u>

In prior years, the District issued bonds for the District's share of construction and renovation costs associated with the Ohio School Facilities Commission Project. These proceeds may be used to reduce the capital maintenance requirement below zero for future years. Therefore, this negative amount is presented as being carried forward to future fiscal years.

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

Amounts restricted for instructional materials	<u>\$ 95,517</u>
Total restricted assets	<u>\$ 95,517</u>

NOTE 17 - SUBSEQUENT EVENT

Cathleen Lechlitter was hired to replace Nancy Winterbotham as Treasurer upon her resignation. In addition, Michael Eckert was hired as Superintendent to replace Dennis Curtain based upon his resignation.

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

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

NOTE 18 - CONTRACTUAL COMMITMENTS

At June 30, 2004, the District had the following outstanding contractual commitments:

<u>Contractor</u>	<u>Amount</u>
A-1 Sprinkler	\$ 68,890
Active Electric	368,001
Alexander Patterson	214,931
Applied Mechanical	905,019
Batts	809,061
Black & White	401,545
Buchong	185,862
Chapel Electric	78,662
Command Roofing	323,572
Continental Education	62,572
Dayton Blueprint	4,603
Expanets	60,558
Food Equipment	200
Fryman Kuck	725,612
J-Tec	130,425
Kelchner	61,391
Lehn Painting	69,611
NEC	32,334
OK Interiors	44,265
OKI Window	42,970
Pac Van	3,554
Paden	167,825
Peck, Shaffer & Williams	15,720
Peterson	2,024,755
PSI	11,492
Securcom	82,984
TP Mechanical	859,415
Universal Custom	187,837
Valley Interior	79,135
Weiffenbach Marble & Tile	328,493
Wenger Corp.	48,556
Wray's	<u>17,460</u>
 Total restricted assets	 <u><u>8,417,310</u></u>

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard
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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Education
New Lebanon Local School District
278 East Main Street
New Lebanon, Ohio 45345

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the New Lebanon Local School District, Montgomery County (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 April 7, 2005. 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 and Management’s Discussion and Analysis for State and Local Governments: Omnibus; GASB Statement No. 38, Certain Financial Statement Note Disclosures; GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units; 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 fiscal year ended June 30, 2004. In addition, capital assets have been restated due to implementing GASB Statement No. 34 and for prior year errors and omissions as described in Note 9. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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. However, we noted other matters that we reported to management of the District, in a separate letter dated April 7, 2005.

Board of Education
New Lebanon Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-NLLSD-001. We also noted a matter that we have reported to management of the District in a separate letter dated April 7, 2005.

This report is intended solely for the information of the Board and management of New Lebanon Local School District, and is not intended to be and should not be used by anyone other than these specified parties.

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

Trimble, Julian & Grube, Inc.
April 7, 2005

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

**SCHEDULE OF FINDINGS
JUNE 30, 2004**

FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2004-NLLSD-001

Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.

It was noted during the audit that the District had expenditures exceeding appropriations in the following fund:

<u>Other Governmental Fund</u>	<u>Excess</u>
Food Service	\$ 47,863

With expenditures exceeding appropriations, the District is expending monies that have not been appropriated and approved by the Board of Education. This could result in unnecessary purchases or fund deficits.

We recommend that the District comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget prior to year end. This may be achieved by monitoring the budget more closely on a continual basis.

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-NLLSD-001	Ohio Revised Code Section 5705.39 requires that a subdivision's total appropriations from each fund should not exceed the total estimated resources.	Yes	N/A
2003- NLLSD-002	Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.	No	Reported as finding 2004-NLLSD-001.



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NEW LEBANON LOCAL SCHOOL DISTRICT

MONTGOMERY 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
MAY 12, 2005**