

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

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

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

CATHLEEN LEICHLITER, TREASURER



Mary Taylor, CPA
Auditor of State

Board of Education
New Lebanon Local School District
320 South Fuls Road
New Lebanon, Ohio 45345

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 19, 2007

This Page is Intentionally Left Blank.

**NEW LEBANON LOCAL SCHOOL DISTRICT
MONTGOMERY COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

TABLE OF CONTENTS

Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 12
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) - General Fund	19
Statement of Fiduciary Net Assets - Fiduciary Funds	20
Notes to the Basic Financial Statements.....	21 - 45
Supplemental Data:	
Schedule of Receipts and Expenditures of Federal Awards	46
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	47 - 48
Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i>	49 - 50
Schedule of Findings <i>OMB Circular A-133 § .505</i>	51

This Page is Intentionally Left Blank.



Julian & Grube, Inc.
Serving Ohio Local Governments

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

Independent Auditor's Report

Board of Education
New Lebanon Local School District
320 South Fuls Road
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, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, 2006, 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 noted in Note 3B, the District had a prior period adjustment to restate net assets at July 1, 2005 due to Ohio School Facilities Commission grants receivable being overstated in prior year.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2006 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 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the New Lebanon Local School District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the New Lebanon Local School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

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

Julian & Grube, Inc.
December 21, 2006

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

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

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, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$586,344 which represents a 2.28% increase from 2005.
- General revenues accounted for \$10,161,407 in revenue or 90.06% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,122,249 or 9.94% of total revenues of \$11,283,656.
- The District had \$10,697,312 in expenses related to governmental activities; \$1,122,249 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 \$10,161,407 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$9,538,195 in revenues and \$8,868,872 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund balance increased \$669,323 from a deficit of \$4,154 to \$665,169.
- The District's debt service fund had \$521,390 in revenues and other financing sources and \$403,329 in expenditures. During fiscal year 2006, the debt service fund's fund balance increased \$118,061 from \$572,375 to \$690,436.

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 debt service 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, 2006**

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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.

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

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

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 21-45 of this report.

The District as a Whole

The table below provides a summary of the District's net assets for 2006 and 2005.

	Net Assets	
	Governmental Activities 2006	Restated Governmental Activities 2005
<u>Assets</u>		
Current and other assets	\$ 7,302,798	\$ 6,135,392
Capital assets	<u>28,563,786</u>	<u>28,518,846</u>
Total assets	<u>35,866,584</u>	<u>34,654,238</u>
<u>Liabilities</u>		
Current liabilities	4,399,953	4,007,178
Long-term liabilities	<u>5,172,742</u>	<u>4,939,515</u>
Total liabilities	<u>9,572,695</u>	<u>8,946,693</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	23,782,011	24,943,786
Restricted	2,336,261	1,051,645
Unrestricted (deficit)	<u>175,617</u>	<u>(287,886)</u>
Total net assets	<u>\$ 26,293,889</u>	<u>\$ 25,707,545</u>

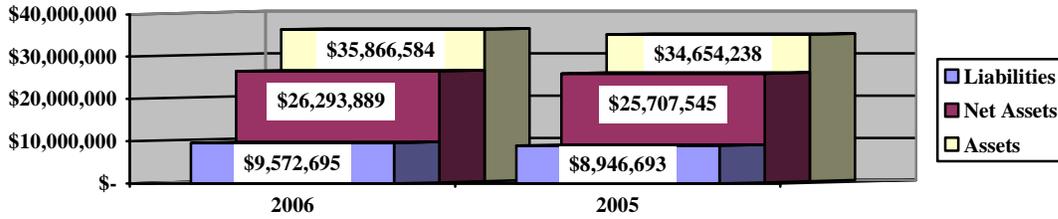
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$26,293,889. Of this total, \$175,617 is unrestricted in use. At year-end, capital assets represented 79.64% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$23,782,011. 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, \$2,336,261 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$175,617 may be used to meet the District's ongoing obligations to the students and creditors.

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

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

Governmental Activities



The table below shows the change in net assets for fiscal year 2006 and 2005. Net assets at June 30, 2005 have been restated as described in Note 3.B. to the basic financial statements.

Change in Net Assets

	Governmental Activities <u>2006</u>	Restated Governmental Activities <u>2005</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 506,896	\$ 474,837
Operating grants and contributions	600,889	609,148
Capital grants and contributions	14,464	24,301
General revenues:		
Property and income taxes	2,793,804	2,950,634
School district income taxes	819,304	793,210
Grants and entitlements	6,156,529	4,913,728
Investment earnings	149,803	86,103
Other	241,967	160,566
Total revenues	<u>11,283,656</u>	<u>10,012,527</u>

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

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

Change in Net Assets

	Governmental Activities <u>2006</u>	Restated Governmental Activities <u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,261,474	\$ 4,823,744
Special	940,237	831,485
Other	278,506	308,790
Support services:		
Pupil	383,044	363,998
Instructional staff	488,548	349,802
Board of education	188,116	166,252
Administration	797,000	916,319
Fiscal	256,234	170,326
Business	107,796	79,748
Operations and maintenance	1,374,269	894,043
Pupil transportation	411,193	320,994
Central	151,057	79,714
Food service operations	451,136	489,689
Extracurricular activities	393,751	311,094
Interest and fiscal charges	<u>214,951</u>	<u>236,135</u>
Total expenses	<u>10,697,312</u>	<u>10,342,133</u>
Change in net assets	586,344	(329,606)
Net assets at beginning of year (restated)	<u>25,707,545</u>	<u>26,037,151</u>
Net assets at end of year	<u>\$ 26,293,889</u>	<u>\$ 25,707,545</u>

Governmental Activities

Net assets of the District's governmental activities increased \$586,344. Total governmental expenses of \$10,697,312 were offset by program revenues of \$1,122,249 and general revenues of \$10,161,407. Program revenues supported 10.49% of the total governmental expenses.

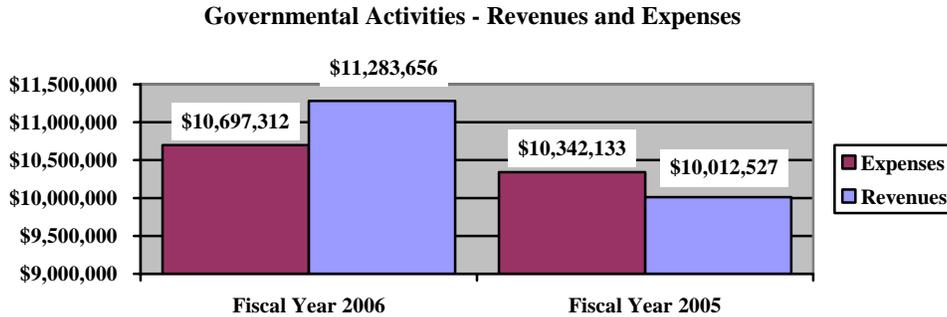
The primary sources of revenue for governmental activities are derived from property and income taxes, and grants and entitlements. These revenue sources represent 86.59% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,480,217 or 51.23% total governmental expenses for fiscal year 2006.

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

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

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



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

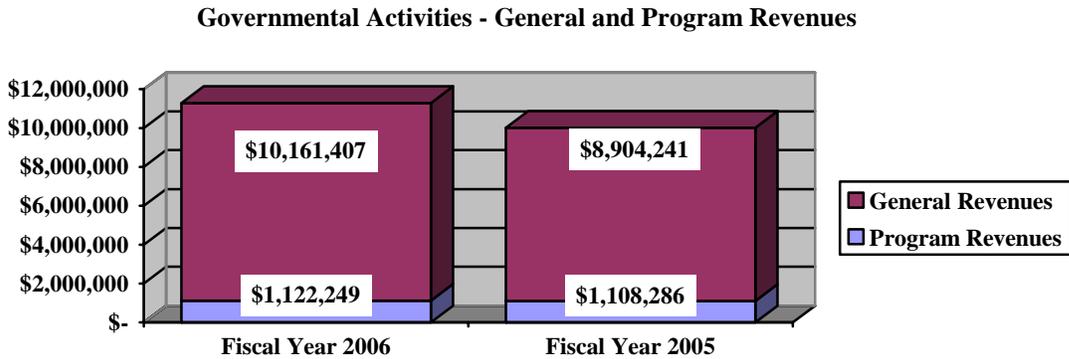
	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
Program expenses				
Instruction:				
Regular	\$ 4,261,474	\$ 4,117,458	\$ 4,823,744	\$ 4,636,887
Special	940,237	681,627	831,485	621,120
Other	278,506	278,506	308,790	291,717
Support services:				
Pupil	383,044	318,714	363,998	318,863
Instructional staff	488,548	438,945	349,802	263,986
Board of education	188,116	188,116	166,252	166,252
Administration	797,000	787,874	916,319	903,328
Fiscal	256,234	256,234	170,326	170,326
Business	107,796	107,796	79,748	34,466
Operations and maintenance	1,374,269	1,374,269	894,043	894,043
Pupil transportation	411,193	411,193	320,994	320,710
Central	151,057	133,857	79,714	72,719
Food service operations	451,136	46,068	489,689	69,890
Extracurricular activities	393,751	219,455	311,094	233,405
Interest and fiscal charges	214,951	214,951	236,135	236,135
Total expenses	<u>\$ 10,697,312</u>	<u>\$ 9,575,063</u>	<u>\$ 10,342,133</u>	<u>\$ 9,233,847</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 92.65% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 89.51%. 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, 2006**

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



The District's Funds

The District's governmental funds reported a combined fund balance of \$2,804,074, which is greater than last year's total of \$1,929,734. The District's fund balances have been restated at June 30, 2005 as described in Note 3B. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance <u>June 30, 2006</u>	Restated Fund Balance <u>June 30, 2005</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$ 665,169	\$ (4,154)	\$ 669,323	16,112.73 %
Debt Service	690,436	572,375	118,061	20.63 %
Other Governmental	<u>1,448,469</u>	<u>1,361,513</u>	<u>86,956</u>	6.39 %
Total	<u>\$ 2,804,074</u>	<u>\$ 1,929,734</u>	<u>\$ 874,340</u>	45.31 %

General Fund

The District's general fund balance increased \$669,323. The increase in fund balance can be attributed to several items related to increasing expenditures and decreased revenues. Revenues still exceeded expenditures for fiscal year 2006 by \$1,090,964. 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, 2006**

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,026,281	\$ 3,117,565	\$ (91,284)	(2.93) %
Tuition	27,789	24,473	3,316	13.55 %
Earnings on investments	137,044	61,656	75,388	122.27 %
Intergovernmental	6,065,259	6,134,016	(68,757)	(1.12) %
Other revenues	<u>281,822</u>	<u>154,767</u>	<u>127,055</u>	82.09 %
Total	<u>\$ 9,538,195</u>	<u>\$ 9,492,477</u>	<u>\$ 45,718</u>	0.48 %
<u>Expenditures</u>				
Instruction	\$ 4,561,716	\$ 4,922,147	\$ (360,431)	(7.32) %
Support services	3,689,443	3,164,002	525,441	16.61 %
Extracurricular activities	178,217	181,605	(3,388)	(1.87) %
Facilities acquisition and construction	17,855	4,010	13,845	345.26 %
Debt service	<u>-</u>	<u>75,859</u>	<u>(75,859)</u>	(100.00) %
Total	<u>\$ 8,447,231</u>	<u>\$ 8,347,623</u>	<u>\$ 99,608</u>	1.19 %

Debt Service Fund

The District's debt service fund had \$521,390 in revenues and other financing sources and \$403,329 in expenditures. During fiscal year 2006, the debt service fund's fund balance increased \$118,061 from \$572,375 to \$690,436.

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 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$9,312,333 and final budgeted revenues and other financing sources were \$9,635,551. Actual revenues and other financing sources for fiscal 2006 were \$9,641,505, which was \$5,954 greater than final budgeted revenues and other financing sources.

General fund original appropriations (appropriated expenditures including other financing uses) of \$9,099,583 remained constant in final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$9,097,620, which was \$1,963 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, 2006**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$28,563,786 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. The following table shows fiscal 2006 balances compared to 2005:

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

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 35,490	\$ 35,490
Land improvements	99,368	98,209
Building and improvements	27,312,082	27,203,101
Furniture and equipment	845,752	953,865
Vehicles	<u>271,094</u>	<u>228,181</u>
Total	<u>\$ 28,563,786</u>	<u>\$ 28,518,846</u>

The overall increase in capital assets of \$44,940 is due to capital outlays of \$870,905 exceeding depreciation expense of \$825,965 in the fiscal year.

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

Debt Administration

At June 30, 2006 the District had \$4,125,000 in general obligation bonds and \$656,775 in OSFC loans outstanding. Of this total, \$446,772 is due within one year and \$4,335,003 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
	<u>2006</u>	<u>2005</u>
OSFC loan payable	\$ 656,775	\$ 315,870
General obligation bonds	<u>4,125,000</u>	<u>4,305,000</u>
Total	<u>\$ 4,781,775</u>	<u>\$ 4,620,870</u>

At June 30, 2006, the District's overall legal debt margin was \$6,042,729, and an unvoted debt margin of \$105,303.

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, 2006**

Current Financial Related Activities

The District continues to face 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 made extensive cuts in fiscal years 2004 and 2005 in order to balance the budget. The renewal of a $\frac{3}{4}$ of 1 percent income tax in May, 2005 was greatly needed, as well as the passage of a new $\frac{1}{2}$ of 1 percent income tax in November 2005. Even so, the district is still operating near state minimums and continues to face declining enrollment. The community must pass two renewal levies prior to January, 2009, to simply stay on track and to avoid a potential financial crisis.

The District continues to deal with unresolved construction issues after completion of a 5 year construction project undertaken through the Ohio School Facilities Commission (OSFC). The formal close-out process with the OSFC should begin within the next year.

Another ongoing challenge involves managing the effects/impact of declining enrollment. The District is still projecting significant decreases in State funding due to declining enrollment. The decreasing enrollment trend has been present, at varying degrees, over the past 10 years and has not yet slowed down. The District must address the declining enrollment issue and its wide sweeping impact.

But, 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. Additionally, the passage of House Bill 66 has changed some funding initiatives and the impacts of these changes are not fully known. The predictability and stability of state funding continues to be a concern for this district, as well as most other school districts throughout the State.

With anticipated decreases and uncertainties in State funding, declining enrollment, and renewal levies on the ballot in the near future, the district is being financially cautious. Under these constraints, the students are receiving only the most essential offerings, items, and services at the present time, which are fortunately provided by a very experienced staff of dedicated and caring professionals. All of the District's personnel and financial abilities/resources 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 Leichliter, Treasurer, New Lebanon Local School District, 320 South Fuls Road, New Lebanon, Ohio 45345.

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 3,840,956
Cash with escrow agent	66,668
Receivables:	
Taxes	3,292,232
Accounts	3,121
Intergovernmental	64,813
Accrued interest	7,453
Prepayments.	20,773
Materials and supplies inventory	6,782
Capital assets:	
Land	35,490
Depreciable capital assets, net	28,528,296
Capital assets, net.	<u>28,563,786</u>
 Total assets.	 <u>35,866,584</u>
 Liabilities:	
Accounts payable.	289,517
Contracts payable.	221,044
Retainage payable	66,668
Accrued wages and benefits	802,418
Pension obligation payable.	207,917
Intergovernmental payable	72,892
Deferred revenue	2,705,637
Accrued interest payable	33,860
Long-term liabilities:	
Due within one year.	502,635
Due in more than one year.	4,670,107
Total liabilities	<u>9,572,695</u>
 Net Assets:	
Invested in capital assets, net of related debt.	23,782,011
Restricted for:	
Capital projects	989,313
Classroom facilities maintenance.	157,814
State funded programs.	62,245
Federally funded programs.	45,630
Student activities.	34,087
Debt service.	666,553
Other purposes	380,619
Unrestricted	<u>175,617</u>
 Total net assets	 <u>\$ 26,293,889</u>

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, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction:					
Regular	\$ 4,261,474	\$ 69,648	\$ 59,904	\$ 14,464	\$ (4,117,458)
Special	940,237	-	258,610	-	(681,627)
Other	278,506	-	-	-	(278,506)
Support services:					
Pupil	383,044	-	64,330	-	(318,714)
Instructional staff	488,548	-	49,603	-	(438,945)
Board of education	188,116	-	-	-	(188,116)
Administration	797,000	-	9,126	-	(787,874)
Fiscal	256,234	-	-	-	(256,234)
Business	107,796	-	-	-	(107,796)
Operations and maintenance	1,374,269	-	-	-	(1,374,269)
Pupil transportation	411,193	-	-	-	(411,193)
Central	151,057	-	17,200	-	(133,857)
Food service operations	451,136	262,952	142,116	-	(46,068)
Extracurricular activities	393,751	174,296	-	-	(219,455)
Interest and fiscal charges	214,951	-	-	-	(214,951)
Total governmental activities	\$ 10,697,312	\$ 506,896	\$ 600,889	\$ 14,464	(9,575,063)

General Revenues:

Property taxes levied for:	
General purposes	2,142,401
Special revenue	36,777
Debt service	389,983
Capital projects	224,643
School district income tax	819,304
Grants and entitlements not restricted to specific programs	6,156,529
Investment earnings	149,803
Miscellaneous	241,967
Total general revenues	10,161,407
Change in net assets	586,344
Net assets at beginning of year (restated) . .	25,707,545
Net assets at end of year	\$ 26,293,889

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,058,645	\$ 668,990	\$ 1,860,708	\$ 3,588,343
Cash with escrow agent	-	-	66,668	66,668
Receivables:				
Taxes	2,591,079	425,418	275,735	3,292,232
Accounts	2,275	-	846	3,121
Intergovernmental	-	-	64,813	64,813
Accrued interest	7,453	-	-	7,453
Interfund receivable	47,700	-	-	47,700
Advances to other funds	40,000	-	-	40,000
Prepayments	20,773	-	-	20,773
Materials and supplies inventory	-	-	6,782	6,782
Restricted assets:				
Equity in pooled cash and cash equivalents	252,613	-	-	252,613
Total assets	\$ 4,020,538	\$ 1,094,408	\$ 2,275,552	\$ 7,390,498
Liabilities:				
Accounts payable	\$ 251,965	\$ -	\$ 37,552	\$ 289,517
Contracts payable	-	-	221,044	221,044
Retainage payable	-	-	66,668	66,668
Accrued wages and benefits	715,784	-	86,634	802,418
Compensated absences payable	-	-	43,785	43,785
Pension obligation payable	194,084	-	13,833	207,917
Intergovernmental payable	64,940	-	7,952	72,892
Interfund payable	-	-	47,700	47,700
Advances from other funds	-	-	40,000	40,000
Deferred revenue	2,128,596	403,972	261,915	2,794,483
Total liabilities	3,355,369	403,972	827,083	4,586,424
Fund Balances:				
Reserved for encumbrances	126,835	-	356,324	483,159
Reserved for materials and supplies inventory	-	-	6,782	6,782
Reserved for prepayments	20,773	-	-	20,773
Reserved for property tax unavailable for appropriation	107,623	21,446	13,820	142,889
Reserved for advances	40,000	-	-	40,000
Reserved for instructional materials	252,613	-	-	252,613
Reserved for debt service	-	668,990	-	668,990
Unreserved, undesignated, reported in:				
General fund	117,325	-	-	117,325
Special revenue funds	-	-	392,987	392,987
Capital projects funds	-	-	678,556	678,556
Total fund balances	665,169	690,436	1,448,469	2,804,074
Total liabilities and fund balances	\$ 4,020,538	\$ 1,094,408	\$ 2,275,552	\$ 7,390,498

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, 2006

Total governmental fund balances		\$	2,804,074
<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.			28,563,786
Other long-term assets (taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.			88,846
Accrued interest payable is not due within the current period and therefore is not reported in the funds			(33,860)
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	\$	347,182	
General obligation bonds payable		4,125,000	
OSFC loan payable		<u>656,775</u>	
Total			<u>(5,128,957)</u>
Net assets of governmental activities		\$	<u><u>26,293,889</u></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 BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 3,026,281	\$ 403,411	\$ 270,280	\$ 3,699,972
Tuition	27,789	-	-	27,789
Earnings on investments	137,044	-	12,759	149,803
Charges for services	-	-	262,952	262,952
Extracurricular	91,828	-	82,468	174,296
Classroom materials and fees	-	-	36,424	36,424
Other local revenues	189,994	-	57,408	247,402
Intergovernmental - Intermediate	13,708	-	-	13,708
Intergovernmental - State	6,051,551	54,494	80,942	6,186,987
Intergovernmental - Federal	-	-	628,944	628,944
Total revenue	<u>9,538,195</u>	<u>457,905</u>	<u>1,432,177</u>	<u>11,428,277</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,662,456	-	161,620	3,824,076
Special	620,754	-	266,426	887,180
Other	278,506	-	-	278,506
Support services:				
Pupil	317,824	-	69,041	386,865
Instructional staff	382,240	-	58,045	440,285
Board of education	187,056	-	-	187,056
Administration	727,694	-	10,440	738,134
Fiscal	220,268	7,251	27,104	254,623
Business	46,567	-	61,229	107,796
Operations and maintenance	1,304,102	-	50,785	1,354,887
Pupil transportation	388,569	-	59,339	447,908
Central	115,123	-	36,492	151,615
Food service operations	-	-	371,222	371,222
Extracurricular activities	178,217	-	88,822	267,039
Facilities acquisition and construction	17,855	-	783,717	801,572
Debt service:				
Principal retirement	-	180,000	261,772	441,772
Interest and fiscal charges	-	216,078	-	216,078
Total expenditures	<u>8,447,231</u>	<u>403,329</u>	<u>2,306,054</u>	<u>11,156,614</u>
Excess of revenues over (under) expenditures	<u>1,090,964</u>	<u>54,576</u>	<u>(873,877)</u>	<u>271,663</u>
Other financing sources (uses):				
Transfers in	-	63,485	371,989	435,474
Transfers (out)	(421,641)	-	(13,833)	(435,474)
Issuance of OSFC loan	-	-	602,677	602,677
Total other financing sources (uses)	<u>(421,641)</u>	<u>63,485</u>	<u>960,833</u>	<u>602,677</u>
Net change in fund balances	669,323	118,061	86,956	874,340
Fund balances at				
beginning of year (restated)	<u>(4,154)</u>	<u>572,375</u>	<u>1,361,513</u>	<u>1,929,734</u>
Fund balances at end of year	<u>\$ 665,169</u>	<u>\$ 690,436</u>	<u>\$ 1,448,469</u>	<u>\$ 2,804,074</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, 2006

Net change in fund balances - total governmental funds	\$	874,340
<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.		
Capital outlay	\$ 870,905	
Depreciation expense	(825,965)	
Total		44,940
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(86,864)	
Intergovernmental revenue	(57,757)	
Total		(144,621)
Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		441,772
Proceeds of loans are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		
		(602,677)
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.		
		1,127
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(28,537)
Change in net assets of governmental activities	\$	586,344

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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 3,001,016	\$ 3,105,177	\$ 3,107,096	\$ 1,919
Tuition.	26,840	27,772	27,789	17
Earnings on investments.	126,577	130,970	131,051	81
Extracurricular.	88,693	91,771	91,828	57
Other local revenues	174,206	180,253	180,364	111
Intergovernmental - Intermediate	13,240	13,700	13,708	8
Intergovernmental - State.	5,844,945	6,047,814	6,051,551	3,737
Total revenue	<u>9,275,517</u>	<u>9,597,457</u>	<u>9,603,387</u>	<u>5,930</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,130,890	4,130,890	3,813,925	316,965
Special.	626,498	626,498	564,689	61,809
Other.	292,947	292,947	283,140	9,807
Support services:				
Pupil.	356,965	356,965	331,017	25,948
Instructional staff	235,171	235,171	405,112	(169,941)
Board of education	168,950	168,950	195,567	(26,617)
Administration.	938,350	938,350	722,422	215,928
Fiscal	207,832	207,832	212,641	(4,809)
Business	39,561	39,561	46,566	(7,005)
Operations and maintenance.	977,782	977,782	1,328,103	(350,321)
Pupil transportation	409,763	409,763	421,944	(12,181)
Central.	85,378	85,378	104,201	(18,823)
Extracurricular activities.	191,941	191,941	178,946	12,995
Facilities acquisition and construction.	4,010	4,010	17,855	(13,845)
Debt service:				
Principal retirement	11,406	11,406	-	11,406
Interest and fiscal charges	1,718	1,718	-	1,718
Total expenditures	<u>8,679,162</u>	<u>8,679,162</u>	<u>8,626,128</u>	<u>53,034</u>
Excess of revenues over expenditures.	<u>596,355</u>	<u>918,295</u>	<u>977,259</u>	<u>58,964</u>
Other financing sources (uses):				
Refund of prior year expenditure.	9,772	10,111	10,118	7
Refund of prior year (receipts).	(9,421)	(9,421)	-	9,421
Transfers (out)	(343,000)	(343,000)	(421,641)	(78,641)
Advances in.	27,044	27,983	28,000	17
Advances (out)	(68,000)	(68,000)	(47,700)	20,300
Other miscellaneous (use) of funds.	-	-	(2,151)	(2,151)
Total other financing sources (uses)	<u>(383,605)</u>	<u>(382,327)</u>	<u>(433,374)</u>	<u>(51,047)</u>
Net change in fund balance	212,750	535,968	543,885	7,917
Fund balance at beginning of year.	456,913	456,913	456,913	-
Prior year encumbrances appropriated	57,198	57,198	57,198	-
Fund balance at end of year	<u>\$ 726,861</u>	<u>\$ 1,050,079</u>	<u>\$ 1,057,996</u>	<u>\$ 7,917</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, 2006

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 18,097
Total assets.	\$ 18,097
Liabilities:	
Accounts payable.	\$ 1,232
Due to students	16,865
Total liabilities	\$ 18,097

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

THIS PAGE IS INTENTIONALLY LEFT BLANK

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

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The New 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 51 non-certified and 77 (including administrative) certified full-time and part-time employees to provide services to approximately 1,247 students in grades K through 12 and various community groups, which ranks it 428th out of 615 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'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, 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; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. Based upon the application of 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, 2006**

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.

Metropolitan Dayton Educational Cooperative Association (MDECA)

The District is a participant in MDECA, which is a computer consortium of 25 public school districts within the boundaries of Darke, Greene, Miami, and Montgomery Counties. The organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts. The governing board of MDECA consists of one representative from each district plus one representative from the fiscal agent. The District pays MDECA an enrollment based fee for services provided during the year. Financial information is available from Jerry C. Woodyard, Executive Director, at 201 Riverside Drive, Dayton, Ohio 45405.

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.

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:

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

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

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

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and note principal, interest and related costs.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (b) 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.

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.

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

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

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

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).

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, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

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 2006 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Montgomery County Budget Commission for tax rate determination. The Montgomery County Commissioners waived this requirement for fiscal year 2006.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2006.
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. Although the legal level of budgetary control was established at the fund level, the District has elected to present budgetary statement comparisons at the fund and function levels of expenditures. 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.

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

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

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

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, 2006; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and 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 2006, investments were limited to repurchase agreements, treasury bills, treasury bonds, money market fund, 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.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board of Education. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$137,044, which includes \$85,394 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 District's investment account at year-end is provided in Note 4.

G. Inventory

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

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

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

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

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

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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	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." Receivables and payables resulting from long-term interfund loans are classified as "advances to/from other funds". 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, 2006, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least five years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

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

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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.

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

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

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

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

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 an instructional materials reserve. This reserve is required by state statute. A schedule of statutory reserves is presented in Note 16.

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 2006.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

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

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

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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

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

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

B. Prior Period Adjustments

Beginning fund balances have been restated due to the District reclassifying several long-term advances to/from other funds to interfund transfers. This restatement did not have an effect on net assets of the District as previously reported at June 30, 2005.

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2005	\$ 297,905	\$ 572,375	\$ 1,059,454	\$ 1,929,734
Adjustment for long-term advances	<u>(302,059)</u>	<u>-</u>	<u>302,059</u>	<u>-</u>
Restated Fund Balance, July 1, 2005	<u>\$ (4,154)</u>	<u>\$ 572,375</u>	<u>\$ 1,361,513</u>	<u>\$ 1,929,734</u>

Beginning net assets have been restated due to \$1,777,165 in Ohio School Facilities Commission (OSFC) grants receivable being overstated in the prior fiscal year. This restatement did not have an effect on fund balances of the District as previously reported at June 30, 2005. The restatement had the following effect on net assets at June 30, 2005

Net assets June 30, 2005	\$27,484,710
Adjustment for OSFC intergovernmental receivable	<u>(1,777,165)</u>
Net assets July 1, 2005 restated	<u>\$25,707,545</u>

C. Deficit Fund Balances

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

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service	\$ 10,502
Title VI-B	17,816
Class Size Reduction	7,491

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim 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 or deposit accounts including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash with Escrow Agent

At year-end, the District had \$66,668 in depository accounts for retainage obligations related to the classroom facilities project undertaken by the District. This amount is included on the financial statements of the District as "Cash With Escrow Agent."

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$1,308,710, exclusive of the \$1,464,443 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$1,144,485 of the District's bank balance of \$1,344,485 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>
Repurchase Agreement	\$ 1,464,443	\$ 1,464,443	\$ -	\$ -
U.S Treasury Bonds	88,932	29,711	59,221	-
U.S Treasury Bill	24,971	24,971	-	-
FHLB	44,606	-	-	44,606
FHLB Discount Note	54,818	54,818	-	-
FNMA	247,093	49,328	108,384	89,381
FNMA Discount Note	183,833	183,833	-	-
FHLMC	159,021	74,555	-	84,466
FHLMC Discount Note	278,551	278,551	-	-
Money Market Fund	4,075	4,075	-	-
	<u>\$ 2,550,343</u>	<u>\$ 2,164,285</u>	<u>\$ 167,605</u>	<u>\$ 218,453</u>

The weighted average maturity of investments is .19 years.

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

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

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 1,464,443	57.42%
U.S Treasury Bonds	88,932	3.49%
U.S Treasury Bill	24,971	0.98%
FHLB	44,606	1.75%
FHLB - Discount Note	54,818	2.15%
FNMA	247,093	9.69%
FNMA-Discount Note	183,833	7.21%
FHLMC	159,021	6.24%
FHLMC- Discount Note	278,551	10.92%
Money Market Fund	4,075	0.15%
	<u>\$ 2,550,343</u>	<u>100.00%</u>

D. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,308,710
Investments	2,550,343
Cash with escrow agent	<u>66,668</u>
Total	<u>\$ 3,925,721</u>
<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 3,907,624
Agency fund	<u>18,097</u>
Total	<u>\$ 3,925,721</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, 2006.

<u>Interfund Loans Receivable</u>	<u>Interfund Loans Payable</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 47,700

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, 2006 are reported on the Statement of Net Assets.

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

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

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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, 2006.

<u>Advances To Other Funds</u>	<u>Advances From Other Funds</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 40,000

C. Interfund Transfers

Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers from General fund to:		
Nonmajor governmental funds	\$	358,156
Debt service fund		63,485
Transfers from Nonmajor governmental funds to:		
Nonmajor governmental funds		13,833

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfer from nonmajor government funds to other nonmajor government funds was based on Ohio Department of Education Administrative action. All transfers were in compliance with Ohio Revised Code Sections 5705.14, 5705.15, and 5705.16.

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.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

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

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

The District receives property taxes from 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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amounts available as an advance at June 30, 2006 was \$107,623 in the general fund, \$21,446 in the debt service fund, \$11,903 in the permanent improvement fund, and \$1,917 in the classroom facilities maintenance fund. The amounts available as an advance at June 30, 2005 was \$215,580 in the general fund, \$40,199 in the debt service fund, \$24,449 in the permanent improvement fund, and \$3,637 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, 2006**

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 91,092,430	95.29	\$ 100,920,340	95.84
Public utility personal	3,106,380	3.25	3,219,100	3.06
Tangible personal property	<u>1,394,593</u>	<u>1.46</u>	<u>1,164,080</u>	<u>1.10</u>
Total	<u>\$ 95,593,403</u>	<u>100.00</u>	<u>\$ 105,303,520</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 45.45		\$ 45.45	
Permanent Improvement	2.80		2.80	
Debt Service	4.57		4.57	

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 \$819,304 for fiscal 2006.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accrued interest, 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 items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:	
Taxes	\$ 3,292,232
Accounts	3,121
Intergovernmental	64,813
Accrued interest	<u>7,453</u>
Total	<u>\$ 3,367,619</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, 2006

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance 06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/06</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 35,490	\$ -	\$ -	\$ 35,490
Total capital assets, not being depreciated	<u>35,490</u>	<u>-</u>	<u>-</u>	<u>35,490</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	357,074	19,500	-	376,574
Buildings and improvements	28,122,767	678,219	-	28,800,986
Furniture and equipment	1,705,110	58,344	-	1,763,454
Vehicles	1,029,735	114,842	-	1,144,577
Total capital assets, being depreciated	<u>31,214,686</u>	<u>870,905</u>	<u>-</u>	<u>32,085,591</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(258,865)	(18,341)	-	(277,206)
Buildings and improvements	(919,666)	(569,238)	-	(1,488,904)
Furniture and equipment	(751,245)	(166,457)	-	(917,702)
Vehicles	(801,554)	(71,929)	-	(873,483)
Total accumulated depreciation	<u>(2,731,330)</u>	<u>(825,965)</u>	<u>-</u>	<u>(3,557,295)</u>
Governmental activities capital assets, net	<u>\$ 28,518,846</u>	<u>\$ 44,940</u>	<u>\$ -</u>	<u>\$ 28,563,786</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 337,675
Special	51,231
<u>Support Services:</u>	
Instructional staff	48,556
Administration	64,429
Fiscal	2,732
Operations and maintenance	32,215
Pupil transportation	77,478
Extracurricular activities	132,696
Food service operations	<u>78,953</u>
Total depreciation expense	<u>\$ 825,965</u>

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

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

NOTE 10 - LONG-TERM OBLIGATIONS

A. Bonds and Loans Payable

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). 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 a special revenue fund (a nonmajor governmental fund).

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.

During fiscal year 2005, the District received a loan from the Ohio School Facilities Commission (OSFC). This loan is a general obligation of the District, for which the District's full faith and credit are pledged for repayment. The loan is interest free and principal payments relating to this loan are recorded as expenditures in the Permanent Improvement capital projects fund. The District made \$261,772 in principal payments during fiscal year 2006. As of June 30, 2006, \$1,180,319 of total loan proceeds of \$1,308,861 has been received by the District. A portion of the principal has been paid down in fiscal years 2005 and 2006. A corresponding amortization schedule will not be shown until the District has received the full amount of the loan.

The following is a description of the District's bonds and loans outstanding as of June 30, 2006:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance</u>			<u>Balance Outstanding 06/30/06</u>	<u>Amounts Due in One Year</u>
				<u>Outstanding 06/30/05</u>	<u>Additions</u>	<u>Reductions</u>		
Facilities improvement	5.080%	04/01/01	12/01/23	\$ 4,035,000	\$ -	\$ (135,000)	\$ 3,900,000	\$ 140,000
Building renovations	6.875%	01/01/87	12/01/10	270,000	-	(45,000)	225,000	45,000
OSFC loan	N/A	06/10/05	06/10/10	315,870	602,677	(261,772)	656,775	261,772
Total bonds and loans outstanding				<u>\$ 4,620,870</u>	<u>\$ 602,677</u>	<u>\$ (441,772)</u>	<u>\$ 4,781,775</u>	<u>\$ 446,772</u>

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

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

- B.** The following is a summary of the District's future annual debt service requirements to maturity for general obligation bonds:

Year Ending June 30	General Obligation Series 1987 Building Renovation			General Obligation Series 2001 Facilities Improvement		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 45,000	\$ 13,922	\$ 58,922	\$ 140,000	\$ 130,954	\$ 270,954
2008	45,000	10,828	55,828	145,000	127,220	272,220
2009	45,000	7,734	52,734	155,000	123,257	278,257
2010	45,000	4,641	49,641	160,000	118,916	278,916
2011	45,000	1,547	46,547	165,000	114,330	279,330
2012-2016	-	-	-	965,000	485,200	1,450,200
2017-2021	-	-	-	1,255,000	289,799	1,544,799
2022-2024	-	-	-	915,000	63,100	978,100
Total	\$ 225,000	\$ 38,672	\$ 263,672	\$ 3,900,000	\$ 1,452,776	\$ 5,352,776

- C.** During the year ended June 30, 2006, the following changes occurred in long-term liabilities. Compensated absences will be paid from the Termination Benefits special revenue fund (a nonmajor governmental fund).

	Balance Outstanding 06/30/05	Additions	Reductions	Balance Outstanding 06/30/06	Amounts Due in One Year
Governmental Activities:					
Compensated absences	\$ 318,645	\$ 112,247	\$ (39,925)	\$ 390,967	\$ 55,863
General obligation bonds	4,305,000	-	(180,000)	4,125,000	185,000
OSFC loan	315,870	602,677	(261,772)	656,775	261,772
Total long-term obligations, governmental activities	<u>\$ 4,939,515</u>	<u>\$ 714,924</u>	<u>\$ (481,697)</u>	<u>\$ 5,172,742</u>	<u>\$ 502,635</u>

D. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$6,042,729, and an unvoted debt margin of \$105,303.

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

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

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 2006, The District purchased from the Hylant Group (through the Ohio School Plan) 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 2005.

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.

NOTE 12 – PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$126,269, \$142,258, and \$132,635; 41.44 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$73,945 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

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

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

NOTE 12 - PENSION PLANS - (Continued)

B. State Teachers Retirement System

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

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$556,171, \$586,118 and \$621,595; 84.61 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$85,585 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2006 were \$15,298 made by the District and \$14,569 made by the plan members.

C. Social Security System

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

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

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

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$42,782 for fiscal year 2006.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$67,152 to fund health care benefits, including the surcharge.

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

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

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

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 543,885
Net adjustment for revenue accruals	(65,192)
Net adjustment for expenditure accruals	(68,436)
Net adjustment for other sources/uses	11,733
Adjustment for encumbrances	247,333
GAAP basis	\$ 669,323

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

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

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

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

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Instructional Materials</u>	<u>Capital Maintenance</u>
Set-aside cash balance as of June 30, 2005	\$ 152,541	\$ (4,971,605)
Current year set-aside requirement	177,526	177,526
Qualifying disbursements	<u>(77,454)</u>	<u>(195,723)</u>
 Total	 <u>\$ 252,613</u>	 <u>\$ (4,989,802)</u>
 Balance carried forward to FY 2007	 <u>\$ 252,613</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, 2006 follows:

Amounts restricted for instructional materials	<u>\$ 252,613</u>
--	-------------------

SUPPLEMENTAL DATA

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

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(J) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(J) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
(B) Food Donation	10.550	N/A	\$ -	\$ 16,705	\$ -	\$ 16,705
Nutrition Cluster:						
(A) (C) School Breakfast Program	10.553	048710-05PU-2006	689	-	689	-
(A) (C) National School Lunch Program	10.555	048710-LLP4-2005	18,690	-	18,690	-
(A) (C) National School Lunch Program	10.555	048710-LLP4-2006	83,823	-	83,823	-
Total Nutrition Cluster			103,202	-	103,202	-
(C) Team Nutrition Grants	10.574	048710-TWNT-2004	490	-	490	-
Total U.S. Department of Agriculture			103,692	16,705	103,692	16,705
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION						
Title I Grants to Local Educational Agencies	84.010	048710-C1S1-2005	6,402	-	-	-
Title I Grants to Local Educational Agencies	84.010	048710-C1S1-2006	48,811	-	51,778	-
(E) Title I Grants to Local Educational Agencies	84.010	048710-C1SD-2005	(13,539)	-	-	-
Title I Grants to Local Educational Agencies	84.010	048710-C1SD-2006	57,583	-	48,257	-
Total Title I Grants to Local Educational Agencies			99,257	-	100,035	-
Special Education Cluster:						
(D) Special Education Grants to States	84.027	048710-6BSF-2005	42,248	-	-	-
(D) Special Education Grants to States	84.027	048710-6BSF-2006	219,871	-	269,146	-
Total Special Education Grants to States			262,119	-	269,146	-
(D) (F) Special Education Preschool Grants	84.173	048710-PGS1-2005	(39)	-	-	-
(D) Special Education Preschool Grants	84.173	048710-PGS1-2006	1,291	-	1,920	-
Total Special Education Preschool Grants			1,252	-	1,920	-
Total Special Education Cluster			263,371	-	271,066	-
(G) Safe and Drug-Free Schools and Communities State Grants	84.186	048710-DRS1-2005	(476)	-	-	-
Safe and Drug-Free Schools and Communities State Grants	84.186	048710-DRS1-2006	6,590	-	7,052	-
Total Safe and Drug-Free Schools and Communities State Grants			6,114	-	7,052	-
(H) State Grants for Innovative Programs	84.298	048710-C2S1-2005	(83)	-	-	-
State Grants for Innovative Programs	84.298	048710-C2S1-2006	17,525	-	9,037	-
Total State Grants for Innovative Programs			17,442	-	9,037	-
Education Technology State Grants	84.318	048710-TJS1-2006	2,426	-	322	-
Improving Teacher Quality State Grants	84.367	048710-TRS1-2005	5,344	-	-	-
(I) Improving Teacher Quality State Grants	84.367	048710-TRS1-2006	40,995	-	40,458	-
Total Improving Teacher Quality State Grants			46,339	-	40,458	-
Total U.S. Department of Education			434,949	-	427,970	-
Total Federal Financial Assistance			\$ 538,641	\$ 16,705	\$ 531,662	\$ 16,705

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.
 (B) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
 (C) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
 (D) Included as part of "Special Education Grant Cluster" in determining major programs.
 (E) Amount of \$13,539 transferred to the next grant year based on Ohio Department of Education administrative action.
 (F) Amount of \$39 transferred to next grant year based on Ohio Department of Education administrative action.
 (G) Amount of \$476 transferred to the next grant year based on Ohio Department of Education administrative action.
 (H) Amount of \$83 transferred to the next grant year based on Ohio Department of Education administrative action.
 (I) Amount of \$13,833 transferred from Improving Teacher Quality State Grants to State Grants for Innovative Programs based on Ohio Department of Education administrative action.
 (J) This schedule was prepared on the cash basis of accounting.



Julian & Grube, Inc.
Serving Ohio Local Governments

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

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

Board of Education
New Lebanon Local School District
320 South Fuls Road
New Lebanon, Ohio 45345

We have audited the financial statements of the governmental activities, each major fund, and the remaining aggregate fund information of the New Lebanon Local School District, as of and for the fiscal year ended June 30, 2006, which collectively comprise the New Lebanon Local School District's basic financial statements, and have issued our report thereon dated December 21, 2006. As noted in Note 3B, the District had a prior period adjustment to restate net assets at July 1, 2005 due to Ohio School Facilities Commission grants receivable being overstated in prior year. 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 New Lebanon Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of New Lebanon Local School District, in a separate letter dated December 21, 2006.

Board of Education
New Lebanon Local School District

Compliance and Other Matters

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

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

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

Julian & Grube, Inc.
December 21, 2006



Julian & Grube, Inc.
Serving Ohio Local Governments

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

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

Board of Education
New Lebanon Local School District
320 South Fuls Road
New Lebanon, Ohio 45345

Compliance

We have audited the compliance of the New Lebanon Local School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006. The New Lebanon Local School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the New Lebanon Local School District's management. Our responsibility is to express an opinion on the New Lebanon Local School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the New Lebanon Local School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the New Lebanon Local School District's compliance with those requirements.

In our opinion, the New Lebanon Local School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006.

Board of Education
New Lebanon Local School District

Internal Control Over Compliance

The management of the New Lebanon Local School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the New Lebanon Local School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, the Board of the New Lebanon Local School District, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
December 21, 2006

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

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs:	Special Education Cluster: Special Education - Grants to States - CFDA #84.027, Special Education - Preschool Grants - CFDA #84.173 and Improving Teacher Quality State Grants - CFDA #84.367
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Program	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

NEW 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 10, 2007