

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

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

***FOR THE FISCAL YEAR ENDED  
JUNE 30, 2005***

**CATHLEEN LEICHLITER, TREASURER**





**Auditor of State  
Betty Montgomery**

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, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

March 22, 2006

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

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## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

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

### Independent Auditor's Report

Board of Education  
New 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, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, 2005, and the respective changes in financial position, thereof and the respective budgetary comparison for the General fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the District has implemented GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers". In addition, the District is presenting a prior period adjustment due to errors and omissions previously reported in capital assets.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 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 on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Julian & Grube, Inc.  
January 13, 2006

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

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

The management's discussion and analysis of the New 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, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities increased \$1,447,559 which represents a 5.56% increase from 2004.
- General revenues accounted for \$10,681,406 in revenue or 90.60% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,108,286 or 9.40% of total revenues of \$11,789,692.
- The District had \$10,342,133 in expenses related to governmental activities; \$1,108,286 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 \$10,681,406 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, classroom facilities fund and debt service fund. The general fund had \$9,583,267 in revenues and other financing sources and \$8,690,623 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance increased \$892,644 from a deficit of \$594,739 to a fund balance of \$297,905.
- The District's classroom facilities fund had \$4,291,079 in revenues and other financing sources and \$4,409,040 in expenditures. During fiscal year 2005, the classroom facilities fund's fund balance decreased \$117,961 from \$419,129 to \$301,168.
- The District's debt service fund had \$496,976 in revenues and \$479,502 in expenditures and other financing uses. During fiscal year 2005, the debt service fund's fund balance increased \$17,474 from \$554,901 to \$572,375.

**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, classroom facilities 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, 2005  
UNAUDITED

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

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

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

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

***Reporting the District's Fiduciary Responsibilities***

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 20. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-48 of this report.

**The District as a Whole**

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

The table below provides a summary of the District's net assets for 2005. The District's net assets at June 30, 2004 have been restated as described in Note 3.B.

	<b>Net Assets</b>	
	Governmental Activities <u>2005</u>	Restated Governmental Activities <u>2004</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 7,912,557	\$ 11,932,436
Capital assets	<u>28,518,846</u>	<u>25,190,230</u>
Total assets	<u>36,431,403</u>	<u>37,122,666</u>
<b><u>Liabilities</u></b>		
Current liabilities	4,007,178	6,161,541
Long-term liabilities	<u>4,939,515</u>	<u>4,923,974</u>
Total liabilities	<u>8,946,693</u>	<u>11,085,515</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	24,943,786	22,784,328
Restricted	2,828,810	4,169,844
Unrestricted (deficit)	<u>(287,886)</u>	<u>(917,021)</u>
Total net assets	<u>\$ 27,484,710</u>	<u>\$ 26,037,151</u>

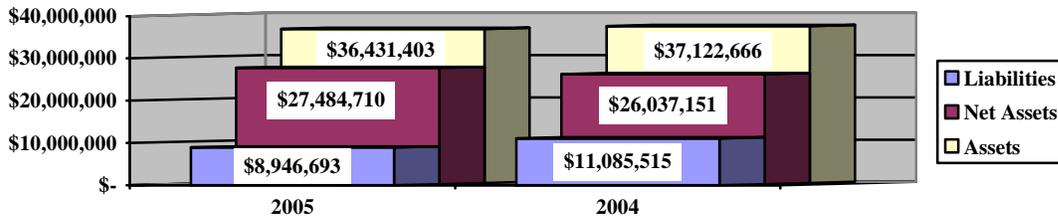
**NEW LEBANON LOCAL SCHOOL DISTRICT  
MONTGOMERY COUNTY, OHIO**

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

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$27,484,710. Of this total, \$2,828,810 is restricted in use. At year-end, capital assets represented 78.28% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$24,943,786. 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, \$2,828,810, represents resources that are subject to external restriction on how they may be used.

**Governmental Activities**



The table below shows the change in net assets for fiscal year 2005.

**Change in Net Assets**

	Governmental Activities 2005	Governmental Activities 2004
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 474,837	\$ 423,346
Operating grants and contributions	609,148	366,884
Capital grants and contributions	24,301	48,348
General revenues:		
Property and income taxes	3,743,844	3,217,239
Grants and entitlements	6,690,893	6,027,786
Restricted grants and entitlements	-	2,436,060
Investment earnings	86,103	117,551
Other	160,566	240,443
<b>Total revenues</b>	<b>11,789,692</b>	<b>12,877,657</b>

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

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

**Change in Net Assets**

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 4,823,744	\$ 4,862,279
Special	831,485	865,005
Other	308,790	207,569
Support services:		
Pupil	363,998	447,318
Instructional staff	349,802	387,319
Board of education	166,252	171,479
Administration	916,319	980,259
Fiscal	170,326	218,702
Business	79,748	112,047
Operations and maintenance	894,043	874,713
Pupil transportation	320,994	492,338
Central	79,714	34,365
Food service operations	489,689	476,650
Extracurricular activities	311,094	305,103
Interest and fiscal charges	<u>236,135</u>	<u>206,789</u>
Total expenses	<u>10,342,133</u>	<u>10,641,935</u>
Change in net assets	1,447,559	2,235,722
Net assets at beginning of year (restated)	<u>26,037,151</u>	<u>23,801,429</u>
Net assets at end of year	<u><u>\$ 27,484,710</u></u>	<u><u>\$ 26,037,151</u></u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$1,447,559. Total governmental expenses of \$10,342,133 were offset by program revenues of \$1,108,286 and general revenues of \$10,681,406. Program revenues supported 10.72% of the total governmental expenses.

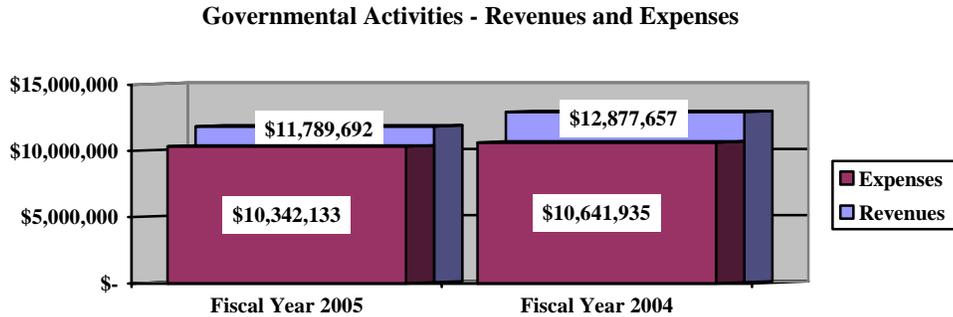
The primary sources of revenue for governmental activities are derived from property and income taxes, and grants and entitlements. These revenue sources represent 88.51% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,964,019 or 57.67% of total governmental expenses for fiscal year 2005.

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

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

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



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.

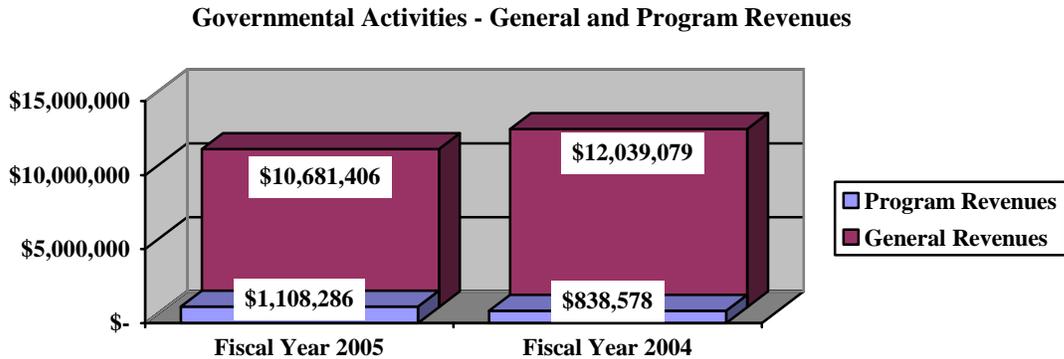
	<b>Governmental Activities</b>			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 4,823,744	\$ 4,636,887	\$ 4,862,279	\$ 4,683,447
Special	831,485	621,120	865,005	742,755
Other	308,790	291,717	207,569	207,569
Support services:				
Pupil	363,998	318,863	447,318	445,706
Instructional staff	349,802	263,986	387,319	363,705
Board of education	166,252	166,252	171,479	171,479
Administration	916,319	903,328	980,259	963,306
Fiscal	170,326	170,326	218,702	218,702
Business	79,748	34,466	112,047	112,047
Operations and maintenance	894,043	894,043	874,713	869,512
Pupil transportation	320,994	320,710	492,338	491,665
Central	79,714	72,719	34,365	29,365
Food service operations	489,689	69,890	476,650	110,728
Extracurricular activities	311,094	233,405	305,103	186,582
Interest and fiscal charges	236,135	236,135	206,789	206,789
<b>Total expenses</b>	<u>\$ 10,342,133</u>	<u>\$ 9,233,847</u>	<u>\$ 10,641,935</u>	<u>\$ 9,803,357</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 93.05% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 89.28%. 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, 2005  
UNAUDITED**

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



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$1,929,734, which is greater than last year's total of \$815,473. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	<u>Fund Balance June 30, 2005</u>	<u>Restated Fund Balance June 30, 2004</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
General	\$ 297,905	\$ (594,739)	\$ 892,644	150.09 %
Classroom Facilities	301,168	419,129	(117,961)	(28.14) %
Debt Service	572,375	554,901	17,474	3.15 %
Other Governmental	<u>758,286</u>	<u>436,182</u>	<u>322,104</u>	73.85 %
Total	<u>\$ 1,929,734</u>	<u>\$ 815,473</u>	<u>\$ 1,114,261</u>	136.64 %

**General Fund**

The District's general fund balance increased \$892,644 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to decreasing expenditures and increased revenues. Revenues exceed expenditures for fiscal year 2005 by \$1,144,854. 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, 2005  
UNAUDITED**

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 3,117,565	\$ 2,472,963	\$ 644,602	26.07 %
Tuition	24,473	17,540	6,933	39.53 %
Earnings on investments	61,656	19,332	42,324	218.93 %
Intergovernmental	6,134,016	5,968,708	165,308	2.77 %
Other revenues	<u>154,767</u>	<u>213,699</u>	<u>(58,932)</u>	<u>(27.58) %</u>
Total	<u>\$ 9,492,477</u>	<u>\$ 8,692,242</u>	<u>\$ 800,235</u>	9.21 %
<b><u>Expenditures</u></b>				
Instruction	\$ 4,922,147	\$ 5,509,805	\$ (587,658)	(10.67) %
Support services	3,164,002	3,591,904	(427,902)	(11.91) %
Extracurricular activities	181,605	203,511	(21,906)	(10.76) %
Facilities acquisition and construction	4,010	797	3,213	403.14 %
Debt service	<u>75,859</u>	<u>27,074</u>	<u>48,785</u>	180.19 %
Total	<u>\$ 8,347,623</u>	<u>\$ 9,333,091</u>	<u>\$ (985,468)</u>	(10.56) %

***Classroom Facilities Fund***

The District's classroom facilities fund had \$4,291,079 in revenues and other financing sources and \$4,409,040 in expenditures. During fiscal year 2005, the classroom facilities fund's fund balance decreased \$117,961 from \$419,129 to \$301,168.

***Debt Service Fund***

The District's debt service fund had \$496,976 in revenues and \$479,502 in expenditures and other financing uses. During fiscal year 2005, the debt service fund's fund balance increased \$17,474 from \$554,901 to \$572,375.

***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 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$9,417,423 and final budgeted revenues and other financing sources were \$9,420,795. Actual revenues and other financing sources for fiscal 2005 equaled final budgeted revenues and other financing sources.

General fund original appropriations (appropriated expenditures including other financing uses) of \$9,225,233 remained constant in final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$9,099,574, which was \$125,659 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, 2005  
UNAUDITED

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2005, the District had \$28,518,846 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. 2004 capital assets have been restated as described in Note 3.B. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	2004
Land	\$ 35,490	\$ 35,490
Land improvements	98,209	99,662
Building and improvements	27,203,101	581,622
Furniture and equipment	953,865	1,127,906
Vehicles	228,181	186,821
Construction in progress	-	23,158,729
	\$ 28,518,846	\$ 25,190,230

The overall increase in capital assets of \$3,328,616 is due to capital outlays of \$4,230,813 exceeding depreciation expense of \$557,066 and disposals of \$345,131 (net of accumulated depreciation) 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, 2005 the District had \$4,305,000 in general obligation bonds and \$315,870 in OSFC loans outstanding. Of this total, \$441,772 is due within one year and \$4,179,098 is due within greater than one year. The following table summarizes the bonds and loans outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities 2005	Governmental Activities 2004
Energy conservation notes	\$ -	\$ 74,140
OSFC loan payable	315,870	-
General obligation bonds	4,305,000	4,480,000
Total	\$ 4,620,870	\$ 4,554,140

At June 30, 2005, the District's overall legal debt margin was \$4,870,781, and an unvoted debt margin of \$95,593.

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, 2005  
UNAUDITED**

**Current Financial Related Activities**

The District faces many challenges. As the preceding information shows, the District relies heavily upon property and income taxes, as well as state and federal grants. The district made extensive cuts in fiscal year 2004 and fiscal year 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. However, the district is still operating near state minimums and the community must pass a new levy to generate additional revenue in order to meet ordinary operating expenses, to provide employee cost of living increases, to ensure retention of quality personnel, and to avoid a potential financial crisis in the near future.

One challenge facing the District is the completion of a 5 year construction project undertaken through the Ohio School Facilities Commission (OSFC). Although all three school buildings are now occupied, unresolved issues remain, as well as completion of a formal close-out process with the OSFC.

Another challenge is managing the effects/impact of declining enrollment. The District is projecting a significant decrease in State funding due to declining enrollment. The 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 the impact it has on funding.

Perhaps the biggest challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional education system, one that was found to be neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property wealth. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. 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 no commitment (as yet) to provide desperately needed revenue to ensure the financial stability, only the most essential offerings, items, and services are being provided to the students of this district. All of the District's 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, 2005

	<u><b>Governmental Activities</b></u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 2,621,235
Cash with escrow agent . . . . .	190,016
Receivables:	
Taxes . . . . .	3,232,671
Accounts . . . . .	372
Intergovernmental . . . . .	1,837,386
Accrued interest . . . . .	8,043
Prepayments. . . . .	4,167
Materials and supplies inventory . . . . .	18,667
Capital assets:	
Land . . . . .	35,490
Depreciable capital assets, net . . . . .	28,483,356
Capital assets, net. . . . .	<u>28,518,846</u>
 Total assets. . . . .	 <u>36,431,403</u>
<b>Liabilities:</b>	
Accounts payable. . . . .	35,857
Contracts payable. . . . .	67,158
Retainage payable . . . . .	190,016
Accrued wages and benefits . . . . .	938,202
Pension obligation payable. . . . .	216,571
Intergovernmental payable . . . . .	51,550
Deferred revenue . . . . .	2,472,837
Accrued interest payable . . . . .	34,987
Long-term liabilities:	
Due within one year. . . . .	451,394
Due in more than one year . . . . .	4,488,121
 Total liabilities . . . . .	 <u>8,946,693</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	24,943,786
Restricted for:	
Capital projects . . . . .	1,680,120
Classroom facilities maintenance. . . . .	190,291
State funded programs. . . . .	80,367
Federally funded programs. . . . .	17,132
Student activities. . . . .	39,566
Debt service. . . . .	560,793
Other purposes . . . . .	260,541
Unrestricted (deficit) . . . . .	<u>(287,886)</u>
 Total net assets . . . . .	 <u>\$ 27,484,710</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, 2005

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 4,823,744	\$ 60,977	\$ 101,579	\$ 24,301	\$ (4,636,887)
Special . . . . .	831,485	-	210,365	-	(621,120)
Other . . . . .	308,790	-	17,073	-	(291,717)
Support services:					
Pupil . . . . .	363,998	-	45,135	-	(318,863)
Instructional staff . . . . .	349,802	-	85,816	-	(263,986)
Board of education . . . . .	166,252	-	-	-	(166,252)
Administration . . . . .	916,319	-	12,991	-	(903,328)
Fiscal . . . . .	170,326	-	-	-	(170,326)
Business . . . . .	79,748	45,282	-	-	(34,466)
Operations and maintenance . . . . .	894,043	-	-	-	(894,043)
Pupil transportation . . . . .	320,994	-	284	-	(320,710)
Central . . . . .	79,714	-	6,995	-	(72,719)
Operation of non-instructional services:					
Food service operations . . . . .	489,689	290,889	128,910	-	(69,890)
Extracurricular activities . . . . .	311,094	77,689	-	-	(233,405)
Interest and fiscal charges . . . . .	236,135	-	-	-	(236,135)
<b>Total governmental activities . . . . .</b>	<b>\$ 10,342,133</b>	<b>\$ 474,837</b>	<b>\$ 609,148</b>	<b>\$ 24,301</b>	<b>(9,233,847)</b>

**General Revenues:**

Property taxes levied for:	
General purposes . . . . .	3,047,786
Special revenue . . . . .	39,023
Debt service . . . . .	414,630
Capital projects . . . . .	242,405
Grants and entitlements not restricted to specific programs . . . . .	6,690,893
Investment earnings . . . . .	86,103
Miscellaneous . . . . .	160,566
<b>Total general revenues . . . . .</b>	<b>10,681,406</b>
Change in net assets . . . . .	1,447,559
<b>Net assets at beginning of year (restated) . . . . .</b>	<b>26,037,151</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 27,484,710</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	<u>General</u>	<u>Classroom Facilities</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and cash equivalents . . . . .	\$ 361,570	\$ 367,672	\$ 532,176	\$ 1,207,276	\$ 2,468,694
Cash with escrow agent . . . . .	-	190,016	-	-	190,016
Receivables:					
Taxes . . . . .	2,556,476	-	386,320	289,875	3,232,671
Accounts . . . . .	299	-	-	73	372
Intergovernmental . . . . .	2,464	1,777,165	-	57,757	1,837,386
Accrued interest . . . . .	7,389	654	-	-	8,043
Interfund receivable . . . . .	68,000	-	-	-	68,000
Advances to other funds . . . . .	302,059	-	-	-	302,059
Prepayments . . . . .	4,167	-	-	-	4,167
Materials and supplies inventory . . . . .	13,033	-	-	5,634	18,667
Restricted assets:					
Equity in pooled cash and cash equivalents . . . . .	152,541	-	-	-	152,541
<b>Total assets . . . . .</b>	<b><u>\$ 3,467,998</u></b>	<b><u>\$ 2,335,507</u></b>	<b><u>\$ 918,496</u></b>	<b><u>\$ 1,560,615</u></b>	<b><u>\$ 8,282,616</u></b>
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 13,727	\$ -	\$ -	\$ 22,130	\$ 35,857
Contracts payable . . . . .	-	67,158	-	-	67,158
Retainage payable . . . . .	-	190,016	-	-	190,016
Accrued wages and benefits . . . . .	876,292	-	-	61,910	938,202
Pension obligation payable . . . . .	191,906	-	-	24,665	216,571
Intergovernmental payable . . . . .	47,531	-	-	4,019	51,550
Interfund payable . . . . .	-	-	-	68,000	68,000
Advances from other funds . . . . .	-	-	-	302,059	302,059
Deferred revenue . . . . .	2,040,637	1,777,165	346,121	319,546	4,483,469
<b>Total liabilities . . . . .</b>	<b><u>3,170,093</u></b>	<b><u>2,034,339</u></b>	<b><u>346,121</u></b>	<b><u>802,329</u></b>	<b><u>6,352,882</u></b>
<b>Fund Balances:</b>					
Reserved for encumbrances . . . . .	44,527	1,181,931	-	37,790	1,264,248
Reserved for materials and supplies inventory . . . . .	13,033	-	-	5,634	18,667
Reserved for prepayments . . . . .	4,167	-	-	-	4,167
Reserved for property tax unavailable for appropriation . . . . .	215,580	-	40,199	28,086	283,865
Reserved for advances . . . . .	302,059	-	-	-	302,059
Reserved for instructional materials . . . . .	152,541	-	-	-	152,541
Reserved for debt service . . . . .	-	-	532,176	-	532,176
Unreserved, undesignated (deficit), reported in:					
General fund . . . . .	(434,002)	-	-	-	(434,002)
Special revenue funds . . . . .	-	-	-	77,897	77,897
Capital projects funds . . . . .	-	(880,763)	-	608,879	(271,884)
<b>Total fund balances . . . . .</b>	<b><u>297,905</u></b>	<b><u>301,168</u></b>	<b><u>572,375</u></b>	<b><u>758,286</u></b>	<b><u>1,929,734</u></b>
<b>Total liabilities and fund balances . . . . .</b>	<b><u>\$ 3,467,998</u></b>	<b><u>\$ 2,335,507</u></b>	<b><u>\$ 918,496</u></b>	<b><u>\$ 1,560,615</u></b>	<b><u>\$ 8,282,616</u></b>

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, 2005

<b>Total governmental fund balances</b>		\$ 1,929,734
<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.		28,518,846
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 175,710	
Intergovernmental revenue	<u>1,834,922</u>	
Total		2,010,632
Accrued interest payable is not due within the current period and therefore is not reported in the funds		(34,987)
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	(318,645)	
General obligation bonds payable	(4,305,000)	
OSFC loan payable	<u>(315,870)</u>	
Total		<u>(4,939,515)</u>
<b>Net assets of governmental activities</b>		<u><u>\$ 27,484,710</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, 2005

	<u>General</u>	<u>Classroom Facilities</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
From local sources:					
Taxes . . . . .	\$ 3,117,565	\$ -	\$ 431,767	\$ 290,550	\$ 3,839,882
Tuition. . . . .	24,473	-	-	-	24,473
Earnings on investments. . . . .	61,603	24,447	-	53	86,103
Charges for services. . . . .	-	-	-	290,889	290,889
Extracurricular. . . . .	-	-	-	122,971	122,971
Classroom materials and fees . . . . .	-	-	-	35,966	35,966
Other local revenues. . . . .	154,820	-	-	6,337	161,157
Intergovernmental - state. . . . .	6,134,016	3,427,218	65,209	141,652	9,768,095
Intergovernmental - federal . . . . .	-	-	-	441,423	441,423
Total revenues . . . . .	<u>9,492,477</u>	<u>3,451,665</u>	<u>496,976</u>	<u>1,329,841</u>	<u>14,770,959</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular . . . . .	4,018,318	-	-	158,859	4,177,177
Special. . . . .	610,882	-	-	194,249	805,131
Other. . . . .	292,947	-	-	15,843	308,790
Support services:					
Pupil. . . . .	321,859	-	-	42,139	363,998
Instructional staff . . . . .	232,352	-	-	91,352	323,704
Board of education . . . . .	166,252	-	-	-	166,252
Administration. . . . .	870,658	-	-	12,055	882,713
Fiscal . . . . .	187,785	-	5,914	3,344	197,043
Business . . . . .	42,269	-	-	37,479	79,748
Operations and maintenance. . . . .	894,111	-	-	-	894,111
Pupil transportation . . . . .	372,431	-	-	253	372,684
Central. . . . .	76,285	-	-	3,429	79,714
Food service operations . . . . .	-	-	-	436,654	436,654
Extracurricular activities. . . . .	181,605	-	-	70,409	252,014
Facilities acquisition and construction . . . . .	4,010	4,147,268	-	15,243	4,166,521
Debt service:					
Principal retirement . . . . .	74,140	261,772	175,000	-	510,912
Interest and fiscal charges . . . . .	1,719	-	235,853	-	237,572
Total expenditures . . . . .	<u>8,347,623</u>	<u>4,409,040</u>	<u>416,767</u>	<u>1,081,308</u>	<u>14,254,738</u>
Excess of revenues over (under) expenditures. . . . .	<u>1,144,854</u>	<u>(957,375)</u>	<u>80,209</u>	<u>248,533</u>	<u>516,221</u>
<b>Other financing sources:</b>					
Transfers in. . . . .	70,392	261,772	-	346,867	679,031
Transfers (out). . . . .	(343,000)	-	(62,735)	(273,296)	(679,031)
Sale of capital assets . . . . .	20,398	-	-	-	20,398
Proceeds of notes. . . . .	-	577,642	-	-	577,642
Total other financing sources . . . . .	<u>(252,210)</u>	<u>839,414</u>	<u>(62,735)</u>	<u>73,571</u>	<u>598,040</u>
Net change in fund balances . . . . .	892,644	(117,961)	17,474	322,104	1,114,261
<b>Fund balances (deficit) at</b>					
<b>beginning of year (restated). . . . .</b>	<u>(594,739)</u>	<u>419,129</u>	<u>554,901</u>	<u>436,182</u>	<u>815,473</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 297,905</u>	<u>\$ 301,168</u>	<u>\$ 572,375</u>	<u>\$ 758,286</u>	<u>\$ 1,929,734</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, 2005

<b>Net change in fund balances - total governmental funds</b>	\$	1,114,261
 <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	\$ 4,230,813	
Depreciation expense	(557,066)	
Total		3,673,747
 The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
Disposals	(1,064,650)	
Accumulated depreciation on disposals	719,519	
Total		(345,131)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(96,038)	
Intergovernmental revenue	(2,885,176)	
Total		(2,981,214)
 Repayment of bond, loan and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		510,912
 Proceeds of notes and bonds 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.		
		(577,642)
 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.		
		1,437
 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.		
		51,189
<b>Change in net assets of governmental activities</b>	\$	1,447,559

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, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 2,997,181	\$ 2,998,254	\$ 2,998,254	\$ -
Tuition. . . . .	24,464	24,473	24,473	-
Earnings on investments. . . . .	53,880	53,899	53,846	(53)
Other local revenues . . . . .	6,084	6,086	6,139	53
Intergovernmental - state . . . . .	<u>6,131,820</u>	<u>6,134,016</u>	<u>6,134,016</u>	-
Total revenues . . . . .	<u>9,213,429</u>	<u>9,216,728</u>	<u>9,216,728</u>	-
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	4,187,928	4,187,928	4,130,885	57,043
Special. . . . .	635,149	635,149	626,497	8,652
Other. . . . .	296,992	296,992	292,947	4,045
Support services:				
Pupil. . . . .	361,896	361,896	356,967	4,929
Instructional staff . . . . .	238,419	238,419	235,171	3,248
Board of education . . . . .	171,282	171,282	168,949	2,333
Administration. . . . .	951,304	951,304	938,346	12,958
Fiscal . . . . .	210,701	210,701	207,831	2,870
Business . . . . .	40,107	40,107	39,561	546
Operations and maintenance. . . . .	991,286	991,286	977,783	13,503
Pupil transportation . . . . .	415,422	415,422	409,763	5,659
Central. . . . .	86,557	86,557	85,378	1,179
Extracurricular activities. . . . .	194,592	194,592	191,941	2,651
Facilities acquisition and construction. . . . .	4,065	4,065	4,010	55
Debt service:				
Principal retirement . . . . .	11,564	11,564	11,406	158
Interest and fiscal charges . . . . .	1,742	1,742	1,718	24
Total expenditures . . . . .	<u>8,799,006</u>	<u>8,799,006</u>	<u>8,679,153</u>	<u>119,853</u>
Excess of revenues over (under) expenditures. . . . .	<u>414,423</u>	<u>417,722</u>	<u>537,575</u>	<u>119,853</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure. . . . .	160,397	160,454	160,454	-
Refund of prior year (receipts). . . . .	(9,551)	(9,551)	(9,421)	130
Transfers in. . . . .	7,671	7,674	7,674	-
Transfers (out) . . . . .	(347,737)	(347,737)	(343,000)	4,737
Advances in. . . . .	15,535	15,541	15,541	-
Advances (out) . . . . .	(68,939)	(68,939)	(68,000)	939
Sale of capital assets. . . . .	20,391	20,398	20,398	-
Total other financing sources (uses) . . . . .	<u>(222,233)</u>	<u>(222,160)</u>	<u>(216,354)</u>	<u>5,806</u>
Net change in fund balance . . . . .	192,190	195,562	321,221	125,659
<b>Fund balance at beginning of year. . . . .</b>	69,268	69,268	69,268	-
<b>Prior year encumbrances appropriated . . . . .</b>	66,424	66,424	66,424	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 327,882</u>	<u>\$ 331,254</u>	<u>\$ 456,913</u>	<u>\$ 125,659</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, 2005

		<u>Agency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$	21,834
Receivables:		
Accounts . . . . .		<u>10</u>
Total assets. . . . .	\$	<u><u>21,844</u></u>
<b>Liabilities:</b>		
Due to students . . . . .	\$	<u>21,844</u>
Total liabilities . . . . .	\$	<u><u>21,844</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

**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 54 non-certified and 84 (including administrative) certified full-time and part-time employees to provide services to approximately 1,279 students in grades K through 12 and various community groups, which ranks it 419<sup>th</sup> out of 614 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; (2) the District is legally entitled to or can otherwise access the organization’s resources; (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

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

*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.

*PUBLIC ENTITY RISK POOL*

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association as a group purchasing pool.

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

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

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

**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:

*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.

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

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities; and (c) for grants and other resources whose use is restricted to a particular purpose.

*PROPRIETARY FUNDS*

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

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

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

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

**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.

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.

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

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

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgets**

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

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Montgomery County Budget Commission for tax rate determination. The Montgomery County Commissioners waived this requirement for fiscal year 2005.

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

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

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 2005.
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.
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, 2005; 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.

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

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

During fiscal year 2005, investments were limited to repurchase agreements, commercial paper, 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. By policy of the Board of Education or statutory requirements, investment earnings are assigned to the general and classroom facilities funds. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$61,603, which includes \$52,520 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.

**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:

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

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

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

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” 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, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least five years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

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

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

**K. Accrued Liabilities and Long-Term Obligations**

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

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

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

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

**L. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for debt service, advances, instructional materials, encumbrances, materials and supplies inventory, prepayments, and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**M. Net Assets**

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

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

**N. Prepayments**

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

**O. Estimates**

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

**P. Restricted Assets**

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

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

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

**Q. Interfund Activity**

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principals**

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

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

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

During the previous year, the debt service was classified as a nonmajor fund, however, this fund is reported as a major fund for fiscal year ended June 30, 2005.

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

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ (505,237)	\$ 419,129	\$ 1,009,351	\$ 923,243
GASB Technical Bulletin No. 2004-2	<u>(89,502)</u>	<u>-</u>	<u>(18,268)</u>	<u>(107,770)</u>
Restated Fund Balance, June 30, 2004	<u>\$ (594,739)</u>	<u>\$ 419,129</u>	<u>\$ 991,083</u>	<u>\$ 815,473</u>

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

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**B. Prior Period Adjustment**

Beginning net assets have been restated due to errors and omissions previously reported in capital assets. The restatement had the following effect on net assets at June 30, 2004:

Net assets June 30, 2004	\$25,328,247
Adjustment for capital assets	<u>708,904</u>
Net assets July 1, 2004	<u>\$26,037,151</u>

**C. Deficit Fund Balances**

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

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food service	\$ 214,350
Title VI-B	77,461
Vocational Education	1,400
Title I	56,316
Title VI	12,178
Drug Free School Grant	2,398
Class Reduction	14,966
Miscellaneous Federal Grants	11,200

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

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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;
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.

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

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**A. Cash with Escrow Agent**

At year-end, the District had \$190,016 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, 2005, the carrying amount of all District deposits was \$1,236,458, exclusive of the \$356,249 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$1,111,308 of the District's bank balance of \$1,311,308 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.

**C. Investments**

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
Repurchase Agreement	\$ 356,249	\$ 356,249
U.S Treasury Bonds	75,033	75,033
FHLMC Discount Note	470,760	470,760
FHLB	54,863	54,863
FNMA Discount Note	278,694	278,694
Money Market Fund	81,194	81,194
U.S Treasury Bill	49,892	49,892
Commerical Paper	39,926	39,926
	<u>\$ 1,406,611</u>	<u>\$ 1,406,611</u>

The weighted average maturity of investments is .14 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.

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

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*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.

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

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 356,249	25.33%
U.S Treasury Bonds	75,033	5.33%
U.S Treasury Bill	49,892	3.55%
Commercial Paper	39,926	2.84%
FHLB	54,863	3.90%
FHLMC Discount Notes	470,760	33.47%
FNMA Discount Notes	278,694	19.81%
Money Market Fund	81,194	5.77%
	<u>\$ 1,406,611</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, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,236,458
Investments	1,406,611
Cash with escrow agent	<u>190,016</u>
Total	<u>\$ 2,833,085</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,811,251
Agency funds	<u>21,834</u>
Total	<u>\$ 2,833,085</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**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, 2005.

<u>Interfund Loans Receivable</u>	<u>Interfund Loans Payable</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 68,000

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the Statement of Net Assets.

**B. Advances To/From Other Funds**

Interfund balances consist of the following long-term advances to/from other funds, as reported on the fund financial statements at June 30, 2005.

<u>Advances To Other Funds</u>	<u>Advances From Other Funds</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 302,059

**C. Interfund Transfers**

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

Transfers from General fund to:		
Nonmajor governmental funds		\$ 343,000
Transfers from Major governmental funds to:		
General fund		62,735
Transfers from Nonmajor governmental funds to:		
General fund		7,657
Transfers from Nonmajor governmental funds to:		
Nonmajor governmental funds		3,867
Transfers from Nonmajor governmental funds to:		
Classroom Facilities		261,772

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. All transfers were in compliance with Ohio Revised Code Sections 5705.14, 5705.15, and 5705.16.

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

**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 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

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

The 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. The amounts available as an advance at June 30, 2004 was \$96,976 in the general fund, \$20,185 in the bond retirement fund, \$11,013 in the permanent improvement fund, and \$1,773 in the classroom facilities maintenance fund.

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.

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

**NOTE 6 - PROPERTY TAXES - (Continued)**

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

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 90,072,060	95.11	\$ 91,092,430	95.30
Public utility personal	2,936,690	3.10	3,106,380	3.25
Tangible personal property	<u>1,696,742</u>	<u>1.79</u>	<u>1,394,593</u>	<u>1.45</u>
<b>Total</b>	<b><u>\$ 94,705,492</u></b>	<b><u>100.00</u></b>	<b><u>\$ 95,593,403</u></b>	<b><u>100.00</u></b>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 41.53		\$ 45.45	
Permanent Improvement	2.80		2.80	
Debt Service	5.12		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 \$792,503 for fiscal 2005.

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2005 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:

<b>Governmental Activities:</b>	
Taxes	\$ 3,232,671
Accounts	372
Intergovernmental	1,837,386
Accrued interest	<u>8,043</u>
<b>Total</b>	<b><u>\$ 5,078,472</u></b>

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

**NOTE 9 - CAPITAL ASSETS**

- A. The capital asset balances of the governmental activities have been restated due to errors and omissions. See Note 3.B for detail:

	<u>Balance 06/30/04</u>	<u>Adjustments</u>	<u>Restated Balance 06/30/04</u>
<b>Governmental Activities</b>			
Capital assets, not being depreciated:			
Land	\$ 35,490	\$ -	\$ 35,490
Construction in progress	<u>23,158,729</u>	<u>-</u>	<u>23,158,729</u>
Total capital assets, not being depreciated	<u>23,194,219</u>	<u>-</u>	<u>23,194,219</u>
Capital assets, being depreciated:			
Land improvements	341,074	-	341,074
Building/improvements	1,826,650	104,267	1,930,917
Furniture/equipment	2,351,244	(648,334)	1,702,910
Vehicles	<u>272,241</u>	<u>642,652</u>	<u>914,893</u>
Total capital assets, being depreciated	<u>4,791,209</u>	<u>98,585</u>	<u>4,889,794</u>
Less: accumulated depreciation			
Land improvements	(241,412)	-	(241,412)
Building/improvements	(1,371,453)	22,158	(1,349,295)
Furniture/equipment	(1,732,876)	1,157,872	(575,004)
Vehicles	<u>(158,361)</u>	<u>(569,711)</u>	<u>(728,072)</u>
Total accumulated depreciation	<u>(3,504,102)</u>	<u>610,319</u>	<u>(2,893,783)</u>
Governmental activities capital assets, net	<u>\$ 24,481,326</u>	<u>\$ 708,904</u>	<u>\$ 25,190,230</u>

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

**NOTE 9 - CAPITAL ASSETS - (Continued)**

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

	Restated Balance <u>06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/05</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 35,490	\$ -	\$ -	\$ 35,490
Construction in progress	<u>23,158,729</u>	<u>4,097,771</u>	<u>(27,256,500)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>23,194,219</u>	<u>4,097,771</u>	<u>(27,256,500)</u>	<u>35,490</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	341,074	16,000	-	357,074
Buildings and improvements	1,930,917	27,256,500	(1,064,650)	28,122,767
Furniture and equipment	1,702,910	2,200	-	1,705,110
Vehicles	<u>914,893</u>	<u>114,842</u>	<u>-</u>	<u>1,029,735</u>
Total capital assets, being depreciated	<u>4,889,794</u>	<u>27,389,542</u>	<u>(1,064,650)</u>	<u>31,214,686</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(241,412)	(17,453)	-	(258,865)
Buildings and improvements	(1,349,295)	(289,890)	719,519	(919,666)
Furniture and equipment	(575,004)	(176,241)	-	(751,245)
Vehicles	<u>(728,072)</u>	<u>(73,482)</u>	<u>-</u>	<u>(801,554)</u>
Total accumulated depreciation	<u>(2,893,783)</u>	<u>(557,066)</u>	<u>719,519</u>	<u>(2,731,330)</u>
Governmental activities capital assets, net	<u>\$ 25,190,230</u>	<u>\$ 30,930,247</u>	<u>\$ (27,601,631)</u>	<u>\$ 28,518,846</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 246,005
Special	26,090

Support Services:

Instructional staff	24,728
Administration	51,252
Fiscal	1,391
Operations and maintenance	17,256
Pupil transportation	78,649
Extracurricular activities	59,080
Food service operations	<u>52,615</u>
Total depreciation expense	<u>\$ 557,066</u>

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

**NOTE 10 - LONG-TERM OBLIGATIONS**

- A. On April 1, 2001, the District issued \$4,530,000 in general obligation bonds (Series 2001, School Facilities Improvement Bonds), which represent the District's share of a construction and renovation project approved and significantly funded by the Ohio School Facilities Commission (OSFC). OSFC has awarded the District a \$19,327,026 grant for the project, and will make quarterly disbursements to the District until the project is completed. These bonds are a general obligation of the District, for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to these bonds are recorded as an expenditure in the Debt Service fund. The source of payment is derived from a current 3.77 (average) mill bonded debt tax levy.

In conjunction with the 3.77 mills which support the bond issue, the District also passed in fiscal 2001 a .5 mill levy to ultimately fund the maintenance costs of the new facility. Tax revenue from this levy has been reported in the special revenue funds.

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

Energy conservation notes outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Payments of principal and interest relating to these notes are recorded as expenditures in the general fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of energy conservation notes without voter approval, and the subsequent repayment of the notes from operating revenues. The entire energy conservation note obligation was retired during fiscal year 2005.

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 2005. As of June 30, 2005, \$577,642 of total loan proceeds of \$1,308,861 has been received by the District. 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, loans and notes outstanding as of June 30, 2005:

Purpose	Interest Rate	Issue Date	Maturity Date	Balance			Balance Outstanding 06/30/05	Amounts Due in One Year
				Outstanding 06/30/04	Additions	Reductions		
Facilities improvement	5.080%	04/01/01	12/01/23	\$ 4,165,000	\$ -	\$ (130,000)	\$ 4,035,000	\$ 135,000
Building renovations	6.875%	01/01/87	12/01/10	315,000	-	(45,000)	270,000	45,000
OSFC loan	N/A	06/10/05	06/10/10	-	577,642	(261,772)	315,870	261,772
Energy conservation notes	4.83%	09/29/97	09/30/08	74,140	-	(74,140)	-	-
Total long-term obligations, governmental activities				<u>\$ 4,554,140</u>	<u>\$ 577,642</u>	<u>\$ (510,912)</u>	<u>\$ 4,620,870</u>	<u>\$ 441,772</u>

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

**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 1997 Building Renovation			General Obligation Series 2001 Facilities Improvement		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 45,000	\$ 17,016	\$ 62,016	\$ 135,000	\$ 134,463	\$ 269,463
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
2011-2015	45,000	1,547	46,547	915,000	516,373	1,431,373
2016-2020	-	-	-	1,195,000	332,733	1,527,733
2021-2024	-	-	-	1,190,000	103,323	1,293,323
<b>Total</b>	<b>\$ 270,000</b>	<b>\$ 55,688</b>	<b>\$ 325,688</b>	<b>\$ 4,035,000</b>	<b>\$ 1,587,239</b>	<b>\$ 5,622,239</b>

- C.** During the year ended June 30, 2005, the following changes occurred in long-term liabilities. Compensated absences will be paid from the fund from which the employee is paid.

	Balance Outstanding 06/30/04	Additions	Reductions	Balance Outstanding 06/30/05	Amounts Due in One Year
<b>Governmental Activities:</b>					
Compensated absences	\$ 369,834	\$ 18,033	\$ (69,222)	\$ 318,645	\$ 9,622
General obligation bonds	4,480,000	-	(175,000)	4,305,000	180,000
OSFC loan	-	577,642	(261,772)	315,870	261,772
Energy conservation notes	74,140	-	(74,140)	-	-
<b>Total long-term obligations, governmental activities</b>	<b>\$ 4,923,974</b>	<b>\$ 595,675</b>	<b>\$ (580,134)</b>	<b>\$ 4,939,515</b>	<b>\$ 451,394</b>

**D. Legal Debt Margin**

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

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$4,870,781, and an unvoted debt margin of \$95,593.

**NEW LEBANON LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**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 2005, The District purchased from Nationwide Insurance Company (through the Ohio School Boards Association) general liability insurance, which carried a \$1 million per occurrence/\$3 million annual aggregate limitation.

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

Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three years. There has been no significant reduction in amounts of insurance coverage from fiscal 2004.

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.

*OSBA WORKERS' COMPENSATION GROUP RATING PLAN*

For fiscal year 2005, the District participated in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (the "Plan"), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

**NOTE 12 - DEFINED BENEFIT PENSION PLAN**

**A. School Employees Retirement System**

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 12 - DEFINED BENEFIT PENSION PLAN - (Continued)**

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$188,421, \$204,279 and \$204,779, respectively; 47.93% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$98,112 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

**B. State Teachers Retirement System**

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

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

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.

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

**NOTE 12 - DEFINED BENEFIT PENSION PLAN - (Continued)**

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$631,204, \$669,410, and \$665,273, respectively; 85.41% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$92,124 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$2,748 made by the District and \$7,253 made by plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$45,086 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268,739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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

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

**NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)**

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$68,325 during the 2005 fiscal year.

**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).

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

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

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

<b>Net Change in Fund Balance</b>	<u>General Fund</u>
Budget basis	\$ 321,221
Net adjustment for revenue accruals	275,749
Net adjustment for expenditure accruals	274,332
Net adjustment for other sources/uses	(35,856)
Adjustment for encumbrances	<u>57,198</u>
GAAP basis	<u>\$ 892,644</u>

**NOTE 15 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

**C. State School Funding Decision**

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

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

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

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

**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, 2005, the reserve activity was as follows:

	Instructional <u>Materials</u>	Capital <u>Maintenance</u>
Set-aside cash balance as of June 30, 2004	\$ 95,517	\$ (4,971,605)
Current year set-aside requirement	185,123	185,123
Qualifying disbursements	<u>(128,099)</u>	<u>(30,212)</u>
Total	<u>\$ 152,541</u>	<u>\$ (4,816,694)</u>
Balance carried forward to FY 2006	<u>\$ 152,541</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, 2005 follows:

Amounts restricted for instructional materials	<u>\$ 152,541</u>
Total restricted assets	<u>\$ 152,541</u>

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

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

**NOTE 17 - CONTRACTUAL COMMITMENTS**

At June 30, 2005, the District had the following outstanding contractual commitments connected with the District's Ohio School Facilities Commission project:

<u>Contractor</u>	<u>Amount</u>
A-1 Sprinkler	\$ 6,827
Active Electric	18,549
Alexander Patterson	863
Applied Mechanical	20,472
Batts	84,743
Black & White	58,056
Bushong	7,887
Chapel Electric	16,430
Command Roofing	17,197
Continental Education	15,984
Dayton Blueprint	4,603
Elements IV Interiors	166
Expanets	60,558
Fryman Kuck	28,302
Henkels & McCoy	4,436
J-Tec	14,524
Kelchner	234,798
Lehn Painting	11,542
Martin Public Seating	1,167
NEC	20,268
OK Interiors	5,881
OKI Window	3,040
Paden	14,868
Peck, Shaffer & Williams	14,174
PSI	120
Securcom	6,840
TP Mechanical	129,495
Universal Custom	6,865
Valley Interior	4,312
Weiffenbach Marble & Tile	17,222
Westside Paving	151,382
Wray's	15,920
Total contractual commitments	<u>\$ 997,491</u>



## **Julian & Grube, Inc.** *Serving Ohio Local Governments*

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the New Lebanon Local School District, Montgomery County (the "District") as of and for the fiscal year ended June 30, 2005, which collectively comprises the District's basic financial statements, issued our report thereon dated January 13, 2006. As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers" for the fiscal year ended June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we reported to management of the District, in a separate letter dated January 13, 2006.

Board of Education  
New Lebanon Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we have reported to the management of the District in a separate letter dated January 13, 2006.

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

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

Julian & Grube, Inc.  
January 13, 2006

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

**STATUS OF PRIOR AUDIT FINDINGS  
JUNE 30, 2005**

<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i></b>
2004-NLLSD-001	Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.	No	Citation reported in management letter.



**Auditor of State  
Betty Montgomery**

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**NEW LEBANON LOCAL SCHOOL DISTRICT**

**MONTGOMERY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 4, 2006**