



**Auditor of State  
Betty Montgomery**



**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Northeastern Local School District  
Clark County  
1414 Bowman Road  
Springfield, Ohio 45502

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Local School District, Clark County, (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Local School District, Clark County, as of June 30, 2004, and the respective changes in financial position, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. 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.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 22, 2004

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

The discussion and analysis of Northeastern Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for 2004 are as follows:

In total, net assets increased \$2,280,752, which represents a 20.17 percent increase from 2003.

General revenues accounted for \$26,232,410 in revenue or 87.65 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$3,695,622 or 12.35 percent of total revenues of \$29,928,032.

Total assets of governmental activities increased by \$489,398 as cash and cash equivalents decreased by \$658,449, receivables increased by \$805,082 and capital assets increased by \$337,482.

The governmental activities of the School District had \$27,647,280 in expenses; only \$3,695,622 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$26,232,410 were adequate to provide for these programs.

Among major funds, the General Fund had \$24,683,063 in revenues and \$24,192,400 in expenditures. The General Fund's balance increased \$502,364 over 2003. This increase was predominately due to an increase in state revenue. State revenue increased due to an increase in enrollment and the additional phasing-in of parity aide. Also, there was additional state aide due to our decrease of personal property values being greater than 5% from one year to the next. Another factor that allowed the ending balance to be higher was the decrease in capital outlay expenditures. The ability to spend permanent improvement fund dollars for capital outlay made this possible. In FY03 permanent improvement funds were already earmarked for major expenditures and were not available to ease general fund fixed asset purchases.

**Using this Generally Accepted Accounting Principles Report (GAAP)**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Northeastern Local School 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 School District, presenting both an aggregate view of the School 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 School District's most significant funds with all other non-major funds presented in total in one column. In the case of Northeastern Local School District, the General Fund is by far the most significant fund.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**Reporting the School 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 School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District does not have any business-type activities.

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

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Permanent Improvement Capital Projects Fund.

Governmental Funds

Most of the School 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 the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School 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 financial statements.



**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**The School District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2004 compared to 2003.

**Table 1  
Net Assets**

	<b>2003</b>	<b>2004</b>
<b>Assets</b>		
Current and Other Assets	\$16,971,840	\$17,123,756
Capital Assets	17,503,886	17,841,368
Total Assets	<u>34,475,726</u>	<u>34,965,124</u>
<b>Liabilities</b>		
Long-Term Liabilities	8,824,184	8,396,331
Other Liabilities	14,341,504	12,978,002
Total Liabilities	<u>23,165,688</u>	<u>21,374,333</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	10,818,886	10,919,032
Restricted	2,670,562	3,259,016
Unrestricted	<u>(2,179,410)</u>	<u>(587,257)</u>
Total Net Assets	<u>\$11,310,038</u>	<u>\$13,590,791</u>

Total assets increased \$489,398. Cash and cash equivalents decreased by \$658,449, receivables increased by \$805,082 and capital assets increased by \$337,482. Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, of the School District increased by \$1,592,153 due to the broader recognition of tax revenue receivable, and increase in state revenue. Also, in 2004, the liability related to the balance of the HB 264 projects decreased.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the fourth year the School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons are available. Therefore, a comparative analysis of district-wide data is being presented, as follows:

**Table 2  
Changes in Net Assets**

	2003	2004
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$1,617,553	\$2,408,682
Operating Grants and Contributions	1,127,564	1,286,940
Capital Grants and Contributions	55,215	0
General Revenues		
Property Taxes	10,649,577	13,569,298
Grants and Entitlements	11,451,628	12,556,458
Other	82,947	106,654
Total Revenues	24,984,484	29,928,032
<b>Program Expenses</b>		
Instruction	13,324,337	15,065,133
Support Services:		
Pupils and Instructional Staff	2,573,935	2,734,772
Board of Education, Administration, and Fiscal	2,834,726	3,135,862
Operation and Maintenance of Plant	2,508,396	2,368,785
Pupil Transportation	1,491,578	1,726,123
Central	500	0
Operation of Non-Instructional Services	1,246,162	1,462,532
Extracurricular Activities	659,460	783,192
Interest and Fiscal Charges	389,944	370,881
Total Expenses	25,029,038	27,647,280
Increase in Net Assets	(\$44,554)	\$2,280,752

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**Governmental Activities**

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District operations. Property taxes made up 45 percent of revenues for governmental activities for the Northeastern Local School District for fiscal year 2004.

The School District voters passed a four-year permanent improvement levy in March of 2000 for collection 2001 through 2004. This levy at 4.0 mills generates approximately \$1,436,000 in property tax revenue per year. Calendar Year 2004 is the last year of collection for the permanent improvement levy. The Board is in the process of prioritizing expenditure of remaining permanent improvement dollars. Their first priorities will be further safety concerns and infrastructure improvements in the various buildings in the district. Following that, expenditures will be based on the greatest need. The \$2,700,000 HB 264 Energy Conservation projects were finished up in fiscal year 2004. With the Kenton Ridge electric to gas conversion being complete, the updated lighting district-wide and boiler replacements completed in all buildings, energy savings should begin to be recognizable.

Even though additional permanent improvement dollars would be used wisely in the future, due to the need for general operating funds, the board decided to place operating millage on the August 3<sup>rd</sup> Special Election Ballot, rather than attempting to renew the permanent improvement levy. Without new operating dollars, the district would be facing a deficit situation at the end of FY05. The operating levy passed by 47 votes at a time when other new levies statewide only had a 14% passage rate.

Instruction comprises 54 percent of district expenses. Support services expenses make up 36 percent of the expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows 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 entitlements.

**Table 3**

	<b>Total Cost of Services 2004</b>	<b>Net Cost of Services 2004</b>
Instruction	\$15,065,133	\$13,179,148
Support Services:		
Pupils and Instructional Staff	2,734,772	2,539,767
Board of Education, Administration, and Fiscal	3,135,862	3,026,967
Operation and Maintenance of Plant	2,368,785	2,355,941
Pupil Transportation	1,726,123	1,701,066
Operation of Non-Instructional Services	1,462,532	175,185
Extracurricular Activities	783,192	602,703
Interest and Fiscal Charges	370,881	370,881
<b>Total Expenses</b>	<b>\$27,647,280</b>	<b>\$23,951,658</b>

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupils and instructional staff include the activities involved with assisting staff with the content and process of teaching pupils.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the district.

Operation and maintenance of plant activities involve keeping the school grounds, buildings, and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Operation of non-instruction services includes the preparation, delivery, and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities.

Extracurricular activities includes expenses related to student activities provided by the School District which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement.

Interest and fiscal charges involve the transactions associated with the payment of interest and other related charges to debt of the School District.

The dependence upon tax revenues is apparent. Almost 100 percent of instruction activities are supported through taxes and other general revenues; for all activities general revenue support is 55 percent. The community, as a whole, is the primary support for the Northeastern Local School District.

**The School District's Funds**

Information about the School District's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$29,401,233 and expenditures of \$28,258,296. The net change in fund balance for the year was most significant in the General Fund, an increase of \$502,364. As stated previously, this increase was predominately due to an increase in state revenue. State revenue increased due to an increase in enrollment and the additional phasing-in of parity aide. Also, there was additional state aide due to our decrease of personal property values being greater than 5% from one year to the next. Another factor that allowed the ending balance to be higher was the decrease in capital outlay expenditures. The ability to spend permanent improvement fund dollars for capital outlay made this possible. Unlike FY04, in FY03 permanent improvement funds were already earmarked for major expenditures and were not available to ease general fund fixed asset purchases. Additionally, since state funding to the district was reduced unexpectedly in FY03 due to a revenue shortfall statewide, an increase in FY04 was easier to achieve. The winter was unusually mild, making the utility bills more reasonable was another factor in increasing the ending fund balance.

**General Fund Budgeting Highlights**

The School 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 the 2004 fiscal year, the School District amended its General Fund budget several times, which resulted in appropriations increasing \$1,932,157. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. Prior to year-end, the School District requested an amended certificate of estimated resources that reflected actual revenue for the fiscal year and passed appropriations to match expenditures plus encumbrances.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

Salary costs proved to be slightly lower than anticipated in the original budget. This could possibly be due to additional federal monies being available for employment of additional handicapped aides. Often when student numbers necessitate adding aides, there is no option other than using general fund monies.

For the General Fund, budget basis revenue and other financing sources was \$23,018,598; \$650,646 above the original budgeted estimates of \$22,367,952.

**Capital Assets**

At the end of the 2004 fiscal year, the School District had \$17,841,368 invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal 2004 balances compared to 2003.

<b>Capital Assets (Net of Depreciation) at June 30,</b>		
	<b>2003</b>	<b>2004</b>
Land	\$268,349	\$268,349
Land Improvement	168,187	182,176
Buildings and Improvements	14,790,491	15,007,077
Furniture and Equipment	1,536,098	1,711,191
Vehicles	740,761	672,575
Total Assets	\$17,503,886	\$17,841,368

Overall capital assets increased \$337,482 from fiscal year 2003 to fiscal year 2004.

**Debt Administration**

At June 30, 2004, the School District had a bond issue of \$4,530,000 outstanding. It was originally passed in 1995 for \$5,300,000 for 23 years. Also outstanding at June 30, 2004 was \$2,250,000 in Energy Conservation Bonds.

**Table 5  
Outstanding Debt at June 30,**

	<b>2003</b>	<b>2004</b>
1996 Building Issue	\$4,680,000	\$4,530,000
2001 Energy Conservation Bonds	2,480,000	2,250,000
Total Debt	\$7,160,000	\$6,780,000

At June 30, 2004, the School District's overall net legal debt margin was \$33,260,850.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**Current Financial Issues and Concerns**

The fund balance in the general fund increased this year by \$502,364. Based on historical trends, tax revenues were anticipated to increase significantly. Instead, due to devaluations, tax revenue actually decreased slightly. State funds did increase (due in part to increased enrollment) in FY04 allowing for our growth in actual expenditures.

We are currently overcrowded in the majority of our buildings. The board and administration are trying to ascertain the consensus of our constituents prior to reconsideration of a bond issue to build two new middle schools. The issue was first placed on the ballot in November, 2000. It failed at that time. It has been placed on the ballot four times since and has failed all four times. The board and administration feel that this is not an indication of voter disapproval, but more a barometer of the economy. Another concern is voter discontent with the continuing issue of how the State of Ohio funds education. In an effort to attain voter approval, the bond issue was placed on the November ballot with a no new millage approach. The board promised the voters that the Permanent Improvement levy would be discontinued upon passage of the bond issue. The millage for each were almost identical, therefore allowing for the "no new millage" approach. However, the issue failed again.

Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional system of school funding, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. With the current financial concerns the State is facing, they feel they have done as much as they can for K-12 education at the current time. However, they have appointed a blue ribbon task force comprised of legislators and school officials to study school funding. It is their hope that the task force will be able to make a viable recommendation to aid school funding in the future.

In comparison to other school districts in the state, the Northeastern Local School District would not be considered a School District suffering with low wealth. Therefore, the Northeastern Local School District has not anticipated any meaningful growth in State revenue other than from increased enrollment. However, the continued existence of parity aide has helped significantly. There is a concern that, to meet the requirements of the court, the State may require a redistribution of commercial and industrial property tax. Approximately 10 percent of the School District's wealth is generated from business and industry.

Therefore, redistribution of this 10 percent to other districts could have a significant negative impact on the School District's residential taxpayers. The Ohio Supreme Court has already stated that there is an over-reliance on property taxes in the State of Ohio.

Yet another pitfall of not being considered a low wealth district is the distribution of a lower percentage of funds from the Ohio School Facilities' Commission (OSFC). Our neighboring city district is receiving 88 percent of the cost of replacing almost all their school buildings from the State merely by raising the other 12 percent locally. The Northeastern Local School District only qualifies for State funding of 34 percent while having to raise the remaining 66 percent of the master plan locally to qualify for state OSFC funding. This is another aspect of state funding that is confusing to the district voters and contributes to complicating the efforts of passing a bond issue.

The Northeastern Local School District has worked with the OSFC. The construction of two new middle schools, among other possibilities, fell within the confines of the OSFC's master plan that was in place at the beginning of FY04. However, currently there is no master plan in place. It was allowed to expire because our state share is increasing slightly due to our personal property devaluation and our ranking in valuation statewide, decreasing. Once an understanding of what our constituents will support is ascertained, the board will go forward with a resolution to reinstate our master plan.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

Other items of importance that occurred during the 2004 fiscal year are as follows:

- An Energy Conservation HB 264 proposal for 2.7 million dollars was completed. A large percentage of the project was the conversion from electric to gas at Kenton Ridge. The district is striving to make improvements that will not cost the taxpayers additional money.
- 2 Federal "Success for All Students" access grants were applied for and received.
- The 2004 fiscal year saw the end of a three-year master contract that was negotiated in fiscal year 2001 and is in effect through 2004. New negotiations took place with language that is in effect for 3 years. A 2.5% pay increase for classified staff and 2.3% increase for certificated staff will be effective July 1, 2004.
- The board continued the establishment of a virtual school on and off-campus. This was done to reach some students who otherwise may drop out of school and/or just need a few credits to graduate. Some of these students prefer not to attend school full-time and prefer less structure than a classroom environment.
- The Northeastern High School Boosters plan to replace the bleachers in the football stadium
- Interactive Video Distance Learning Classes continued in the district.
- Mr. Robin Flessner, the superintendent employed effective July 1, 2004 as a result of an OSBA led search, resigned due to extenuating circumstances. Richard Broderick, district curriculum coordinator, was employed as interim superintendent. As of April 1, 2004 his appointment as superintendent became official.

The Board members of the district continue to be extremely concerned about the school funding issues. A legislative liaison committee comprised of Board Members, and the County Superintendent meet on a monthly basis. The Local Superintendents and Treasurers meet with the local legislators on a monthly basis. They continually work toward goals to raise awareness regarding the school funding crisis in the State of Ohio.

In conclusion, the Northeastern Local School District has committed itself to financial excellence for many years. The School District's system of financial planning, budgeting, and internal financial controls are highly regarded. It becomes increasingly difficult to deliver an excellent education with the tight economic times, and the continual eroding of the personal property tax base in the district. However, we have faith that our students will become a top priority with the legislature and their ongoing school funding issues. The School District plans to continue its sound fiscal management to meet the challenges of the future.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Denise D. Schneider, Chief Fiscal Officer at Northeastern Local School District, 1414 Bowman Road, Springfield, Ohio 45502 or email at [ne\\_tres@mveca.org](mailto:ne_tres@mveca.org).

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**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2004**

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$3,984,980
Cash and Cash Equivalents in Segregated Accounts	4,000
Cash and Cash Equivalents with Fiscal Agents	11,764
Materials and Supplies Inventory	103,218
Accounts Receivable	14,552
Intergovernmental Receivable	152,030
Prepaid Items	23,330
Property Taxes Receivable	12,824,882
Revenue in Lieu of Taxes Receivable	5,000
Capital Assets, net	17,841,368
 Total Assets	 34,965,124
 <b>Liabilities and Fund Balances</b>	
<b>Liabilities:</b>	
Accounts Payable	162,106
Accrued Wages	2,238,406
Intergovernmental Payable	797,868
Matured Bonds Payable	10,000
Matured Interest Payable	1,764
Accrued Interest Payable	28,830
Accrued Vacation Leave Payable	59,560
Deferred Revenue	9,343,464
Compensated Absences Payable	336,004
Long-Term Liabilities:	
Due Within One Year	636,373
Due in More Than One Year	7,759,958
	7,759,958
 Total Liabilities	 21,374,333
 <b>Net Assets:</b>	
Invested in Capital Assets, Net of Related Debt	10,919,032
Restricted for Debt Service	916,783
Restricted for Capital Outlay	2,161,169
Restricted for Other Purposes	181,064
Unrestricted (Deficit)	(587,257)
 Total Net Assets	 \$13,590,791

*See accompanying notes to the basic financial statements*

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

	<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Assets</b>
<b>Expenses</b>	<b>Charges for Services and Sales</b>	<b>Operating Grants and Contributions</b>	<b>Governmental Activities</b>
<b>Governmental Activities:</b>			
Instruction:			
Regular	\$12,134,796	\$1,357,802	\$56,464
Special	2,326,743		471,719
Vocational	580,610		(1,855,024)
Other	22,984		(580,610)
Other			(22,984)
Support Services:			
Pupils	1,344,003		30,179
Instructional Staff	1,390,769		164,826
Board of Education	(6,800)		6,800
Administration	2,519,132		105,253
Fiscal	623,530		3,642
Operation and Maintenance of Plant	2,368,785		12,844
Pupil Transportation	1,726,123		25,057
Operation of Non-Instructional Services	1,462,532	878,037	409,310
Extracurricular Activities	783,192	172,843	7,646
Interest and Fiscal Charges	370,881		
Total Governmental Activities	<u>\$27,647,280</u>	<u>\$2,408,682</u>	<u>\$1,286,940</u>
<b>General Revenues</b>			
Grants and Entitlements not Restricted to Specific Programs			12,556,458
Gifts and Donations			52,384
Investment Earnings			16,716
Payments in Lieu of Taxes			10,000
Miscellaneous			26,663
<b>Revenues</b>			
Property and Other Local Taxes			13,569,298
Rent			340
Proceeds from Sale of Fixed Assets			551
Total General Revenues and Property and Other Local Taxes			<u>26,232,410</u>
Change in Net Assets			2,280,752
Net Assets Beginning of Year			11,310,039
Net Assets End of Year			<u>\$13,590,791</u>

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004**

	<u>General Fund</u>	<u>Permanent Improvement</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$841,017	\$1,867,212	\$1,276,751	\$3,984,980
Cash and Cash Equivalents in Segregated Accounts			4,000	4,000
Cash and Cash Equivalents with Fiscal Agents			11,764	11,764
Materials and Supplies Inventory	85,941		12,022	97,963
Accounts Receivable	14,552			14,552
Interfund Receivable	1,924			1,924
Intergovernmental Receivable	65,664		86,366	152,030
Prepaid Items	23,330			23,330
Property Taxes Receivable	11,450,279	793,733	580,870	12,824,882
Revenue in Lieu of Taxes Receivable	5,000			5,000
<i>Total Assets</i>	<u>12,487,707</u>	<u>2,660,945</u>	<u>1,971,773</u>	<u>17,120,425</u>
<b>LIABILITIES:</b>				
Current Liabilities:				
Accounts Payable	94,154	53,905	14,047	162,106
Accrued Wages	2,089,790		148,616	2,238,406
Interfund Payable			1,924	1,924
Intergovernmental Payable	468,016		32,840	500,856
Matured Bonds Payable			10,000	10,000
Matured Interest Payable			1,764	1,764
Deferred Revenue	9,174,906	561,602	505,427	10,241,935
Compensated Absences Payable	327,929		8,075	336,004
<i>Total Liabilities</i>	<u>12,154,795</u>	<u>615,507</u>	<u>722,693</u>	<u>13,492,995</u>
<b>FUND BALANCES:</b>				
Reserved:				
Reserved for Encumbrances	200,887	427,656	70,016	698,559
Reserved for Inventory	85,941		12,022	97,963
Reserved for Property Taxes	2,330,281	232,131	75,443	2,637,855
Unreserved, Designated:				
Designated for Capital Acquisitions	109,406			109,406
Unreserved, Undesignated, Reported in:				
General Fund (Deficit)	(2,393,603)			(2,393,603)
Special Revenue Funds			274,337	274,337
Debt Service Funds			817,214	817,214
Capital Projects Funds (Deficit)		1,385,651	48	1,385,699
<i>Total Fund Balances</i>	<u>332,912</u>	<u>2,045,438</u>	<u>1,249,080</u>	<u>3,627,430</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$12,487,707</u>	<u>\$2,660,945</u>	<u>\$1,971,773</u>	<u>\$17,120,425</u>

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

Total Governmental Fund Balances		\$3,627,430
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p>		
Land	\$268,349	
Depreciable capital assets	31,569,608	
Accumulated depreciation	<u>(13,996,589)</u>	
Total capital assets		17,841,368
<p>Other long-term assets are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds:</p>		
Property Taxes	843,563	
Accounts Receivable	<u>54,908</u>	
		898,471
<p>Federal donated commodities are not reported in the funds.</p>		
		5,253
<p>Intergovernmental Payable includes contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.</p>		
		(297,012)
<p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.</p>		
		(28,830)
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>		
Bonds and notes payable	(6,780,000)	
Compensated absences	(1,533,553)	
Capital leases	<u>(142,336)</u>	
Total liabilities		<u>(8,455,889)</u>
Net Assets of Governmental Activities		<u><u>\$13,590,791</u></u>

*See accompanying notes to the basic financial statements.*

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

	<u>General Fund</u>	<u>Permanent Improvement</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>				
Property and Other Local Taxes	\$11,043,728	\$1,504,498	\$513,598	\$13,061,824
Intergovernmental	12,347,443	156,488	1,363,117	13,867,048
Interest	16,560		959	17,519
Tuition and Fees	1,238,329			1,238,329
Rent	340			340
Extracurricular Activities			221,040	221,040
Gifts and Donations			54,898	54,898
Customer Sales and Services			878,037	878,037
Payments in Lieu of Taxes	10,000			10,000
Miscellaneous	26,663		25,535	52,198
<i>Total Revenues</i>	<u>24,683,063</u>	<u>1,660,986</u>	<u>3,057,184</u>	<u>29,401,233</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	11,616,457	167,405	149,628	11,933,490
Special	1,822,183		475,877	2,298,060
Vocational	561,380			561,380
Other	22,984			22,984
Support Services:				
Pupils	1,287,870		30,875	1,318,745
Instructional Staff	1,154,275		188,297	1,342,572
Board of Education	69,897			69,897
Administration	2,275,422	139	103,297	2,378,858
Fiscal	576,632	25,711	11,897	614,240
Operation and Maintenance of Plant	2,295,792	36,517	20,437	2,352,746
Pupil Transportation	1,377,052	326,176	2	1,703,230
Operation of Non-Instructional Services	126		1,346,052	1,346,178
Extracurricular Activities	553,838		209,539	763,377
Capital Outlay	233,355	463,773		697,128
Debt Service:				
Principal	230,000	102,841	150,000	482,841
Interest	115,137		257,433	372,570
<i>Total Expenditures</i>	<u>24,192,400</u>	<u>1,122,562</u>	<u>2,943,334</u>	<u>28,258,296</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>490,663</u>	<u>538,424</u>	<u>113,850</u>	<u>1,142,937</u>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Transfers In			16,489	16,489
Proceeds from Sale of Fixed Assets	551			551
Transfers Out			(16,489)	(16,489)
<i>Total Other Financing Sources and Uses</i>	<u>551</u>			<u>551</u>
<i>Net Change in Fund Balances</i>	491,214	538,424	113,850	1,143,488
Fund Balance (Deficit) at Beginning of Year	(169,452)	1,507,014	1,136,480	2,474,042
Increase in Reserve for Inventory	11,150		(1,250)	9,900
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$332,912</u>	<u>\$2,045,438</u>	<u>\$1,249,080</u>	<u>\$3,627,430</u>

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Net Change in Fund Balances - Total Governmental Funds		\$1,143,488
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:</p>		
Fixed Asset Additions	1,187,936	
Current Year Depreciation	(742,640)	
Fixed Asset Deletions	<u>(107,814)</u>	
		337,482
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Property Taxes	507,474	
Grants	(26,967)	
Tuition and Fees	<u>45,741</u>	
		526,248
<p>Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consisted of:</p>		
Bond principal retirement	380,000	
Capital lease payments	<u>102,841</u>	
Total long-term debt repayment		482,841
<p>In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.</p>		
		1,689
<p>Donated commodities received (\$40,252) and used (\$43,478) are not recognized in the funds.</p>		
		(3,226)
<p>Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:</p>		
Compensated Absences	(114,546)	
Intergovernmental Payable	(103,124)	
Change in Inventory	<u>9,900</u>	
Total additional expenditures		<u>(207,770)</u>
Change in Net Assets of Governmental Activities		<u><u>\$2,280,752</u></u>

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
Property and Other Local Taxes	\$9,015,387	\$9,286,734	\$9,286,734	
Intergovernmental	12,054,522	12,356,045	12,356,045	
Interest	16,167	16,571	16,571	
Tuition and Fees	1,237,596	1,268,538	1,268,538	
Rent	332	340	340	
Gifts and Donations	372	381	381	
Customer Sales and Services	10,459	10,721	10,721	
Payments in Lieu of Taxes	9,756	10,000	10,000	
Miscellaneous	22,620	23,187	23,187	
<b>Total Revenues</b>	<u>22,367,211</u>	<u>22,972,517</u>	<u>22,972,517</u>	
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	10,344,384	11,539,819	11,539,819	
Special	1,834,296	1,862,501	1,862,501	
Vocational	558,175	577,714	577,714	
Other	37,950	32,420	32,420	
<b>Support Services:</b>				
Pupils	1,234,050	1,287,062	1,287,062	
Instructional Staff	1,100,357	1,149,416	1,149,416	
Board of Education	52,587	72,647	72,647	
Administration	1,989,762	2,323,727	2,323,727	
Fiscal	586,164	585,471	585,471	
Operation and Maintenance of Plant	2,246,861	2,454,511	2,454,511	
Pupil Transportation	1,314,108	1,406,296	1,406,296	
Operation of Non-Instructional Services	90	126	126	
Extracurricular Activities	482,058	566,334	566,334	
Capital Outlay	331,188	238,640	238,640	
<b>Debt Service:</b>				
Principal	230,000	230,000	230,000	
Interest and Fiscal Charges	108,790	108,790	108,790	
<b>Total Expenditures</b>	<u>22,450,820</u>	<u>24,435,474</u>	<u>24,435,474</u>	
<b>Excess of Revenues Under Expenditures</b>	<u>(83,609)</u>	<u>(1,462,957)</u>	<u>(1,462,957)</u>	
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Fixed Assets	538	551	551	
Refund of Prior Year Expenditures	203	208	208	
Advances In		45,322	45,322	
Advances Out	(54,421)	(1,924)	(1,924)	
<b>Total Other Financing Sources (Uses)</b>	<u>(53,680)</u>	<u>44,157</u>	<u>44,157</u>	
<b>Net Change in Fund Balances</b>	<u>(137,289)</u>	<u>(1,418,800)</u>	<u>(1,418,800)</u>	
<b>Fund Balance at Beginning of Year</b>	<u>1,521,562</u>	<u>1,521,562</u>	<u>1,521,562</u>	
<b>Prior Year Encumbrances Appropriated</b>	<u>459,139</u>	<u>459,139</u>	<u>459,139</u>	
<b>Fund Balance at End of Year</b>	<u>\$1,843,412</u>	<u>\$561,901</u>	<u>\$561,901</u>	

*See accompanying notes to the basic financial statements*

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004**

	<b>Private Purpose Trust</b>	<b>Agency</b>
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$4,495	\$109,424
Investments		
In Segregated Accounts	10,000	
Receivables:		
Accrued Interest	10	
<i>Total Assets</i>	14,505	109,424
<b>Liabilities</b>		
Due to Students		\$109,424
<b>Net Assets</b>		
Held in Trust for Scholarships	\$14,505	

*See accompanying notes to the basic financial statements.*



**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>Private Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions</b>	
Gifts and Contributions	\$1,200
Interest	134
	1,334
<b>Total Additions</b>	<b>1,334</b>
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	1,250
	1,250
<b>Total Deductions</b>	<b>1,250</b>
Change in Net Assets	84
Net Assets Beginning of Year	14,421
	14,421
Net Assets End of Year	<b>\$14,505</b>

*See accompanying notes to the basic financial statements.*

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**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Northeastern Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and/or federal guidelines.

The School District was established in 1916 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 135 square miles. It is located in Clark County, and includes the Villages of South Vienna and Catawba, and the Townships of Moorefield, Pleasant, and Harmony.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Northeastern Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

The School District participates in the Miami Valley Educational Computer Association (MVECA), Springfield/Clark County Joint Vocational School, and the Southwestern Ohio Educational Purchasing Council (SOEPC) which are defined as jointly governed organizations, and the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), which is defined as an insurance purchasing pool. These organizations are presented in Note 16 to the basic financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Northeastern Local School District have been prepared in conformity with generally accepted accounting principles (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 School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund, provided they do not conflict with or contradict GASB pronouncements. The most significant of the School District's accounting policies are described below.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis of Presentation**

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**1. Government-wide Financial Statements:**

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

**2. Fund Financial Statements:**

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

**B. Fund Accounting**

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

**1. 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 School District's major governmental funds:

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**Permanent Improvement Capital Projects Fund** - The permanent improvement capital projects fund accounts for a property tax levy to be used for the acquisition, construction, or improvement of capital facilities other than those financed by the private purpose trust fund.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

**2. Fiduciary Fund Types:**

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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust which accounts for a scholarship program for students. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The School District's agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program. This fund typically includes student activities which consists of a student body, student president, student treasurer, and faculty advisor.

**C. Measurement Focus**

**1. Government-wide Financial Statements:**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the Statement of Net Assets.

**2. Fund Financial Statements:**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is reported using the economic resources measurement focus.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**1. Revenues - Exchange and Non-exchange Transactions:**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property 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 School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, and student fees.

**2. Deferred Revenue:**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Expenses/Expenditures:**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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.

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. Allocations of cost, such as depreciation and amortization are not recognized in governmental funds.

**E. Budgetary Data**

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The Treasurer is authorized to further allocate appropriations to the function and object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate that was in effect at the time the final appropriations were passed by the Board of Education. Prior to fiscal year-end, the School District requested an amended certificate of estimated resources that reflects actual revenue for the fiscal year.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet. The School District utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented on the financial statements as "Cash and Cash Equivalents with Fiscal Agents" and represents deposits. The School District has segregated bank accounts for monies held separate from the School District's central bank account. These interest bearing depository accounts are presented in the combined balance sheet as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the School District treasury.

During fiscal year 2004, investments were limited to certificates of deposit, which are reported at cost.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$16,560, which includes \$9,829 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

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

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

**I. Capital Assets**

General capital assets 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.



**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars. The School District does not possess any infrastructure. 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.

All reported capital assets except for 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:

Description	Estimated Lives
Land Improvements	10-99 years
Buildings and Improvements	50-100 years
Furniture and Equipment	5-50 years
Vehicles	20 years

**J. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

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

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the funds from which the employees will be paid.

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

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

In general, 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 governmental 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 fiscal year. General obligation bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**L. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists 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 School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**M. Fund Balance Reserves**

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventory of supplies and materials, and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

**N. Fund Designations**

Fund balance designations are established to indicate tentative planned expenditures of financial resources. The designations reflect the School district's intentions and are subject to change. Designations are reported as part of unreserved fund balance. The designations represent monies set-aside for capital acquisition, as approved by the Board.

**O. 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 financial statements.

**P. 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 2004.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Q. Estimates**

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

**3. CHANGE IN ACCOUNTING PRICIPLE**

For fiscal year 2004, the School District has implemented GASB statement No. 40, "Deposit and Investment Risk Disclosures." The implementation of this statement did not have any effect on the financial statements of the District, however additional note disclosure can be found in Note 5.

**4. BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual 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 GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the fund liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

<b>Net Change in Fund Balance</b>	
GAAP Basis	\$491,214
Net Adjustment for Revenue Accruals	(1,710,352)
Net Adjustment for Expenditure Accruals	37,432
Unrecorded Cash	14
Advances	43,398
Prepays	(1,393)
Adjustment for Encumbrances	(279,113)
Budget Basis	<u><u>(\$1,418,800)</u></u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**5. DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

Protection of the School 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 are 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);

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**5. DEPOSITS AND INVESTMENTS (Continued)**

7. Certain bankers' acceptances 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 rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash on Hand:**

At year end, the School District had \$4,000 in undeposited cash on hand which is included on the financial statements of the School District as part of "Equity in Pooled Cash and Cash Equivalents."

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

**B. Deposits:**

At year-end, the carrying amount of the School District's deposits was \$4,120,663 and the bank balance was \$5,668,225. \$111,764 of the bank balance was covered by federal depository insurance and \$5,556,461 considered uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

**C. Interest Rate Risk:**

The District's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**5. DEPOSITS AND INVESTMENTS (Continued)**

	<b>Cash and Cash Equivalents/ Deposits</b>	<b>Investments</b>
GASB Statement 9	\$4,114,663	\$10,000
Cash on Hand	(4,000)	0
Investments:		
Certificates of Deposit	10,000	(10,000)
GASB Statement 3	\$4,120,663	\$0

**6. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School 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 located in the School District. Property tax revenue received during calendar 2004 for real and public utility property taxes represents collections of calendar 2003 taxes. Property tax payments received during calendar 2004 for tangible personal property (other than public utility property) are for calendar 2004 taxes.

2004 real property taxes are levied after April 1, 2003, on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

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

2004 tangible personal property taxes are levied after April 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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 School District prior to June 30.

The assessed values upon which the fiscal year 2004 taxes were collected are:

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**6. PROPERTY TAXES (Continued)**

	<b>2003 Second - Half Collections</b>		<b>2004 First - Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$346,022,150	84.94%	\$359,025,760	87.39%
Public Utility Personal	15,660,340	3.84	14,184,640	3.45
Tangible Personal Property	45,712,632	11.22	37,607,779	9.16
<b>Total</b>	<b><u>\$407,395,122</u></b>	<b><u>100.00%</u></b>	<b><u>\$410,818,179</u></b>	<b><u>100.00%</u></b>
Tax Rate per \$1,000 of Assessed Valuation	\$45.64		\$45.44	

The School District receives property taxes from Clark County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The School District voters passed a four-year permanent improvement levy in March of 2001 for collection 2002 through 2005. This levy at 4.0 mills generates approximately \$1,436,000 in property tax revenue per year.

Accrued property taxes receivable represent delinquent taxes outstanding, and real property, personal property and public utility taxes which are measurable as of June 30, 2004, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue. At June 30, 2004, \$2,330,281 was available as an advance to the general fund, \$232,131 in the permanent improvement fund and \$75,443 in the non-major governmental funds.

**7. RECEIVABLES**

Receivables at June 30, 2004, consisted of property taxes, accounts (tuition and student fees), intergovernmental grants and interest. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

Governmental Activities:	
Tuition Costs	\$62,569
Regional Transportation Costs FY 03	3,095
Title VI-B	49,478
Title I Grant	36,239
Drug Free Grant	649
<b>Total Intergovernmental Receivables</b>	<b><u>\$152,030</u></b>

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**8. CAPITAL ASSETS**

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

	<u>Balance 6/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/04</u>
Governmental Activities				
<i>Capital Asset, not being depreciated:</i>				
Land	\$268,349	\$0	\$0	\$268,349
<i>Total Capital Assets, not being depreciated</i>	<u>268,349</u>	<u>0</u>	<u>0</u>	<u>268,349</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	543,760	19,080	0	562,840
Buildings and Improvements	25,706,725	604,428	0	26,311,153
Furniture and Equipment	3,058,416	238,488	111,047	3,185,857
Vehicles	1,505,159	325,940	321,341	1,509,758
<i>Total Capital Assets, being depreciated</i>	<u>30,814,060</u>	<u>1,187,936</u>	<u>432,388</u>	<u>31,569,608</u>
Less Accumulated Depreciation:				
Land Improvements	(375,573)	(5,091)	0	(380,664)
Buildings and Improvements	(10,916,234)	(458,600)	0	(11,374,834)
Furniture and Equipment	(1,522,318)	(206,164)	70,758	(1,657,724)
Vehicles	(764,398)	(72,785)	253,816	(583,367)
Total Accumulated Depreciation	<u>(13,578,523)</u>	<u>(742,640)</u>	<u>324,574</u>	<u>(13,996,589)</u>
Total Capital Assets being depreciated, net	<u>17,235,537</u>	<u>445,296</u>	<u>107,814</u>	<u>17,573,019</u>
Governmental Activities Capital Assets, Net	<u>\$17,503,886</u>	<u>\$445,296</u>	<u>\$107,814</u>	<u>\$17,841,368</u>

\*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$347,103
Special	48,624
Vocational	25,754
Support Services:	
Pupil	31,314
Instructional Staff	62,502
Administration	52,803
Fiscal	3,936
Operation and Maintenance of Plant	11,791
Pupil Transportation	75,613
Operation of Non-Instructional Services	44,166
Extracurricular Activities	39,034
Total Depreciation Expense	<u>\$742,640</u>



**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**9. RISK MANAGEMENT**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft or, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with the Southwestern Ohio Educational Purchasing Council for property and fleet insurance, liability insurance, crime, terrorism, and automobile coverage. Coverage provided through this Council is as follows:

Building and Contents - replacement cost; including Boiler and Machinery	\$50,000,000
Certified Acts of Terrorism	510,583
Automobile Liability (\$0 deductible)	1,000,000
Uninsured Motorists (\$0 deductible)	1,000,000
General Liability	
Per Occurrence	1,000,000
Total Per Year	3,000,000

Settled claims have not exceeded this commercial coverage in the past three years. There has been no significant reduction in insurance coverage from last year.

**B. Workers' Compensation**

For fiscal year 2004, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. 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 GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP 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 GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Incorporated provides administrative, cost control, and actuarial services to the GRP.

**10. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School 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. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**10. DEFINED BENEFIT PENSION PLANS (Continued)**

Plan members are required to contribute 10 percent of their annual covered salary and the Northeastern Local School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to cover health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS's Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$419,310, \$377,426, and \$220,050, respectively; 50 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$209,636 represents the unpaid contribution for fiscal year 2003.

**B. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**10. DEFINED BENEFIT PENSION PLANS (Continued)**

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salaries. Northeastern Local School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,626,066, \$1,602,019, and \$1,071,935, respectively; 83.34 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. \$270,887 representing the unpaid contribution for fiscal year 2004.

**11. POSTEMPLOYMENT BENEFITS**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefits 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 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS board currently allocates employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$12,400 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003.

In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including surcharge, during the 2004 fiscal year equaled \$308,256.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**11. POSTEMPLOYMENT BENEFITS (Continued)**

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**12. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 225 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, unused sick leave up to the maximum of 225 days. Administrators retiring in fiscal year 2004 were eligible to receive payment of 40 percent of accrued, unused sick leave up to the maximum of 225 days.

**B. Insurance Benefits**

The School District provides life insurance to most employees through Medical Life Insurance. Medical/surgical is offered to employees through EPC Insurance Consortium.

**C. Special Termination Benefit**

The School District offered a special termination benefit plan during fiscal year 2004. To participate in the plan, an employee must opt for this program the first time they are eligible to retire with 30 years of experience, or the first year eligible according to STRS. The special termination benefit amount is \$20,000, payable over the next three years after retirement in three equal payments beginning on June 1, 2004, and ending June 1, 2006. For the School District, the liability as of June 30, 2004 is \$206,270.

**13. CAPITAL LEASES - LESSEE DISCLOSURE**

The School District has entered into a capital lease for fitness equipment for the two high schools. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the general purpose financial statements for governmental funds. The equipment acquired by the lessee is included in governmental activities general capital assets in the amount of \$173,130. This amount is not equal to the present value of the future minimum lease payments at the time of acquisition due to items purchased that weren't capitalized. A corresponding liability is included in governmental activities general long term debt. Principal payments in fiscal year 2004 totaled \$102,841. Future minimum lease payments are as follows:

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**13. CAPITAL LEASES - LESSEE DISCLOSURE (Continued)**

Year	Amount
2005	\$109,188
2006	36,396
Total	145,584
Less: Amount Representing Interest	(3,248)
Present Value of Net Minimum Lease Payments	\$142,336

In April 2004, the National School Fitness Foundation became the subject of an investigation by the Attorney General of the State of Minnesota and thus defaulted on their lease agreements. The Board of Education passed a resolution permitting the remaining principal payments to be made out of the Permanent Improvement fund and the interest payments to be made out of the General fund.

**14. LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during fiscal year 2004 were as follows:

	Amount Outstanding June 30, 2003	Additions	Deductions	Amount Outstanding June 30, 2004	Amounts Due Within One Year
Governmental Activities:					
General Obligation Bonds:					
1996 Building Issue					
5.125 to 6%	\$4,680,000	\$0	\$150,000	\$4,530,000	\$165,000
Energy Conservation Bonds:					
4.6% 10 years	2,480,000	0	230,000	2,250,000	240,000
Capital Lease	245,177	0	102,841	142,336	36,155
Compensated Absences	1,419,007	195,388	140,400	1,473,995	195,218
Total Governmental Activities					
Long-Term Liabilities	\$8,824,184	\$195,388	\$623,241	\$8,396,331	\$636,373

**1996 General Obligation Bonds** - On March 1, 1996, Northeastern Local School District issued \$5,300,000 in voted general obligation bonds for the purpose of an addition and improvement to the District's buildings.

The bonds were issued for a twenty-two year period with final maturity at December 1, 2018. The bonds will be retired from the debt service fund.

**2001 Energy Conservation Bonds** - On July 12, 2001, the School District issued \$2,700,000 in Energy Conservation Bonds pursuant to House Bill 264 for the purpose of acquiring, constructing, and installing energy conservation measures. These bonds are at an interest rate of 4.6% and are payable over 10 years, starting in fiscal year 2003.

The capital lease obligation will now be paid from the general fund and capital improvement fund, due to the default of the lease agreement by the National School Fitness Foundation.

Compensated absences will be paid from the fund from which the employees' salaries are paid.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**14. LONG-TERM OBLIGATIONS (Continued)**

The School District's overall legal debt margin was \$33,260,850, with an unvoted debt margin of \$410,818, and an energy conservation debt margin of (\$1,917,237) at June 30, 2003.

Principal and interest requirements to retire general obligation and energy conservation debt outstanding at June 30, 2004, are as follows:

<u>Fiscal year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$405,000	\$345,963	\$750,963
2006	430,000	324,343	754,343
2007	460,000	301,213	761,213
2008	495,000	277,270	772,270
2009	525,000	252,092	777,092
2010-2014	2,470,000	845,229	3,315,229
2015-2019	1,995,000	280,414	2,275,414
Total	<u>\$6,780,000</u>	<u>\$2,626,524</u>	<u>\$9,406,524</u>

**15. INTERFUND ASSETS/LIABILITIES AND TRANSFERS**

The general fund had an interfund receivable at June 30, 2004, of \$1,924, while all other nonmajor funds had interfund payables of \$1,924. General fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Restricted monies are used to reimburse the general fund for advancing monies to other funds due to timing differences in the receiving of grant monies. When the monies are finally received, the grant fund reimburses the general fund for the initial advance.

**16. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL**

**A. Jointly Governed Organizations**

**Miami Valley Educational Computer Association** - The School District is a participant in the Miami Valley Educational Computer System (MVECA), which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene and Highland Counties and Cities of Springfield, Wilmington, Washington Court House, Xenia and Hillsboro. 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 districts. The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The School District paid MVECA \$38,085 for services provided during the year. Financial information can be obtained from Norma Stuart, Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**16. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL (Continued)**

**Springfield/Clark County Joint Vocational School** - The Springfield/Clark County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected boards, which possess its own budgeting and taxing authority. One member is appointed from the following: Clark-Shawnee Local School District, Mad River-Green Local School District, Northeastern Local School District, Northwestern Local School District, Southeastern Local School District, Tecumseh Local School District, and the Clark County Educational Service Center. Two members are appointed from the Springfield City School District. The School District did not have any financial transactions with this organization for fiscal year 2004. To obtain financial information, write to the Springfield/Clark County Joint Vocational School, Pamela Ashbaugh, who serves as Treasurer, 1901 Selma Road, Springfield, Ohio 45505-4239.

**Southwestern Ohio Educational Purchasing Council** -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year 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 general fund. During fiscal year 2004, the School District paid \$1,712 to the SOEPC for membership and enrollment fees. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**B. Insurance Purchasing Pool**

**Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan** - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a fourteen member committee consisting of various GRP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**17. SET-ASIDE CALCULATIONS**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks, capital acquisition and budget stabilization. Disclosure of this information is required by State statute.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**17. SET-ASIDE CALCULATIONS (Continued)**

	<b>Textbooks</b>	<b>Capital Acquisition</b>
Set-aside Reserve Balance as of June 30, 2003	(\$133,303)	\$ 0
Current Year Set-aside Requirement	491,275	491,275
Additional Money Set-aside	0	109,406
Current Year Offsets	0	(1,305,790)
Qualifying Disbursements	(488,550)	(3,767,480)
Totals	(\$130,578)	(\$4,472,589)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$130,578)	\$ 109,406

The School District set-aside additional money in excess of statutory requirements for capital acquisitions. This amount is presented on the balance sheet as a designation of fund balance rather than as a reserve, and is not included in restricted assets. The \$109,406 represents the previous balance of the budget stabilization set-aside. This is kept in a separate account and may only be expended by Board resolution for acquisition, replacement, enhancement, maintenance, and repair of permanent improvements.

**18. CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure 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 general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

**B. Litigation**

The School District's attorney estimates that any potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

**19. 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 decision 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 School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.



**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

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

**20. SUBSEQUENT EVENT**

The Northeastern Local Board of Education passed an 6 Mil Operating Levy August 3, 2004, to commence January 2005.

**NORTHEASTERN LSD - CLARK COUNTY  
CLARK COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR YEAR ENDED JUNE 30, 2004**

Federal Grantor/Pass Through Grantor/Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
(Passed through Ohio Department of Education)						
<b>Nutrition Cluster:</b>						
Food Donation	N/A	10.550		\$84,641		\$79,386
National School Lunch Program	LLP4-03 LLP4-04	10.555	\$35,188 100,164		\$35,188 100,164	
Total National School Lunch Program			<u>135,352</u>		<u>135,352</u>	
Total US Department of Agriculture - Nutrition Cluster			<u>135,352</u>	<u>84,641</u>	<u>135,352</u>	<u>79,386</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>						
(Passed through Ohio Department of Education)						
Title I - Grants to Local Educational Agencies	C1S103 C1S104	84.010	35,396 186,296		36,562 178,789	
Total Title I - Grants to Local Educational Agencies			<u>221,692</u>		<u>215,351</u>	
Special Education Cluster:						
Special Education - Grants to State	6BSD03 6BSD04 6BSF03 6BSF04	84.027	14,000 25,509 67,963 345,852		16,694 23,610 68,621 323,382	
Total Special Ed - Grants to State			<u>453,324</u>		<u>432,307</u>	
Special Education - Preschool Grants	PGD702 PGS102 PGS104	84.173	3,600 2,577 18,368		3,470 2,577 18,368	
Total Special Ed - Preschool Grants			<u>24,545</u>		<u>24,415</u>	
Total Special Education Cluster			<u>477,869</u>		<u>456,722</u>	
Safe & Drug Free Schools & Communities State Grants	DRS103 DRS104	84.186	2,318 13,548		2,318 11,197	
Total Safe & Drug Free Schools			<u>15,866</u>		<u>13,515</u>	
Eisenhower Professional Development State Grants	MSS101 MSS102	84.281	(947)		2,907	
Total Eisenhower Prof. Dev.			<u>(947)</u>		<u>2,907</u>	
Innovative Education Program Strategies	C2S101 C2S103 C2S104	84.298	(4,554) 10,446 28,990		5,670 7,494 25,871	
Total Innovative Educ. Prog. Strategies			<u>34,882</u>		<u>39,035</u>	
Baldrige Deployment Grant		84.276			53	
Education Technology State Grants	TJS104	84.318	5,297		5,220	
Improving Teacher Quality State Grants	TRS103 TRS104	84.367	6,940 97,129		6,083 92,365	
Total Improving Teacher Quality			<u>104,069</u>		<u>98,448</u>	
Total US Department of Education			<u>858,728</u>		<u>831,251</u>	
<b>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</b>						
(Passed through State Library of Ohio)						
State Library Program	N/A	45.310			3,106	
<b>U.S. DEPARTMENT OF LAND MANAGEMENT</b>						
(Passed through Clark County Auditor)						
Payment in Lieu of Taxes	PL97-258	15.226	8,923			
<b>Total Federal Assistance</b>			<u>\$1,003,003</u>	<u>\$84,641</u>	<u>\$969,709</u>	<u>\$79,386</u>

The accompanying notes to this schedule are an integral part of this schedule.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR YEAR ENDED JUNE 30, 2004**

**NOTE A -- SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B -- NUTRITION CLUSTER**

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.

**NOTE C -- MATCHING REQUIREMENTS**

Certain federal programs require that the District contribute non-federal funds (matching funds) to support the federally-funded programs. The expenditure of non-federal funds is not included on the Schedule.

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Northeastern Local School District  
Clark County  
1414 Bowman Road  
Springfield, Ohio 45502

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Northeastern Local School District, Clark County, (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 22, 2004. 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.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect 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 we must report under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 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.

Northeastern Local School District  
Clark County  
Independent Accountants' Report on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 22, 2004



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Northeastern Local School District  
Clark County  
1414 Bowman Road  
Springfield, Ohio 45502

To the Board of Education:

#### Compliance

We have audited the compliance of Northeastern Local School District, Clark County, (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Northeastern Local School District, Clark County, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

#### Internal Control Over Compliance

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

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**Internal Control Over Compliance  
(Continued)**

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

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



**Betty Montgomery**  
Auditor of State

December 22, 2004



**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None





**Auditor of State  
Betty Montgomery**

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**NORTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK 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  
FEBRUARY 10, 2005**