



**Auditor of State
Betty Montgomery**

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Northeastern Local School District
Defiance County
05921 Domersville Road
Defiance, Ohio 43512-6703

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, Defiance 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, Defiance County, Ohio, as of June 30 2004, and the respective changes in financial position, where applicable, and the 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.

As described in Note 3, during the year ended June 30 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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.

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

Betty Montgomery
Auditor of State

February 16, 2005

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited**

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

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- In total, net assets increased \$401,222.
- General revenues accounted for \$9,102,597, or 87 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$1,352,258 or 13 percent of total revenues of \$10,454,855.
- The District's major funds include the General Fund and the Bond Retirement Debt Service Fund. The General Fund had \$8,594,132 in revenues and other financing sources and \$8,325,860 in expenditures and other financing uses. The General Fund's balance increased \$268,272 from the prior fiscal year. The Bond Retirement Debt Service Fund had \$664,589 in revenues and other financing sources and \$653,001 in expenditures. The Bond Retirement Debt Service Fund's balance increased \$11,588 from the prior fiscal year.
- The revenue generated from the Debt Service Fund is used to pay for the current portion of bonded debt.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds, with all other non-major funds presented in total in a single column.

For the District, the General Fund is by far the most significant fund. The General Fund and the Bond Retirement Debt Service Fund are the only major funds.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the District discloses a single type of activity:

Governmental Activities - All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund and the Bond Retirement Debt Service Fund.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using 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 District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2004. A comparative analysis is not provided because this is the first year for government-wide financial statements using the full accrual basis of accounting. An analysis will be provided in future years when prior year information is available.

Table 1
Net Assets
Governmental Activities

	2004
Assets:	
Current and Other Assets	\$ 10,262,389
Capital Assets, Net	9,102,856
<i>Total Assets</i>	19,365,245
 Liabilities:	
Current and Other Liabilities	6,963,037
Long-Term Liabilities	7,128,500
<i>Total Liabilities</i>	14,091,537
 Net Assets:	
Invested in Capital Assets, Net of Related Debt	1,738,591
Restricted	(238,462)
Unrestricted	3,773,579
<i>Total</i>	\$ 5,273,708

Table 2 reflects the changes in net assets for fiscal year 2004. This is the first year of implementation for GASB 34. Comparative figures are not available for fiscal year 2003. A comparative analysis will be provided in future years when prior year information is available.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

Table 2
Change in Net Assets
Governmental Activities

	2004
Revenues:	
Program Revenues:	
Charges for Services and Sales	\$ 972,820
Operating Grants, Contributions and Interest	379,438
<i>Total Program Revenues</i>	1,352,258
General Revenues:	
Property Taxes	5,447,351
Grants and Entitlements	2,881,720
Interest	46,657
Revenue in Lieu of Taxes	497,328
Gifts and Donations	8,950
Miscellaneous	220,591
<i>Total General Revenues</i>	9,102,597
<i>Total Revenues</i>	10,454,855
Expenses:	
Instruction	5,478,991
Support Services:	
Pupils	419,208
Instructional Staff	299,186
Board of Education	38,107
Administration	814,543
Fiscal	295,930
Operation and Maintenance of Plant	833,072
Pupil Transportation	431,169
Central	19,580
Non-Instructional	434,497
Extracurricular Activities	303,870
Capital Outlay	276,618
Interest and Fiscal Charges	408,862
<i>Total Expenses</i>	10,053,633
<i>Increase in Net Assets</i>	\$ 401,222

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements. Comparisons to 2003 have not been presented since they are not available.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

	Total Cost of Services 2004	Net Cost of Services 2004
	<u>2004</u>	<u>2004</u>
Instruction	\$ 5,478,991	\$ 4,599,203
Support Services:		
Pupils	419,208	419,208
Instructional Staff	299,186	289,348
Board of Education	38,107	38,107
Administration	814,543	814,543
Fiscal	295,930	295,930
Operation and Maintenance of Plant	833,072	833,072
Pupil Transportation	431,169	431,169
Central	19,580	19,580
Non-Instructional	434,497	156,842
Extracurricular Activities	303,870	118,893
Capital Outlay	276,618	276,618
Interest and Fiscal Charges	408,862	408,862
Total Expenses	<u>\$ 10,053,633</u>	<u>\$ 8,701,375</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 84 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 87 percent. The remaining 13 percent are derived from tuition and fees, specific grants, and donations.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental funds are the General Fund and the Bond Retirement Debt Service Fund. Total governmental funds had revenues of \$10,634,619 and expenditures of \$10,113,003. The General fund's net positive change of \$268,272 and the Bond Retirement's net positive change of \$11,588 were primarily attributed to an increase in property tax and intergovernmental revenues while expenditures remained approximately the same.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2004, the District amended its General Fund budget as needed.

Final expenditures were budgeted at \$9,237,127 while actual expenditures were \$8,487,707. The \$749,420 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the District had \$9,102,856 invested in capital assets (net of accumulated depreciation) for governmental activities.

For further information regarding the District's capital assets, see notes to the basic financial statements.

Debt

At June 30, 2004, the District had \$6,234,265 in school improvement general obligation bonds for building improvements. The bonds were issued for a twenty-six year period, with final maturity on December 1, 2026. The bonds are being retired through the Bond Retirement Debt Service Fund.

At June 30, 2004, the District had outstanding HB 264 energy conservation notes, in the amount of \$245,000. The final maturity is in fiscal year 2011. The bonds are being retired through the Bond Retirement Debt Service Fund.

At June 30, 2004, the District had outstanding a bond anticipatory note, in the amount of \$885,000. During the year, the District paid off a bond anticipatory note of \$1,050,000. The note matures yearly and is renewed by the District. The notes are being retired through the Capital Projects Fund.

At June 30, 2004, the District's overall legal debt margin was \$9,012,477, with an un-voted debt margin of \$169,408.

For further information regarding the District's debt, see the notes to the basic financial statements.

Current Issues

The Northeastern Local School District encompasses approximately 117 square miles in the northeastern corner of Defiance County. It is a rural community with approximately 12,000 residents. In addition to the agricultural base, the District has some industrial and commercial businesses that have contributed to the financial stability of the District.

The District is currently operating in the second year of the state biennium budget. 69 percent of District revenue sources are from local funds, 28 percent from state funds and the remaining 3 percent is from federal funds. The total expenditure per pupil was calculated at \$9,565.

The District has enjoyed steady growth in its tax base. Several new businesses have located in the District allowing it to continue to provide the educational opportunities to which the residents are accustomed. However, like all school districts in Ohio, the Northeastern Local School District will be faced with financial challenges such as changes to state funding, the long-term effects of public utility deregulation, and the reduction of personal property taxes on business inventory. A 9.9 mil-operating levy will be up for renewal in November 2006. This levy generates approximately \$1,356,000 annually.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2004
Unaudited
(Continued)**

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Sue Garmyn, Treasurer, Northeastern Local School District, 05921 Domersville Road, Defiance, Ohio 43512.

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Net Assets
June 30, 2004**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 4,488,485
Materials and Supplies Inventory	53,676
Accounts Receivable	81,776
Intergovernmental Receivable	69,298
Prepaid Items	2,247
Taxes Receivable	5,566,907
Non-Depreciable Capital Assets	159,717
Depreciable Capital Assets, net	<u>8,943,139</u>
<i>Total Assets</i>	<u>19,365,245</u>
 Liabilities	
Accounts Payable	58,050
Accrued Wages and Benefits	763,256
Intergovernmental Payable	184,571
Matured Compensated Absences Payable	50,853
Notes Payable	885,000
Deferred Revenue	5,021,307
Long-Term Liabilities:	
Due Within One Year	147,224
Due in More Than One Year	<u>6,981,276</u>
<i>Total Liabilities</i>	<u>14,091,537</u>
 Net Assets	
Invested in Capital Assets, Net of Related Debt	1,738,591
Restricted for Debt Service	101,571
Restricted for Other Purposes	205,855
Unrestricted	<u>3,227,691</u>
<i>Total Net Assets</i>	<u>\$ 5,273,708</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2004**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$ 4,176,528	\$ 513,692	\$ 60,363	\$ (3,602,473)
Special	834,879		305,733	(529,146)
Vocational	144,383			(144,383)
Other	323,201			(323,201)
Support Services:				
Pupils	419,208			(419,208)
Instructional Staff	299,186		9,838	(289,348)
Board of Education	38,107			(38,107)
Administration	814,543			(814,543)
Fiscal	295,930			(295,930)
Operation and Maintenance of Plant	833,072			(833,072)
Pupil Transportation	431,169			(431,169)
Central	19,580			(19,580)
Operation of Non-Instructional Services	434,497	274,151	3,504	(156,842)
Extracurricular Activities	303,870	184,977		(118,893)
Capital Outlay	276,618			(276,618)
Debt Service:				
Interest and Fiscal Charges	408,862			(408,862)
Totals	\$ 10,053,633	\$ 972,820	\$ 379,438	(8,701,375)

General Revenues:

Taxes:	
Property Taxes, Levied for General Purposes	4,822,216
Property Taxes, Levied for Capital Outlay	68,758
Property Taxes, Levied for Debt Service	556,377
Grants and Entitlements not Restricted to Specific Programs	2,881,720
Gifts and Donations	8,950
Revenue in Lieu of Taxes	497,328
Investment Earnings	46,657
Miscellaneous	220,591
Total General Revenues	9,102,597
<i>Change in Net Assets</i>	401,222
Net Assets Beginning of Year (See Note 3)	4,872,486
Net Assets End of Year	\$ 5,273,708

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2004**

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 4,002,254	\$ 57,671	\$ 428,560	\$ 4,488,485
Materials and Supplies Inventory	40,699		12,977	53,676
Accounts Receivable	1,319		80,457	81,776
Intergovernmental Receivable			69,298	69,298
Prepaid Items	2,247			2,247
Taxes Receivable	4,946,634	555,931	64,342	5,566,907
<i>Total Assets</i>	<u>\$ 8,993,153</u>	<u>\$ 613,602</u>	<u>\$ 655,634</u>	<u>\$ 10,262,389</u>
Liabilities				
Accounts Payable	\$ 55,431		\$ 2,619	\$ 58,050
Accrued Wages and Benefits	719,934		43,322	763,256
Intergovernmental Payable	115,728		5,584	121,312
Notes Payable			885,000	885,000
Matured Compensated Absences Payable	50,853			50,853
Deferred Revenue	4,595,634	\$ 512,031	104,409	5,212,074
<i>Total Liabilities</i>	<u>5,537,580</u>	<u>512,031</u>	<u>1,040,934</u>	<u>7,090,545</u>
Fund Balances				
Reserved for:				
Encumbrances	179,109		20,402	199,511
Inventory	40,699		12,977	53,676
Prepaid Items	2,247			2,247
Property Taxes	351,000	43,900	5,200	400,100
Unreserved, Undesignated, Reported in:				
General Fund	2,882,518			2,882,518
Special Revenue Funds			127,209	127,209
Debt Service Funds		57,671		57,671
Capital Projects Funds			(551,088)	(551,088)
<i>Total Fund Balances</i>	<u>3,455,573</u>	<u>101,571</u>	<u>(385,300)</u>	<u>3,171,844</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 8,993,153</u>	<u>\$ 613,602</u>	<u>\$ 655,634</u>	<u>\$ 10,262,389</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2004**

Total Governmental Fund Balances		\$ 3,171,844
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		9,102,856
Taxes Receivable that do not provide financial resources are not reported as revenues in governmental fund.		190,767
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(63,259)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	(6,479,265)	
Compensated Absences Payable	<u>(649,235)</u>	
		<u>(7,128,500)</u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$ 5,273,708</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004**

	General Fund	Bond Retirement Fund	All Other Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Local Taxes	\$ 4,777,131	\$ 556,377	\$ 68,758	\$ 5,402,266
Intergovernmental	2,697,360	49,224	497,761	3,244,345
Interest	46,657			46,657
Tuition and Fees	486,307		27,235	513,542
Rent	150			150
Extracurricular Activities			184,977	184,977
Gifts and Donations	5,250		3,700	8,950
Customer Sales and Services			274,151	274,151
Revenue in Lieu of Taxes	497,328			497,328
Miscellaneous	56,659		136,642	193,301
<i>Total Revenues</i>	<u>8,566,842</u>	<u>605,601</u>	<u>1,193,224</u>	<u>10,365,667</u>
Expenditures				
Current:				
Instruction:				
Regular	4,030,598		53,425	4,084,023
Special	607,475		224,745	832,220
Vocational	141,810			141,810
Other	323,201			323,201
Support Services:				
Pupils	351,646		85,059	436,705
Instructional Staff	260,967		19,777	280,744
Board of Education	40,686			40,686
Administration	749,949		43,496	793,445
Fiscal	277,742	12,350	2,208	292,300
Operation and Maintenance of Plant	831,706			831,706
Pupil Transportation	430,249			430,249
Central	13,924		5,656	19,580
Operation of Non-Instructional Services	4,699		395,764	400,463
Extracurricular Activities	152,430		122,330	274,760
Capital Outlay	47,779		166,019	213,798
Debt Service:				
Principal		97,958		97,958
Interest		362,030	15,663	377,693
<i>Total Expenditures</i>	<u>8,264,861</u>	<u>472,338</u>	<u>1,134,142</u>	<u>9,871,341</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>301,981</u>	<u>133,263</u>	<u>59,082</u>	<u>494,326</u>
Other Financing Sources and (Uses)				
Transfers In		58,988	182,674	241,662
Proceeds from Sale of Fixed Assets	27,290			27,290
Transfers Out	(60,999)	(180,663)		(241,662)
<i>Total Other Financing Sources and (Uses)</i>	<u>(33,709)</u>	<u>(121,675)</u>	<u>182,674</u>	<u>27,290</u>
<i>Net Change in Fund Balances</i>	<u>268,272</u>	<u>11,588</u>	<u>241,756</u>	<u>521,616</u>
Fund Balance (Deficit) at Beginning of Year (See Note 3)	3,187,301	89,983	(627,056)	2,650,228
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 3,455,573</u>	<u>\$ 101,571</u>	<u>\$ (385,300)</u>	<u>\$ 3,171,844</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004**

Net Change in Fund Balances - Total Governmental Funds \$ 521,616

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.

Capital Outlay - Depreciable Capital Assets	161,073	
Depreciation	<u>(381,728)</u>	
		(220,655)

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a loss on disposal of capital assets on the statement of activities.

Loss on Disposal of Capital Assets		(36,392)
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Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Intergovernmental	16,813	
Delinquent Property Taxes	<u>45,085</u>	
		61,898

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of activities.		98,000
---	--	--------

Interest charges reported on the statement of activities, that do not require the use of current financial resources, are not reported as expenditures in governmental funds.		(31,211)
---	--	----------

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(3,754)	
Compensated Absences Payable	<u>11,720</u>	
		<u>7,966</u>

<i>Change in Net Assets of Governmental Activities</i>		<u><u>\$ 401,222</u></u>
--	--	--------------------------

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual Comparison
General Fund
For the Fiscal Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues				
Property and Other Local Taxes	\$ 4,838,400	\$ 4,611,175	\$ 4,611,131	\$ (44)
Intergovernmental	2,561,100	2,696,919	2,697,538	619
Interest	70,000	46,500	46,657	157
Tuition and Fees	311,950	486,775	486,730	(45)
Rent	500	150	150	-
Revenue in Lieu of Taxes	497,328	497,328	497,328	-
Gifts and Donations	300	5,250	5,250	-
Miscellaneous	7,672	30,968	32,842	1,874
<i>Total Revenues</i>	<u>8,287,250</u>	<u>8,375,065</u>	<u>8,377,626</u>	<u>2,561</u>
Expenditures				
Current:				
Instruction:				
Regular	4,222,808	4,231,358	4,019,744	211,614
Special	553,275	654,575	603,328	51,247
Vocational	153,360	153,360	141,333	12,027
Adult/Continuing	1,175	1,175	-	1,175
Other	240,703	325,703	324,076	1,627
Support Services:				
Pupils	303,585	402,677	362,257	40,420
Instructional Staff	257,343	278,394	259,600	18,794
Board of Education	56,927	56,927	28,227	28,700
Administration	985,828	785,678	742,572	43,106
Fiscal	279,715	279,715	263,200	16,515
Operation and Maintenance of Plant	987,504	987,504	894,311	93,193
Pupil Transportation	600,438	601,457	527,696	73,761
Central	16,400	16,400	13,924	2,476
Operation of Non-Instructional Services	14,925	14,925	4,660	10,265
Extracurricular Activities	166,375	167,575	151,832	15,743
Capital Outlay	155,773	170,823	89,570	81,253
<i>Total Expenditures</i>	<u>8,996,134</u>	<u>9,128,246</u>	<u>8,426,330</u>	<u>701,916</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(708,884)</u>	<u>(753,181)</u>	<u>(48,704)</u>	<u>704,477</u>
Other Financing Sources and (Uses):				
Proceeds from Sale of Fixed Assets	500	27,290	27,290	-
Refund of Prior Year Expenditures	30,000	23,750	23,746	(4)
Advances In	-	2,624	2,624	-
Transfers Out	(64,000)	(64,000)	(61,377)	2,623
Refund of Prior Year Expenditures	(50,000)	(15,000)	-	15,000
Advances Out	(25,000)	(15,000)	-	15,000
Other Financing Uses	(50,000)	(14,881)	-	14,881
<i>Total Other Financing Sources and (Uses)</i>	<u>(158,500)</u>	<u>(55,217)</u>	<u>(7,717)</u>	<u>47,500</u>
<i>Net Change in Fund Balance</i>	<u>(867,384)</u>	<u>(808,398)</u>	<u>(56,421)</u>	<u>751,977</u>
Fund Balance at Beginning of Year	3,583,002	3,583,002	3,583,002	-
Prior Year Encumbrances Appropriated	250,935	250,935	250,935	-
<i>Fund Balance at End of Year</i>	<u>\$ 2,966,553</u>	<u>\$ 3,025,539</u>	<u>\$ 3,777,516</u>	<u>\$ 751,977</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 13,231	\$ 22,573
<i>Total Assets</i>	<u>13,231</u>	<u>22,573</u>
Liabilities		
Accounts Payable	1,350	
Undistributed Monies	-	22,573
<i>Total Liabilities</i>	<u>1,350</u>	<u>22,573</u>
Net Assets		
Held in Trust for Scholarships	11,881	-
<i>Total Net Assets</i>	<u>\$ 11,881</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2004**

	Private Purpose Trust
Additions	
Interest	\$ 217
Donations and gifts	250
<i>Total Additions</i>	<u>467</u>
Deductions	
Payments in Accordance with Trust Agreements	<u>1,850</u>
<i>Total Deductions</i>	<u>1,850</u>
<i>Change in Net Assets</i>	(1,383)
Net Assets Beginning of Year	<u>13,264</u>
<i>Net Assets End of Year</i>	<u><u>\$ 11,881</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE 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 District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Northeastern Local School District is a local school district as defined by §3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's three instructional/support facilities staffed by 54 non-certified and 84 certified full-time teaching personnel who provide services to 1,147 students and other community members.

The Reporting Entity

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

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

The District is associated with organizations, which are defined as jointly governed organizations and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Cisco Academy of Northwest Ohio, the Northwestern Ohio Educational Research Council, Inc., the Northern Buckeye Education Council's Employee Insurance Benefits Program, Northern Buckeye Education Council Workers' Compensation Group Rating Plan, and the Schools of Ohio Risk Sharing Authority. These organizations are presented in Notes 15 and 16 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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 District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the District's accounting policies.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

A. Basis of Presentation

The 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.

Government-wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function program of the 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 and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain 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 District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus 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 General Fund and the Bond Retirement Funds are the District's major governmental funds:

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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

Bond Retirement Fund – The Bond Retirement is used to account for property tax revenues and transfers from the General fund to pay principal and related interest on the District's elementary general obligation bonds, energy conservation loans, and energy conservation bonds.

The other governmental funds of the District account for grants and other resources, and capital projects of the District whose uses are restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary funds of the District consist of a private-purpose trust fund and Agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. The District's private purpose trust funds account for programs that provide college scholarships to students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the Statement of Net Assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) of total net assets.

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 accounted for using a flow of economic resources measurement focus.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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

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. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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 been reported as deferred revenue.

Expenditures/Expenses

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

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 Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of 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 amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The primary level of budgetary control is at the object level within the General Fund and the fund level for all other funds. Any budgetary modifications at this level may only be made by the Board of Education.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

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

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2004, investments were limited to STAR Ohio.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$46,657.

For presentation of the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. 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. The cost of inventory items is recorded as an expenditure when purchased.

H. Capital Assets

General capital assets are those assets not specifically related to activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District's capitalization threshold is two thousand dollars. The 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 capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 30 years
Buildings and Building Improvements	30 - 50 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets, except for any net residual amounts due between governmental activities, which are presented as internal balances.

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 District will compensate the employees for the benefits through paid time off or some other means.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

The 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 vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

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 District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

M. Prepaid Items

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

N. Fund Balance Reserves

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

O. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities and within business type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances."

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. Estimates

The preparation of 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.

Q. Pass-Through Grants

The Handicapped Preschool special revenue fund is a pass-through grant in which the Northwest Ohio Educational Service Center is the primary recipient. In accordance with GASB Statement 24 "Accounting and Financial Reporting of Certain Grants and Other Financial Assistance" the secondary recipients should report monies spent on their behalf by the primary recipient as revenue and operating expenses.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

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

GASB Statement No. 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type.

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

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The District restated the fund liability of compensated absences that had not matured during fiscal year 2003.

B. Restatement of Fund Balance

The restatements for fund classifications, GASB Statement No. 34, and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the District as they were previously reported.

The transition from governmental fund balance to net assets of the governmental activities is also presented.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

	General	Bond Retirement Fund	Nonmajor Governmental Funds	Total Governmental Activities
Fund Balance June 30, 2003	\$ 3,173,206	\$ 89,983	\$ (676,251)	\$ 2,586,938
GASB Statement 34 Adjustment:				
Change in Fund Structure - Enterprise			44,632	44,632
Interpretation 6 Adjustments:				
Compensated Absences Payable	14,095		4,563	18,658
Adjusted Fund Balance	\$ 3,187,301	\$ 89,983	\$ (627,056)	2,650,228
GASB 34 Adjustments:				
Deferred Revenue				128,869
Capital Assets				9,359,903
Long-Term Liabilities				(7,266,514)
Governmental Activities Net Assets at June 30, 2003				\$ 4,872,486
				Business-Type Activities
The restatement of the business-type activity:				
Fund Equity at June 30, 2003				\$251,936
GASB Statement No. 34 Adjustment:				
Changes in Fund Structure				(251,936)
Business Activities Adjusted Net Assets at June 30, 2003				\$ -

4. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances 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 Balance – 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 fund financial statements are the following:

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Net Change in Fund Balance Major Governmental Fund	
	General
GAAP Basis	\$ 268,272
Increase (Decrease) Due To:	
Revenue Accruals:	
Accrued FY 2003, Received In Cash FY 2004	186,860
Accrued FY 2004, Not Yet Received in Cash	(376,076)
Expenditure Accruals:	
Accrued FY 2003, Paid in Cash FY 2004	(836,120)
Accrued FY 2004, Not Yet Paid in Cash	922,746
Advances Net	2,624
Encumbrances Outstanding at Year End (Budget Basis)	(224,727)
Budget Basis	\$ (56,421)

5. DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of District's deposits is provided by the Federal Deposit Insurance Corporation, 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 may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal 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,

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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 any securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and to 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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio) and,
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

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

At fiscal year-end, the District had \$100 in undeposited cash on hand, which is included on the balance sheet of the District as part of "Equity in Pool 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 (including Repurchase Agreements) and Reverse Repurchase Agreements."

A. Deposits

At the year-end, the carrying amount of the District's deposits was \$2,059,378 and the bank balance was \$2,221,945. Of the bank balance:

1. \$128,273 was covered by Federal Depository Insurance; and
2. \$2,093,672 was collateralized by securities specifically pledged by the financial institution in the name of the District.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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B. Investments

The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at the year end. Category 1 includes investments that are insured and registered, or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the District's name.

Investments as of June 30, 2004 were as follows:

	<u>Carrying Value</u>	<u>Fair Value</u>
STAR Ohio	<u>\$ 2,464,811</u>	<u>\$ 2,464,811</u>

The State Treasurer's Investment Pool (STAR Ohio) is not a categorized investment because it is not evidenced by securities that exist in physical or book entry form.

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, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 4,524,289	\$ -
Cash on Hand	(100)	-
Investments:		
STAR Ohio	<u>(2,464,811)</u>	<u>2,464,811</u>
GASB Statement No. 3	<u>\$ 2,059,378</u>	<u>\$ 2,464,811</u>

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market 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

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by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2004 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes for 2004 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value. Amounts 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.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were 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, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2004 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2004, was \$351,000 in the General Fund, \$43,900 in the Debt Service Fund, and \$5,200 in the Capital Projects Fund. The amount available as an advance at June 30, 2003, was \$185,000 in the General Fund, \$26,000 in the Debt Service Fund, and \$2,800 in the Capital Projects Fund.

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

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$ 82,935,910	49%	\$ 85,990,160	51%
Industrial/Commercial	36,020,730	22%	33,423,930	20%
Public Utility	27,099,870	16%	21,951,168	13%
Tangible Personal	22,169,630	13%	28,042,990	16%
Total Assessed Value	<u>\$ 168,226,140</u>	<u>100%</u>	<u>\$ 169,408,248</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$ 48.84		\$ 48.84	

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
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7. RECEIVABLES

Receivables at June 30, 2004, consisted of property, accounts (rent and student fees), and intergovernmental. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Food Service	\$ 9,446
Title VI-B	
Title I	13,908
Title VI	4,619
Drug Free Schools	2,806
Title II-A	37,943
Miscellaneous Federal	576
Total Intergovernmental Receivables	\$ 69,298

8. CAPITAL ASSETS

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

	Balance at 06/30/03	Additions	Reductions	Balance at 06/30/04
Governmental Activities				
Nondepreciable Capital Assets:				
Land	\$ 195,366	\$ -	\$ 35,649	\$ 159,717
Total Nondepreciable Capital Assets	195,366	-	35,649	159,717
Depreciable Capital Assets				
Land Improvements	474,604	-	-	474,604
Buildings and Building Improvements	10,298,071	53,148	-	10,351,219
Furniture, Fixtures, and Equipment	799,572	26,801	48,359	778,014
Vehicles	1,007,443	81,124	39,957	1,048,610
Infrastructure	24,907	-	-	24,907
Total Depreciable Capital Assets	12,604,597	161,073	88,316	12,677,354
Less Accumulated Depreciation				
Land Improvements	28,502	23,196		51,698
Buildings and Building Improvements	2,239,231	257,499		2,496,730
Furniture, Fixtures, and Equipment	461,480	37,330	47,616	451,194
Vehicles	709,657	63,080	39,957	732,780
Infrastructure	1,190	623		1,813
Total Accumulated Depreciation	3,440,060	381,728	87,573	3,734,215
Depreciable Capital Assets, Net	9,164,537	(220,655)	743	8,943,139
Governmental Activities Capital Assets, Net	\$ 9,359,903	\$ (220,655)	\$ 36,392	\$ 9,102,856

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
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Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 151,176
Special	13,525
Vocational	3,051
Support Services:	
Pupil	5,881
Instructional Staff	11,798
Administration	11,312
Fiscal	1,422
Operation and Maintenance of Plant	11,557
Pupil Transportation	63,080
Non-Instructional Services	32,838
Extracurricular	48,917
Capital Outlay	27,171
Total Depreciation Expense	\$ 381,728

9. RISK MANAGEMENT

A. Schools of Ohio Risk Sharing Authority

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in the Schools of Ohio Risk Sharing Authority, Inc for insurance coverage. Coverages provided are as follows:

Property Insurance	\$ 25,837,586
Automobile Liability	4,000,000
Error and Omissions	4,000,000
Crime Coverage	50,000
General Liability:	
Per Occurrence	4,000,000
Total Per Year	6,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from last year.

B. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities. The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, and life insurance plans. Northern Buckeye Education Council is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a

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participant is responsible for any claims not processed and paid and any related administrative costs.

C. Workers' Compensation Group Program

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (see Note 16). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment, or other fees, and perform its obligations in accordance with the terms of the agreement.

10. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System 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 SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used 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 Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$106,022, \$96,741, and \$66,607, respectively; 62 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$66,060.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care

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**Notes to the Basic Financial Statements
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benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13.0 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$630,018, \$561,575, and \$396,616, respectively; 84 percent has been contributed for fiscal year 2004 and 100 percent for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$99,292.

11. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement

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(Continued)**

Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses, and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2003, the board allocated employer contributions equal to 4.5 percent of covered payroll to Health Care Stabilization Fund. Effective July 1, 2004, 1 percent of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

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

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2004, the allocation rate is 4.91 percent. 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 2004, the minimum pay has been established as \$24,500. 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.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$300.8 million.

The number of participants currently receiving health care benefits is approximately 62,000.

For fiscal year 2004, the amount to fund health care benefits, including the surcharge, was \$76,488.

12. COMPENSATED ABSENCES

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Clerical, Technical, and Maintenance and Operation employees with one or more years of service are entitled to vacation ranging from 10 to 20 days. Employees with less than one year of service earn no vacation. Employees are permitted to carry over vacation leave if approved by the Superintendent.

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All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 53 days for certified employees and 55 days for non-certified employees.

13. NOTES PAYABLE

During the fiscal year ended June 30, 2004, the following changes occurred in notes payable reported in the Capital Projects fund type:

	Balance at 06/30/03	Increase	Decrease	Balance at 06/30/04
Bond Anticipatory Notes - 2003 1.50% Due June 24, 2004	\$ 1,050,000		\$ 1,050,000	\$ -
Bond Anticipatory Notes - 2004 2.60% Due June 23, 2005		\$ 885,000		\$ 885,000
Total Long-Term Obligations	\$ 1,050,000	\$ 885,000	\$ 1,050,000	\$ 885,000

14. LONG-TERM OBLIGATIONS

During the year ended June 30, 2004, the following changes occurred in obligations reported in the Government-wide Financial Statements:

	Balance at 06/30/03	Increase	Decrease	Balance at 06/30/04	Amount Due in One Year
General Obligation Bonds	\$ 6,258,054	\$ 31,211	\$ 55,000	\$ 6,234,265	\$ 70,000
Energy Conservation Loan Energy Conservation Improvement Bonds	8,000	-	8,000	-	-
	280,000	-	35,000	245,000	35,000
Intergovernmental Payable	59,505	-	59,505	-	-
Compensated Absences	660,955	649,235	660,955	649,235	42,224
Total Long-Term Obligations	\$ 7,266,514	\$ 680,446	\$ 818,460	\$ 7,128,500	\$ 147,224

Total expenditures for interest for the above debt for the period ended June 30, 2004 was \$377,650.

The scheduled payments of principal and interest on debt outstanding at June 30, 2004 are as follows:

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**Notes to the Basic Financial Statements
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Year Ending June 30,	Principal	Interest	Total
2005	105,000	356,630	461,630
2006	115,000	350,818	465,818
2007	135,000	344,197	479,197
2008	145,000	336,770	481,770
2009	170,000	328,392	498,392
2010-2014	794,265	1,793,956	2,588,221
2015-2019	1,505,000	1,239,708	2,744,708
2020-2024	1,990,000	742,222	2,732,222
2025-2027	1,520,000	137,170	1,657,170
Total	<u>\$ 6,479,265</u>	<u>\$ 5,629,863</u>	<u>\$ 12,109,128</u>

The general obligation bonds were issued in March 2000 for the purpose of constructing, furnishing, and equipping a new elementary building, and for the purpose of improving the junior/senior high school building. The bonds consist of \$6,215,000 in current interest bonds (\$960,000 issued as serial bonds and \$5,255,000 issued as term bonds) and \$34,422 capital appreciation bonds.

The serial bonds shall bear interest at the rates per year and will mature in the principal amounts and on the following dates:

Maturity Date	Principal Amount	Interest Rate
2001	\$ 40,000	4.50%
2002	45,000	4.70%
2003	55,000	4.80%
2004	70,000	4.90%
2005	80,000	5.00%
2006	100,000	5.05%
2007	110,000	5.10%
2008	135,000	5.15%
2009	155,000	5.20%
2010	170,000	5.25%

The term bonds, which mature on December 1, 2019, have interest rates of 5.7 percent per year, and are subject to mandatory sinking fund redemption on December 1 in the following years in the aggregate principal amounts below:

Year	Principal Amount to Be Redeemed
2013	\$ 240,000
2014	270,000
2015	285,000
2016	300,000
2017	315,000
2018	335,000
2019	355,000

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The term bonds which mature on December 1, 2026 have interest rates of 5.8 percent per year, and are subject to mandatory sinking fund redemption on December 1 in the following years in the aggregate principal amounts below:

<u>Year</u>	<u>Principal Amount to Be Redeemed</u>
2020	\$ 375,000
2021	395,000
2022	420,000
2023	445,000
2024	470,000
2025	495,000
2026	555,000

The current interest bonds are subject to redemption prior to maturity as provided in the bond resolution and above except that the bonds maturing on or after December 1, 2011 are subject to redemption, by and at the sole option of the District, on or after December 1, 2010, either in whole on any date or in part on any interest payment date, in integral multiples, of \$5,000 at the following redemption prices (expressed as percentages of the principal amount redeemed), plus accrued interest to the redemption date:

<u>Redemption Date (Dates Inclusive)</u>	<u>Redemption Prices</u>
December 1, 2010 through November 30, 2011	101%
December 1, 2011 and thereafter	100%

The capital appreciation bonds were issued in the aggregate original principal amount of \$34,422 and mature on December 1 in the years, have the original principal amounts and mature with the accreted values at maturity, as follows:

<u>Maturity Date</u>	<u>Original Principal Amount</u>	<u>Accreted Value At Maturity</u>
2011	\$ 17,974	\$ 200,000
2012	16,448	225,000

The value of the capital appreciation bonds reported in the Statement of Activities at June 30, 2004 was \$159,265. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$124,844 has been included in the value. The bonds are being retired through the Bond Retirement Debt Service Fund.

The energy conservation loan was issued in 1993 for the purpose of providing energy conservation measures for the district pursuant to House Bill 264.

The energy conservation bonds were issued in May 2000 for the purpose of paying costs of installations, modifications, and remodeling of school buildings to conserve energy, pursuant to the laws of the State of Ohio, particularly 113.06 (G) of the Ohio Revised Code.

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(Continued)**

15. SET-ASIDE CALCULATIONS AND FUND RESERVES

The 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 and capital acquisition. Disclosure of this information is required by State statute.

	Textbooks	Capital Acquisition
Set-aside Cash Balance as of June 30, 2003	\$ (233,465)	\$ -
Current Year Set-aside Requirement	158,334	158,334
Current Year Offsets		(137,388)
Qualifying Disbursements	(136,566)	(296,112)
Total	\$ (211,697)	\$ (275,166)
Balance Carried Forward to FY 2005	\$ (211,697)	\$ -

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero. The negative amounts may be used to offset future year textbook set-aside requirements; however, they may not be used to reduce future capital set-aside requirements.

16. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NWOCA during this fiscal year were \$56,238. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC for GAAP conversion services during this fiscal year were \$3,250. To obtain financial information write to the

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Northern Buckeye Education Council, Crystal Meyer, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center - one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Career Center, Lois Knuth, who serves as Treasurer, at Route 1, Box 245A, Archbold, Ohio 43502.

D. Cisco Academy of Northwest Ohio

The Cisco Academy of Northwest Ohio (the Academy) was established July 1, 1998 to foster cooperation toward joint training and other joint activities of mutual interest among certain educational entities located in Northwest Ohio. The Academy is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by representatives of the member educational entities. The Academy is governed by a management council consisting of a representative appointed from each participating member educational entity. The Northern Buckeye Education Council has been designated fiscal agent for the Academy. Financial information can be obtained from the Treasurer of the Northern Buckeye Education Council, at 22-900 State Route 34, Archbold, Ohio 43502.

E. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials and provide opportunities for training. The NOERC serves twenty-five county area of Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

17. GROUP PURCHASING POOLS

A. Northern Buckeye Education Council Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were \$844,143. Financial information can be obtained from Northern

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Buckeye Education Council, Crystal Meyer, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under § 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$942 to the WCGRP to cover the costs of administering the program.

C. Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA) which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code – Non-Profit Corporations and functioning under authority granted by Section 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool and to assist member school districts in preventing and reducing losses and injuries to property and persons which might result in claims being made against members of SORSA, their employees or officers. The District paid \$28,787 for these services to SORSA in fiscal year 2004.

A nine-person Board of Directors manages the business and affairs of SORSA and is elected annually by the members of the pool. The Board of Directors consists of superintendents, treasurers, or business managers from the participating school districts. Willis Pooling administers the pool and Frank Gates Service Company manages the claims. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

18. SCHOOL FUNDING DECISION

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

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

19. INTERFUND TRANSFERS

During the year ended June 30, 2004, the General Fund transferred \$60,999 to Other Non-major Governmental Funds. This transfer was made to move interest earnings to other funds. The Bond Retirement Fund transferred \$180,663 to another Non-major Governmental Fund to account for debt activity reported in another fund.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

20. CONTINGENCIES

A. Grants

The 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 is 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 District at June 30, 2004.

B. Litigation

There are currently no matters in litigation with the District as defendant.



**Auditor of State
Betty Montgomery**

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

Northeastern Local School District
Defiance County
05921 Domersville Road
Defiance, Ohio 43512-6703

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 (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 February 16, 2005. We noted that the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statement and Management Letter Discussion and Analysis for State and Local Governments*. 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. However, we noted other matters that we have reported to management of the District in a separate letter dated February 16, 2005.

This report is intended for the information and use of management and the Board of Education, 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

February 16, 2005



**Auditor of State
Betty Montgomery**

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NORTHEASTERN LOCAL SCHOOL DISTRICT

DEFIANCE 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

MARCH 22, 2005