



Mary Taylor, CPA
Auditor of State

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Local School District, Clark County, (the District), as of and for the year ended June 30, 2009, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Local School District, Clark County, as of June 30, 2009, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Mary Taylor, CPA
Auditor of State

February 12, 2010

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

The discussion and analysis of Northeastern Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2009 are as follows:

- In total, net assets increased \$1,314,364, which represents a 6.25 percent increase from 2008.
- General revenues accounted for \$29,095,813 in revenue or 85.68 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$4,862,031 or 14.32 percent of total revenues of \$33,957,844.
- Total assets of governmental activities decreased by \$3,421,239 as cash and cash equivalents decreased by \$639,413, receivables decreased by \$2,372,409 and capital assets decreased by \$391,215.

The governmental activities of the School District had \$32,643,480 in expenses; only \$4,862,031 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$29,095,813 were adequate to provide for these programs.

Among major funds, the General Fund had \$30,195,193 in revenues and \$28,983,769 in expenditures. The General Fund's balance increased \$1,270,480 over 2008. This increase was predominately due to a decrease in liabilities. The county auditor sent second half tax bills out in a much more timely fashion than in the past. However, there were less taxes collected and receivable at June 30, 2009. Delinquencies played a big part in that fact. State revenue increased due to an increase in per pupil funding. Special Education weighted amounts were further phased in and so was Poverty Based Assistance (PBA). In calendar year 2008, due to the state of the economy there was very minimal new construction in Residential/Agricultural and Commercial Industrial real property. However, the hold harmless revenue the state contributed related to personal property collections was a tremendous help in us maintaining our good financial outlook. In 2008 (2009 collection) the minimal change in reduction factors helped to level off the collections. Actual real estate tax revenue only increased slightly since there was not much new construction. For the second year, interest earnings, continued to decline. Interest rates of return have continued to decrease as of late. Health insurance cost increases from year to year continue to increase at a decreasing rate due to the makeup of the two tiered health insurance plan.

Using this General Accepted Accounting Principles Report (GAAP)

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2009?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 15. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Permanent Improvement Capital Projects Fund.

Governmental Funds

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods.

These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2009 compared to 2008.

**Table 1
Net Assets**

	2008 (Restated)	2009
Assets:		
Current and Other Assets	\$22,984,166	\$19,954,142
Capital Assets	19,445,845	19,054,630
Total Assets	<u>42,430,011</u>	<u>39,008,772</u>
Liabilities:		
Long-Term Liabilities	6,636,694	6,011,969
Other Liabilities	14,769,468	10,658,590
Total Liabilities	<u>21,406,162</u>	<u>16,670,559</u>
Net Assets:		
Invested in Capital Assets, Net of Debt	14,179,762	14,298,101
Restricted	2,001,994	1,985,498
Unrestricted	4,842,093	6,054,614
Total Net Assets	<u>\$21,023,849</u>	<u>\$22,338,213</u>

Total net assets increased \$1,314,364. Cash and cash equivalents decreased by \$639,413, receivables decreased by \$2,372,409 and capital assets decreased by \$391,215. Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, of the School District increased by \$1,212,521 primarily due to the increase in local property tax revenue.

Table 2 shows the changes in net assets for fiscal year 2009. Since this is the fifth year the School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons are available. Therefore, a comparative analysis of district-wide data is being presented, as follows:

**Table 2
Changes in Net Assets**

	2008 (Restated)	2009
Revenues:		
Program Revenues:		
Charges for Services	\$2,847,177	\$2,999,737
Operating Grants and Contributions	2,003,784	1,862,294
General Revenues:		
Property Taxes	10,870,644	13,023,955
Grants and Entitlements	15,238,878	15,811,320
Other	481,332	260,538
Total Revenues	<u>31,441,815</u>	<u>33,957,844</u>

(Continued)

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

**Table 2
Changes in Net Assets
(Continued)**

	2008 (Restated)	2009
Program Expenses:		
Instruction	18,187,701	18,259,044
Support Services:		
Pupils and Instructional Staff	3,284,412	3,378,166
Board of Education, Administration, and Fiscal	3,515,597	3,465,902
Operation and Maintenance of Plant	2,738,675	2,734,986
Pupil Transportation	1,845,261	1,868,592
Central	4,500	10,193
Operation of Non-Instructional Services	1,546,748	1,635,850
Extracurricular Activities	876,218	1,047,659
Interest and Fiscal Charges	268,330	243,088
Total Expenses	<u>32,267,442</u>	<u>32,643,480</u>
Increase in Net Assets	<u>(\$ 825,627)</u>	<u>\$1,314,364</u>

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District operations. Property taxes made up 38 percent of revenues for governmental activities for the Northeastern Local School District for fiscal year 2009.

The School District voters passed a four-year permanent improvement levy in March of 2000 for collection 2001 through 2004. This levy at 4.0 mills generated approximately \$1,436,000 in property tax revenue per year. Revenue collection for this levy ended in FY05. The Board has prioritized expenditure of the remaining permanent improvement dollars. Their remaining priorities are safety concerns and infrastructure improvements in the various buildings in the District. Following those, expenditures will be made in the areas of greatest need. A complete list of priorities can be obtained from the Treasurer's office.

Due to the fact that permanent improvement needs never end; the board decided to place a 1 mill continuous permanent improvement levy on the ballot in November, 2006. This levy attempt failed. The board voted to place the permanent improvement levy back on the ballot in May, 2007. However, upon learning that May was considered a Special election and the cost to the District could be \$33,000 or more to place the issue on the ballot, the board voted to remove the issue in May and place it on the ballot in November, 2007. November, 2007 is not a special election and collection would still begin in January, 2008. However, the levy was again defeated in November, 2007. Additionally, the levy failed in March, 2008 and August, 2008. The board voted to place it back on the ballot again in November, 2008. After a long hard battle, the board was able to get voter approval for the 1 mill continuous permanent improvement levy. This also set the stage for the District to qualify for approval of a project to be co-funded by the Ohio School Facilities Commission.

Instruction comprises 56 percent of district expenses. Support services expenses make up 35 percent of the expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

Table 3

	Total Cost of Services 2009	Net Cost of Services 2009
Instruction	\$18,259,044	\$15,576,933
Support Services:		
Pupils and Instructional Staff	3,378,166	3,017,372
Board of Education, Administration, and Fiscal	3,465,902	3,399,751
Operation and Maintenance of Plant	2,734,986	2,730,607
Pupil Transportation	1,868,592	1,827,526
Central	10,193	10,193
Operation of Non-Instructional Services	1,635,850	143,128
Extracurricular Activities	1,047,659	832,851
Interest and Fiscal Charges	243,088	243,088
Total Expenses	<u>\$32,643,480</u>	<u>\$27,781,449</u>

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

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

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

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

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

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

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

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

The dependence upon tax revenues is apparent. Almost 89 percent of instruction activities are supported through taxes and other general revenues; for all activities general revenue support is 86 percent. The community, as a whole, is the primary support for the Northeastern Local School District.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

The School District's Funds

Information about the School District's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$33,808,381 and expenditures of \$32,653,962. The net change in fund balance for the year was most significant in the General Fund, an increase of \$1,270,480. This increase was predominately due to an increase in property and other local taxes. State revenue increased due to an increase in per pupil funding and the additional phasing-in of parity aide and poverty based assistance. Currently, continued phasing out of personal property taxes is being offset by the hold harmless revenue being contributed by the state. Our bottom line is also being assisted by the passage of the permanent improvement levy in November of 2008. Some of the expenditures previously being absorbed by the General Fund can now be paid from the Permanent Improvement Fund.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of the 2009 fiscal year, the School District amended its General Fund budget several times, which resulted in appropriations increasing \$1,610,173. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. Prior to year-end, the School District requested an amended certificate of estimated resources that reflected actual revenue for the fiscal year and passed appropriations to match expenditures plus encumbrances.

For the General Fund, budget basis revenue and other financing sources was \$28,848,396; below the original budgeted estimates of \$29,300,180. This difference was primarily caused by decrease in property tax revenue and interest income. However, another factor that contributed to the decrease was the need to transfer money to the Food Service Fund to cover a deficit balance at the end of the year.

Capital Assets

At the end of the 2009 fiscal year, the School District had \$19,054,630 invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal 2009 balances compared to 2008.

Capital Assets (Net of Depreciation) at June 30,		
	2008	2009
Land	\$ 268,349	\$ 268,349
Land Improvement	323,643	316,622
Buildings and Improvements	16,124,704	15,642,485
Furniture and Equipment	1,681,080	1,760,348
Vehicles	1,048,069	1,066,826
Total Assets	\$19,445,845	\$19,054,630

Overall capital assets decreased \$391,215 from fiscal year 2008 to fiscal year 2009. This is the result of the increase in accumulated depreciation exceeding the investment in new assets.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

Debt Administration

On September 15, 2005, the Northeastern Local School District issued \$3,765,000 of General Obligation refunding bonds to provide resources to purchase United States Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$3,765,000 of General Obligation bonds. The School District used the new bonds, previously funded debt service payments, plus \$339,813, to defease the outstanding liability. The refunded portion of the 1996 bonds were called at the first call date of December 1, 2007. As a result, the in-substance defeasance is considered to be defeased and the liability has been removed from the statement of net assets.

In September 2005, the School District entered into an Escrow Trust Agreement with the Bank of New York. The agreement required that the School District deposit \$4,023,579 into an irrevocable trust with the bank for the payment to final maturity from the 1996 General Obligation Bonds. The funds deposited, per the agreement, purchased U.S. Government Securities in substitution of the general obligations of the School District. The funds deposited, together with interest earned thereon, shall be sufficient to pay semi-annual principal and interest payments, thus providing an in-substance defeasance. The (in-substance) defeasance has occurred for the following General Obligation bonds:

<u>Original Amount</u>	<u>Amount Defeased</u>	<u>Outstanding Amount at 6/30/09</u>
\$5,300,000	\$3,765,000	\$0

Current Financial Issues and Concerns

The cash fund balance in the general fund decreased this year by \$445,259. This was due in large part to a declining increase in local tax revenue (real tax collections still lag behind FY07 by \$65,382), decrease in interest earned due to low interest rates and increase in salaries and benefits. The negative state of the economy has also increased tax revenue delinquencies.

We are currently overcrowded in the majority of our buildings. The board and administration have worked very hard to ascertain the consensus of our constituents prior to again placing a bond issue for construction on the November, 2008 ballot. An issue to build two new middle schools was first placed on the ballot in November, 2000. It failed at that time. It has been placed on the ballot four times since and has failed all four times. The board and administration feel that this is not an indication of voter disapproval toward construction, but more a barometer of the economy. In an effort to ascertain the mind set of our constituents, the board and administration made a commitment to work with the community at various community meetings held across the District. In addition to exploring public opinion as to what type of building(s) should be constructed, major concerns were raised as to whether the general public understands how schools are funded in the state of Ohio. Also, whether the public understands the fact that the administration is doing its best to get the greatest student education using the least amount of public resources. With this in mind, the board and administration made a commitment to a series of "public school engagement dialogue" meetings that began in fiscal year 2006. These meetings have been intended to bring constituents in and engage them in a process of learning how public schools are funded in Ohio and why there is a shortfall of dollars to educate our students. This commitment continues as the district's board of education and administration continues to hold meetings to inform our constituents.

There is a five year master plan which has been placed on the District's web site. Previously, parts of the master plan had been placed on hold due to the failing of the one mill permanent improvement levy. However, the one mill levy was placed on the November, 2008 ballot and successfully received voter approval.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

Since the one mill continuous Permanent Improvement Levy was approved, the School District administration and board has continued to work with the Ohio School Facilities Commission (OSFC) to introduce a master plan that will be accepted by the voters. The OSFC requires school districts to have at least a one half mill Continuous Permanent Improvement Levy on the books to support new schools should they become a reality. The deliberations have narrowed down the options considered to one plan. The plan is to build a two campus concept. Each campus will contain a high school, middle school and elementary school. The board feels a two campus concept is best since the District encompasses 118 square miles and constituents seem to prefer maintaining their neighborhood schools.

At current writing, the District is 41% state funded and 59% locally funded as far as the Ohio School Facilities Commission is concerned. The District has received notification that state funds will be available as early as November, 2009. The District will need to raise funds for its 59% portion of the master plan, as well as, dollars for locally funded initiatives (LFI's). Locally funded initiatives are those items that the District feels are necessary to completely educate the student, but the state considers the same items non-required. Examples of LFI's the District has planned are state of the art auditoriums in each of the two high schools. The administration and board feel that the arts are necessary to develop and educate well rounded students. Competition size gymnasiums with wood floors in the middle schools are considered another LFI. Any upgrades to the current athletic facilities would be considered LFI's also. The administration and board feels these items are important for educating the student as a whole.

Externally, the State of Ohio was found by the Ohio Supreme Court (DeRolph case) in March 1997 to be operating an unconstitutional system of school funding, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth.

Toward the end of the 2005 fiscal year, a funding plan was presented by the state that phases out certain areas of local tax revenue. The impact on the District and its tax payers for future years could be quite significant.

During fiscal year 2006, the state began its planned phase out of personal tangible property tax. School Districts are to be held harmless through a fixed rate adjustment, resulting from commercial activity tax (CAT) revenue, through fiscal year 2014. After that period, a phase out will begin until the revenue is totally phased out in 2018. Hopefully, in the next several years, prior to phase out of the hold harmless provision, the legislators will come forward with a different funding source for public education. A large group of individuals comprised of many educational professional organizations were unsuccessful in placing a constitutional amendment for school funding on the November, 2007 ballot. This constitutional amendment would have required the legislature to follow through with a new, more adequate funding plan for public education.

With a new "Education" Governor in office, the legislators and government officials have recently changed focus. The Governor introduced a new funding model that has turned out to be quite interesting for the Northeastern Local School District. It is supposed to be an evidenced base model. Since it will not be completely phased in for ten years, it currently produces less funding from the state for the District than in previous years. The model has placed the District on a funding guarantee. In addition, with the current financial concerns the State is facing, having enough dollars to fund the plan, even at the reduced level, is questionable.

In comparison to other school districts in the state, the Northeastern Local School District would not be considered a School District suffering from low wealth. Therefore, the Northeastern Local School District is currently not expected to receive additional state funding until the model is close to being completely phased in. If/When the funding becomes completely phased in, the District is estimated to receive an additional \$5,000,000+ in state revenue. However, currently there is a partisan battle taking place in Ohio's upper level government that suggests if Governor Strickland is not re-elected, his funding plan will all but disappear.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

Another pitfall of not being considered a low wealth district is the distribution of a lower percentage of funds from the Ohio School Facilities' Commission (OSFC). Our neighboring city district has received 88 percent of the cost of replacing almost all their school buildings from the State merely by raising the other 12 percent locally. As mentioned previously, the Northeastern Local School District currently qualifies for State funding of 41 percent while having to raise the remaining 59 percent of the master plan locally to qualify for state OSFC funding. This is another aspect of state funding that is confusing to the district voters and contributes to complicating the efforts of passing a bond issue.

The total cost of Northeastern Local School District's current master plan including locally funded initiatives is \$125,712,813. The OSFC's 41% of the base master plan is \$45,756,000 and the remaining \$79,956,813 represents the District's base plan 59% plus our locally funded initiatives. In order to raise the District's share a 7.572 mill bond issue along with a one quarter of one percent income tax has been placed on the November, 2009 ballot.

The district building advisory committee (BAC) comprised of administrators, board members, teachers, support staff and district residents, has been working tirelessly along with other volunteers to communicate the need for the new buildings and exactly what the buildings will include to district residents.

As a part of the bond issue and stimulus program in Ohio, Northeastern Local School District applied for Qualified School Construction Bonds (QSCB's). We received an approved allocation share of 3.231502% out of 100. Our minimum allocation is \$3,231,502. Using the average approval rate of Ohio School District bond issues in the last three November elections, the projected value of our allocation would be \$7,626,344. The actual final allocation of Pool B for each district will depend on the size and number of those issues that are successful. In addition, it is possible that there will be unused amounts from other pools or from the direct allocations to large urban districts, which may increase the total size of Pool B above \$100 million, total. What this all means to the District is that a portion of our bond issue could consist of interest free bonds and therefore, reduce the millage necessary to raise the necessary funds. The only caveat related to the acceptance of the interest free bonds is that the District would have to follow prevailing wage laws for their construction project. Therefore, the use of the interest free bonds will have to be analyzed as to whether they will offer an overall cost savings.

Other items of importance that occurred during the 2009 fiscal year are as follows:

- A 3 $\frac{3}{4}$ % wage increase was negotiated for FY09. The majority of this was funded by major insurance concessions. A 0% wage increase was agreed to for FY10. With the state of the economy and with many of our taxpayers losing their jobs, a 0% increase was the only fiscally responsible raise to negotiate.
- The board continued the establishment of a virtual school on and off-campus. This was done to reach some students who otherwise may drop out of school and/or just need a few credits to graduate. Some of these students prefer not to attend school full-time and prefer less structure than a classroom environment.
- Interactive Video Distance Learning Classes continued in the District.
- Under Mr. Broderick's guidance, a prioritized plan was adopted for expenditure of the old permanent improvement dollars along with a plan to conserve as much of the old/new permanent improvement dollars as possible while maintaining safety in our buildings.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

The Board members of the District continue to be extremely concerned about the school funding issues. The local superintendents and treasurers meet with the local legislators on a monthly basis. They continually work toward goals to raise awareness regarding the school funding crisis in the State of Ohio. They continue to participate in grass roots initiatives to improve public educational funding in the state of Ohio.

A five year plan for the District has been placed on the District's website, <http://www.nelsd.org>. This has been done in an effort to further communication with our constituents. Part of the plan included the permanent improvement levy and the upcoming bond issue. There is extensive information on the web site about the upcoming bond issue. A levy calculator has been placed on the site so that district residents can enter their own personal information and determine the additional cost of the new buildings to themselves. Our technology coordinator has reconfigured our website so that it is more user-friendly.

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Denise D. Schneider, Chief Fiscal Officer at Northeastern Local School District, 1414 Bowman Road, Springfield, Ohio 45502 or email at deedeschneider@nelsd.org. If Denise Schneider is not available, please contact Denise Robinson, her assistant, at the same location, or email her at deniserobinson@nelsd.org.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2009**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$7,957,487
Cash and Cash Equivalents in Segregated Accounts	4,000
Cash and Cash Equivalents with Fiscal Agents	11,764
Materials and Supplies Inventory	127,113
Accounts Receivable	49,598
Intergovernmental Receivable	115,084
Prepaid Items	3,734
Property Taxes Receivable	11,500,663
Deferred Charges	184,699
Capital Assets, net	19,054,630
Total Assets	39,008,772
 Liabilities and Fund Balances	
Liabilities:	
Accounts Payable	70,035
Accrued Wages	2,728,900
Intergovernmental Payable	608,195
Matured Bonds Payable	10,000
Matured Interest Payable	1,764
Accrued Interest Payable	14,120
Accrued Vacation Leave Payable	88,450
Unearned Revenue	6,728,588
Compensated Absences Payable	165,813
Long-Term Liabilities:	
Due Within One Year	847,636
Due in More Than One Year	5,164,333
Unamortized Premium on Bonds	242,725
Total Liabilities	16,670,559
 Net Assets:	
Invested in Capital Assets, Net of Related Debt	14,298,101
Restricted for Debt Service	1,005,518
Restricted for Capital Outlay	731,924
Restricted for Other Purposes	248,056
Unrestricted	6,054,614
Total Net Assets	\$22,338,213

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:	Governmental Activities		
Instruction:			
Regular	\$14,341,718	\$1,879,476	\$71,283
Special	2,965,675		593,842
Vocational	897,566		118,478
Adult/Continuing	41,989		19,032
Other	12,096		(12,096)
Support Services:			
Pupils	1,704,572		194,676
Instructional Staff	1,673,594		166,118
Board of Education	60,841		(60,841)
Administration	2,739,611		66,151
Fiscal	665,450		(665,450)
Operation and Maintenance of Plant	2,734,986	3,169	1,210
Pupil Transportation	1,868,592		41,066
Central	10,193		(10,193)
Operation of Non-Instructional Services	1,635,850	903,967	588,755
Extracurricular Activities	1,047,659	213,125	1,683
Interest and Fiscal Charges	243,088		(243,088)
Total Governmental Activities	\$32,643,480	\$2,999,737	\$1,862,294
General Revenues:			
Grants and Entitlements not Restricted to Specific Programs			15,811,320
Gifts and Donations			25,638
Investment Earnings			185,711
Miscellaneous			30,409
Property and Other Local Taxes			13,023,955
Rent			560
Extracurricular Activities			980
Proceeds from Sale of Capital Assets			4,245
Customer Services			12,995
Total General Revenues			29,095,813
Change in Net Assets			1,314,364
Net Assets Beginning of Year (Restated)			21,023,849
Net Assets End of Year			\$22,338,213

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009**

	<u>General Fund</u>	<u>Permanent Improvement</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$6,107,725	\$587,574	\$1,262,188	\$7,957,487
Cash and Cash Equivalents in Segregated Accounts			4,000	4,000
Cash and Cash Equivalents with Fiscal Agents			11,764	11,764
Materials and Supplies Inventory	99,642		15,816	115,458
Accounts Receivable	49,598			49,598
Interfund Receivable	29,822			29,822
Intergovernmental Receivable	2,940		112,144	115,084
Prepaid Items	3,734			3,734
Property Taxes Receivable	10,776,809	384,074	339,780	11,500,663
Total Assets	<u>17,070,270</u>	<u>971,648</u>	<u>1,745,692</u>	<u>19,787,610</u>
Liabilities:				
Current Liabilities:				
Accounts Payable	63,133		6,902	70,035
Accrued Wages	2,543,740		185,160	2,728,900
Interfund Payable			29,822	29,822
Intergovernmental Payable	546,832		61,363	608,195
Matured Bonds Payable			10,000	10,000
Matured Interest Payable			1,764	1,764
Deferred Revenue	7,327,819	309,400	273,364	7,910,583
Compensated Absences Payable	165,813			165,813
Total Liabilities	<u>10,647,337</u>	<u>309,400</u>	<u>568,375</u>	<u>11,525,112</u>
Fund Balances:				
Reserved:				
Reserved for Encumbrances	278,255	91,508	26,774	396,537
Reserved for Inventory	99,642		15,816	115,458
Reserved for Property Taxes	3,448,990	74,674	66,416	3,590,080
Unreserved, Undesignated, Reported in:				
General Fund (Deficit)	2,596,046			2,596,046
Special Revenue Funds			104,170	104,170
Debt Service Funds			917,236	917,236
Capital Projects Funds		496,066	46,905	542,971
Total Fund Balances	<u>6,422,933</u>	<u>662,248</u>	<u>1,177,317</u>	<u>8,262,498</u>
Total Liabilities and Fund Balances	<u>\$17,070,270</u>	<u>\$971,648</u>	<u>\$1,745,692</u>	<u>\$19,787,610</u>

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2009**

Total Governmental Fund Balances		\$8,262,498
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p>		
Land	\$268,349	
Depreciable capital assets	<u>32,540,752</u>	
Accumulated depreciation	<u>(13,754,471)</u>	
Total capital assets		19,054,630
<p>Other long-term assets are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds:</p>		
Property Taxes		1,181,995
Deferred Charge on Refunded Debt		184,699
Federal donated commodities are not reported in the funds.		11,655
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(14,120)
Unamortized Premium on Bonds		(242,725)
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>		
Bonds and notes payable	(4,380,000)	
Compensated absences	(1,586,615)	
Capital leases	<u>(133,804)</u>	
Total liabilities		<u>(6,100,419)</u>
Net Assets of Governmental Activities		<u><u>\$22,338,213</u></u>

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	General Fund	Permanent Improvement	All Other Governmental Funds	Total Governmental Funds
Revenues:				
Property and Other Local Taxes	\$12,234,425	\$286,901	\$381,683	\$12,903,009
Intergovernmental	15,918,765	32,954	1,718,457	17,670,176
Interest	185,711		3,438	189,149
Tuition and Fees	1,836,500			1,836,500
Rent	560			560
Extracurricular Activities			226,241	226,241
Gifts and Donations	100		25,538	25,638
Customer Sales and Services	12,995		903,967	916,962
Miscellaneous	6,137		34,009	40,146
Total Revenues	30,195,193	319,855	3,293,333	33,808,381
Expenditures:				
Current:				
Instruction:				
Regular	13,715,355	21,101	200,734	13,937,190
Special	2,379,287	5,488	521,861	2,906,636
Vocational	871,311			871,311
Student Intervention Services	23,996		17,993	41,989
Other	12,096			12,096
Support Services:				
Pupils	1,498,047		163,305	1,661,352
Instructional Staff	1,463,553		169,836	1,633,389
Board of Education	60,841			60,841
Administration	2,615,607	18,848	60,932	2,695,387
Fiscal	662,997	12,530	6,852	682,379
Operation and Maintenance of Plant	2,685,688	89,126	5,647	2,780,461
Pupil Transportation	1,815,288	18,802		1,834,090
Central	10,193			10,193
Operation of Non-Instructional Services	2,433	6,594	1,642,537	1,651,564
Extracurricular Activities	707,945	44,865	246,600	999,410
Capital Outlay	79,527	5,642		85,169
Debt Service:				
Principal	329,810		235,000	564,810
Interest	49,795		175,900	225,695
Total Expenditures	28,983,769	222,996	3,447,197	32,653,962
Excess of Revenues Over (Under) Expenditures	1,211,424	96,859	(153,864)	1,154,419
Other Financing Sources and Uses:				
Transfers In			33,149	33,149
Inception of Capital Lease	79,527			79,527
Proceeds from Sale of Fixed Assets	4,245			4,245
Transfers Out	(21,441)		(11,708)	(33,149)
Total Other Financing Sources and Uses	62,331		21,441	83,772
Net Change in Fund Balances	1,273,755	96,859	(132,423)	1,238,191
Fund Balance (Deficit) at Beginning of Year (Restated)	5,152,453	565,389	1,309,149	7,026,991
Increase (Decrease) in Reserve for Inventory	(3,275)		591	(2,684)
Fund Balance (Deficit) at End of Year	\$6,422,933	\$662,248	\$1,177,317	\$8,262,498

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Net Change in Fund Balances - Total Governmental Funds		\$1,238,191
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:</p>		
Fixed Asset Additions	\$514,362	
Current Year Depreciation	(787,079)	
Fixed Asset Deletions	<u>(118,498)</u>	(391,215)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Property Taxes		120,946
<p>Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.</p>		
		(79,527)
<p>Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consisted of:</p>		
Bond principal retirement	520,000	
Capital lease payments	<u>44,810</u>	
Total long-term debt repayment		564,810
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Current Year Impact of Issuance Costs	(18,470)	
Current Year Impact of Long-Term Debt Premium	<u>24,272</u>	5,802
<p>In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.</p>		
		1,078
<p>Donated commodities received and used are not recognized in the funds.</p>		
		218
<p>Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:</p>		
Compensated Absences	(143,255)	
Change in Inventory	<u>(2,684)</u>	
Total additional expenditures		<u>(145,939)</u>
Change in Net Assets of Governmental Activities		<u><u>\$1,314,364</u></u>

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Property and Other Local Taxes	\$11,077,167	\$10,904,670	\$10,904,670	
Intergovernmental	16,170,578	15,918,765	15,918,765	
Interest	180,590	177,778	177,778	
Tuition and Fees	1,865,186	1,836,141	1,836,141	
Rent	569	560	560	
Gifts and Donations	102	100	100	
Miscellaneous	5,988	5,895	5,895	
Total Revenues	<u>29,300,180</u>	<u>28,843,909</u>	<u>28,843,909</u>	
Expenditures:				
Current:				
Instruction:				
Regular	13,692,698	14,116,225	13,898,085	\$218,140
Special	2,188,158	2,459,251	2,371,083	88,168
Vocational	762,306	861,109	855,573	5,536
Other	14,715	38,505	35,908	2,597
Support Services:				
Pupils	1,379,412	1,511,786	1,507,466	4,320
Instructional Staff	1,423,198	1,506,288	1,498,808	7,480
Board of Education	70,016	75,561	78,907	(3,346)
Administration	2,533,555	2,734,846	2,719,236	15,610
Fiscal	700,797	708,774	691,503	17,271
Operation and Maintenance of Plant	2,656,142	2,858,516	2,808,425	50,091
Pupil Transportation	1,881,715	1,925,939	1,870,365	55,574
Central	4,500	12,014	9,977	2,037
Operation of Non-Instructional Services	6,154	6,154		6,154
Extracurricular Activities	670,841	728,149	705,013	23,136
Debt Service:				
Principal	285,000	285,000	285,000	
Interest and Fiscal Charges	49,795	49,795	49,795	
Total Expenditures	<u>28,319,002</u>	<u>29,877,912</u>	<u>29,385,144</u>	<u>492,768</u>
Excess of Revenues Under Expenditures	981,178	(1,034,003)	(541,235)	492,768
Other Financing Sources (Uses):				
Proceeds from Sale of Fixed Assets		4,245	4,245	
Refund of Prior Year Expenditures		242	242	
Advances In		(21,441)	(21,441)	
Advances Out		(29,822)	(29,822)	
Total Other Financing Sources (Uses)		<u>(46,776)</u>	<u>(46,776)</u>	
Net Change in Fund Balances	981,178	(1,080,779)	(588,011)	492,768
Fund Balance at Beginning of Year	6,393,138	6,393,138	6,393,138	
Prior Year Encumbrances Appropriated	<u>142,752</u>	<u>142,752</u>	<u>142,752</u>	
Fund Balance at End of Year	<u>\$7,517,068</u>	<u>\$5,455,111</u>	<u>\$5,947,879</u>	<u>\$492,768</u>

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009**

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$17,739	\$114,153
Investments		
In Segregated Accounts	10,000	
Receivables:		
Accrued Interest	16	
Total Assets	27,755	114,153
Liabilities:		
Due to Students		\$114,153
Net Assets:		
Held in Trust for Scholarships	\$27,755	

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Private Purpose Trust
	Scholarship
Additions:	
Gifts and Contributions	\$2,351
Interest	239
Total Additions	2,590
 Deductions:	
Payments in Accordance with Trust Agreements	3,218
Total Deductions	3,218
 Change in Net Assets	 (628)
 Net Assets Beginning of Year (Restated)	 28,383
 Net Assets End of Year	 \$27,755

See accompanying notes to the basic financial statements.

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

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

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

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

The School District participates in the Miami Valley Educational Computer Association (MVECA), Springfield/Clark County Career Technology Center, and the Southwestern Ohio Educational Purchasing Council (SOEPC) which are defined as jointly governed organizations, and the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), which is defined as an insurance purchasing pool. These organizations are presented in Note 17 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A Basis of Presentation

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Government-wide Financial Statements:

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

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

2. Fund Financial Statements:

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

B. Fund Accounting

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

1. Governmental Funds:

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

2. Fiduciary Fund Types:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has five private purpose trust funds. Four account for scholarship programs for students. The other is a memorial fund which accounts for monies for construction and maintenance of a memorial for a past graduate. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The School District's agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program. This fund typically includes student activities which consist of a student body, student president, student treasurer, and faculty advisor.

C. Measurement Focus

1. Government-wide Financial Statements:

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

2. Fund Financial Statements:

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

1. Revenues - Exchange and Non-exchange Transactions:

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

2. Deferred Revenue:

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

Property taxes for which there is an enforceable legal claim as of June 30, 2009, but which were levied to finance fiscal year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Expenses/Expenditures:

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

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

E. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund/function/object level. Any budgetary modifications at this level may only be made by resolution of 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 School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate that was in effect at the time the final appropriations were passed by the Board of Education. Prior to fiscal year-end, the School District requested an amended certificate of estimated resources that reflects actual revenue for the fiscal year.

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

F. Cash and Cash Equivalents

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2009, investments were limited to certificates of deposit, which are reported at cost, First American Treasury Money Market funds, Federal Home Loan Bank Notes and Discount Notes, Federal National Mortgage Corporation Notes and Discount Notes, and Federal Home Loan Mortgage Corporation (FHLMC) Notes and Discount Notes.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2009 amounted to \$185,711 which includes \$40,496 assigned from other School District funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2009, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

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

I. Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

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

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Net Assets

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

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. None of the restricted net assets were restricted by enabling legislation.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Fund Balance Reserves

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

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

N. Fund Designations

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

O. Interfund Activity

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2009.

Q. Estimates

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

3. FUND DEFICITS

The School District had deficit fund balances in the following special revenue funds as of June 30, 2009:

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

3. FUND DEFICITS (Continued)

Fund	Amount
Food Service	\$78,898
Title VI-B	4,106
Title VI	19,809
Preschool	45

The general fund is liable for deficits in these funds and will provide operating transfers when cash is required, not when accruals occur.

4. BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance	
GAAP Basis	\$1,273,755
Net Adjustment for Revenue Accruals	(1,413,424)
Net Adjustment for Expenditure Accruals	(330,521)
Unrecorded Cash	(17,145)
Prepays	(2,734)
Principal Payments	44,810
Adjustment for Encumbrances	(142,752)
Budget Basis	(\$ 588,011)

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

5. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

A. Cash on Hand:

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

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

B. Deposits:

At year-end, the carrying amount of the School District's deposits was \$3,791,257 and the bank balance was \$4,989,212. \$257,559 of the bank balance was covered by federal depository insurance and \$4,731,653 was considered uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

C. Investments:

During fiscal year 2009, the School District began to diversify its investment portfolio to gain a higher rate of return while still maintaining liquidity and minimizing risk. Investments include First American Treasury Money Market, Federal Home Loan Bank Notes, Federal Home Loan Bank Discount Notes, Federal National Mortgage Association Notes, Federal National Mortgage Association Discount Notes, and mortgaged backed securities issued by Federal Home Loan Mortgage Corporation.

The District's investments at June 30, 2009 are summarized below:

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

<u>Investment</u>	<u>0-1 Years Before Maturity</u>	<u>1-5 Years Before Maturity</u>	<u>Credit Rating</u>	<u>% of Portfolio</u>
First American Treasury Money Market	\$ 1,340			0.03%
Federal Home Loan Bank Notes	429,626		Aaa, AAA	9.95%
Federal Home Loan Bank Discount Notes	822,282		Aaa, AAA	19.03%
Federal National Mortgage Association (FNMA) Notes		\$ 401,428	Aaa, AAA	9.29%
Federal National Mortgage Association (FNMA) Discount Notes		499,600	Aaa, AAA	11.57%
Federal Home Loan Mortgage Corporation (FHLMC)		1,931,104	Aaa, AAA	44.70%
Federal Home Loan Mortgage Corporation (FHLMC) Discount Notes	234,506		Aaa, AAA	5.43%
	<u>\$1,487,754</u>	<u>\$2,832,132</u>		<u>100.00%</u>

D. Custodial Credit Risk:

The risk that, in the event of a failure of a counter party, the District will not be able to recover the value of its investments or collateral securities that is in the possession of an outside party. The District employs the use of "safekeeping" accounts to hold and maintain custody of its investments as identified within this policy and as a means of mitigating this risk.

E. Interest Rate Risk:

Interest rate risk is the risk that the District will incur fair value losses arising from rising interest rates. Such risk is mitigated by the investment policy by limiting investments to certain maximum maturities. Per the Board of Education investment policy, investments are to have a maximum maturity of five years unless the investment is matched to a specific obligation or debt of the District.

F. Credit Risk:

The Ohio Revised Code limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations at the time of purchase.

G. Concentration of Credit Risk:

The District's investment policy provides for diversification to avoid undue concentration in securities of one type or securities. This restriction does not apply to obligations guaranteed by the U.S. government. Of the District's total investments, .03 percent is invested in a money market fund; 9.95 percent are Federal Home Loan Bank Notes; 19.03 percent is invested in Federal Home Loan Bank Discount Notes; 9.29 percent is invested in Federal National Mortgage Corporation (MTM); 11.57 percent is invested in Federal National Mortgage Corporation Discount Notes; 44.70 percent is invested in Federal Home Loan Mortgage Corporation Notes (FHMLC); and 5.43 percent is invested in Federal Home Loan Mortgage Discount Notes.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

	Cash and Cash Equivalents	Investments
Cash and Cash Equivalent - Basic Financial Statements	\$8,105,143	\$ 10,000
Cash on Hand	(4,000)	
Investments:		
Certificate of Deposit	10,000	(10,000)
First American Treasury Money Market	(1,340)	1,340
Federal Home Loan Bank Notes	(429,626)	429,626
Federal Home Loan Bank Discount Notes	(822,282)	822,282
Federal National Mortgage Association (FNMA) Notes	(401,428)	401,428
Federal National Mortgage Association (FNMA) Discount Notes	(499,600)	499,600
Federal Home Loan Mortgage Corporation (FHLMC)	(1,931,104)	1,931,104
Federal Home Loan Mortgage Corporation (FHLMC) Discount Notes	(234,506)	234,506
Total	\$3,791,257	\$4,319,886

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2009 for real and public utility property taxes represents collections of calendar 2008 taxes. Property tax payments received during calendar 2009 for tangible personal property (other than public utility property) are for calendar 2009 taxes. 2009 real property taxes are levied after April 1, 2009, on the assessed value as of January 1, 2009, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2009 public utility property taxes became a lien December 31, 2008, are levied after April 1, 2009, and are collected in 2010 with real property taxes. 2009 tangible personal property taxes are levied after April 1, 2008, on the value as of December 31, 2008. Collections are made in 2009. Tangible personal property assessments are twenty-five percent of true value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

6. PROPERTY TAXES (Continued)

Tangible personal property tax revenues received in calendar year 2009 (other than public utility property) represent the collection of calendar year 2009 taxes levied against local and inter-change telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures are no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2009 were levied after October 1, 2009, on the value as of December 31, 2008. 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. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The assessed values upon which the fiscal year 2009 taxes were collected are:

	2008 Second - Half Collections		2009 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$451,156,100	95.01%	\$455,548,490	97.98%
Public Utility Personal	8,103,130	1.71	8,221,270	1.77
Tangible Personal Property	15,593,997	3.28	1,180,133	.25
Total	<u>\$474,853,227</u>	<u>100.00%</u>	<u>\$464,949,893</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$47.02		\$48.03	

The School District receives property taxes from Clark County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2009, are available to finance fiscal year 2009 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents the late personal property tax settlement, real property, public utility property, and tangible personal property taxes which are measurable as of June 30, 2009, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue. At June 30, 2009, \$3,448,990 was available as an advance to the general fund, \$74,674 in the permanent improvement fund, and \$66,416 in the non-major governmental funds.

7. RECEIVABLES

Receivables at June 30, 2009, consisted of property taxes, accounts (tuition and student fees), intergovernmental grants and interest. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

7. RECEIVABLES (Continued)

Governmental Activities:

Motor Fuel Tax Reimbursement	\$ 2,940
Federal Lunch Reimbursement	29,822
Title VI-B Grant	58,252
Title I Grant	22,070
Improving Teacher Quality Grant	2,000
Total Intergovernmental Receivables	<u><u>\$115,084</u></u>

8. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance 6/30/08	Additions	Deductions	Balance 6/30/09
Governmental Activities:				
Capital Asset, not being depreciated:				
Land	\$ 268,349			\$ 268,349
Total Capital Assets, not being depreciated	<u>268,349</u>			<u>268,349</u>
Capital Assets, being depreciated:				
Land Improvements	673,727			673,727
Buildings and Improvements	26,493,559	\$ 21,737		26,515,296
Furniture and Equipment	3,019,968	367,315	\$246,977	3,140,306
Vehicles	2,105,416	125,310	19,303	2,211,423
Total Capital Assets, being depreciated	<u>32,292,670</u>	<u>514,362</u>	<u>266,280</u>	<u>32,540,752</u>
Less Accumulated Depreciation:				
Land Improvements	(350,084)	(7,021)		(357,105)
Buildings and Improvements	(10,368,855)	(503,956)		(10,872,811)
Furniture and Equipment	(1,338,888)	(171,940)	(130,870)	(1,379,958)
Vehicles	(1,057,347)	(104,162)	(16,912)	(1,144,597)
Total Accumulated Depreciation	<u>(13,115,174)</u>	<u>(787,079)</u>	<u>(147,782)</u>	<u>(13,754,471)</u>
Total Capital Assets being depreciated, Net	<u>19,177,496</u>	<u>(272,717)</u>	<u>118,498</u>	<u>18,786,281</u>
Governmental Activities Capital Assets, Net	<u><u>\$19,445,845</u></u>	<u><u>(\$272,717)</u></u>	<u><u>\$118,498</u></u>	<u><u>\$19,054,630</u></u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

8. CAPITAL ASSETS (Continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$314,540
Special	50,839
Vocational	30,453
Support Services:	
Pupil	34,067
Instructional Staff	35,099
Administration	52,706
Fiscal	4,774
Operation and Maintenance of Plant	43,990
Pupil Transportation	104,770
Operation of Non-Instructional Services	62,430
Extracurricular Activities	53,411
Total Depreciation Expense	<u><u>\$787,079</u></u>

9. RISK MANAGEMENT

A Property and Liability

The School District is exposed to various risks of loss related to torts; theft or, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2009, the School District contracted with the Southwestern Ohio Educational Purchasing Council for property and fleet insurance, liability insurance, crime, terrorism, and automobile coverage. Coverage provided through this Council is as follows:

Building and Contents - replacement cost; including Boiler and Machinery	\$50,000,000
Certified Acts of Terrorism	5,000,000
Automobile Liability (\$0 deductible)	1,000,000
Uninsured Motorists (\$0 deductible)	1,000,000
General Liability	
Per Occurrence	1,000,000
Total Per Year	3,000,000

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

9. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2009, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling fund" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Incorporated provides administrative, cost control, and actuarial services to the GRP.

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Northeastern Local School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2009, 9.84 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 a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008, and 2007 were \$523,368, \$409,316, and \$550,612, respectively; 48.27 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. \$270,724 represents the unpaid contribution for fiscal year 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of 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.

Funding Policy - For the fiscal year ended June 30, 2009, plan members were required to contribute 10 percent of their annual covered salaries. Northeastern Local School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2008, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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 School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008, and 2007, were \$2,027,704, \$1,930,860, and \$1,804,089, respectively; 82.87 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$93,813 made by the School District and \$30,478 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2009, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

11. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description - The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for fiscal years ended June 30, 2009, 2008, and 2007 were \$298,440, \$261,530, and \$243,733 respectively; 48.27 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2009, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$35,104, \$29,492, and \$35,058 respectively; 48.27 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. State Teachers Retirement System

Plan Description - The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$155,977, \$148,528, and \$138,776 respectively; 82.87 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

12. OTHER EMPLOYEE BENEFITS

A Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 225 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, unused sick leave up to the maximum of 225 days. Administrators retiring in fiscal year 2009 were eligible to receive payment of 40 percent of accrued, unused sick leave up to the maximum of 225 days.

B. Insurance Benefits

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

C. Special Termination Benefit

The School District offered a special termination benefit plan during fiscal year 2009. To participate in the plan, an employee must opt for this program the first time they are eligible to retire with 30 years of experience, or the first year eligible according to STRS. For certified staff, the special termination benefit amount is \$60,000, payable over the next four years after retirement in four equal payments beginning on June 1, 2010, and ending June 1, 2013. For classified employees, the amount is \$5,000, if full-time, \$2,500 if part-time, payable as stated above. For the School District, the liability as of June 30, 2009 is \$359,056.

13. CAPITAL LEASES – LESSEE DISCLOSURE

The School District has entered into several lease agreements for copiers for the district. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the general purpose financial statements for governmental funds. The items are being capitalized as part of fixed assets. A corresponding liability is included in governmental activities general long term debt. Principal payments in fiscal year 2009 totaled \$44,810. Future minimum lease payments are as follows:

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

13. CAPITAL LEASES – LESSEE DISCLOSURE (Continued)

Year	Amount
2010	\$ 46,355
2011	29,957
2012	22,032
2013	22,032
2014	13,428
Present Value of Net Minimum Lease Payments	\$133,804

The scheduled payment for fiscal year 2011 reflects an increase of \$1,849 as a result of incorrect billing in fiscal year 2007.

14. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2009 were as follows:

	Amount Outstanding June 30, 2008	Additions	Deductions	Amount Outstanding June 30, 2009	Amounts Due Within One Year
Governmental Activities:					
General Obligation Bonds:					
2005 Refunding GO Bonds					
3% to 5.75% 14 years	\$3,675,000		\$235,000	\$3,440,000	\$255,000
Premium on 2005 Refunding	266,997		24,272	242,725	24,272
Energy Conservation Bonds:					
4.6% 10 years	1,225,000		285,000	940,000	300,000
Total Bond Debt	5,166,997		544,272	4,622,725	579,272
Capital Leases	99,087	\$ 79,527	44,810	133,804	46,355
Compensated Absences	1,370,610	359,059	231,504	1,498,165	222,009
Total Governmental Activities Long-Term Liabilities	\$6,636,694	\$438,586	\$820,586	\$6,254,694	\$847,636

2005 Refunding General Obligation Bonds – On September 15, 2005, the School District issued School Improvement Refunding General Obligation Bonds, with semi-annual payments due on June 1 and December 1 of each year, and interest payable beginning December 1, 2005. The refunding bonds are issued for the purpose of refunding outstanding general obligation bonds originally issued for the purpose of new construction, improvements, renovations, and additions to school facilities and providing equipment, including educational equipment and curriculum materials, furnishings and site improvements.

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

The capital lease obligation will be paid from the general fund.

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

The School District's overall legal debt margin was \$39,389,142, with an unvoted debt margin of \$464,950, and an energy conservation debt margin of 3,244,549 at June 30, 2009.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

14. LONG-TERM OBLIGATIONS

Principal and interest requirements to retire general obligation and energy conservation debt outstanding at June 30, 2009, are as follows:

2005 Refunding GO Bonds			
Fiscal year Ending June 30,	Principal	Interest	Totals
2010	\$ 255,000	\$162,426	\$ 417,426
2011	275,000	147,851	422,851
2012	300,000	132,039	432,039
2013	320,000	114,988	434,988
2014	345,000	96,268	441,268
2015-2019	1,945,000	194,342	2,139,342
Total	\$3,440,000	\$847,914	\$4,287,914

Energy Conservation Bonds			
Fiscal year Ending June 30,	Principal	Interest	Totals
2010	\$300,000	\$36,340	\$ 336,340
2011	315,000	22,195	337,195
2012	325,000	7,475	332,475
Total	\$940,000	\$66,010	\$1,006,010

15. ISSUANCE OF GENERAL OBLIGATION REFUNDING BONDS

On September 15, 2005, the Northeastern Local School District issued \$3,765,000 of General Obligation refunding bonds to provide resources to purchase United States Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$3,765,000 of General Obligation bonds. The School District used the new bonds, previously funded debt service payments, plus \$339,813, to defease the outstanding liability. The refunded portion of the 1996 bonds will be called at the first call date of December 1, 2007. As a result, the in-substance defeasance is considered to be defeased and the liability has been removed from the statement of net assets. Until the bonds are called the information will be presented as a note to the financial statements (See Note 16).

16. IN-SUBSTANCE DEFEASANCE OF GENERAL OBLIGATION BONDS

In September 2005, the School District entered into an Escrow Trust Agreement with the Bank of New York. The agreement required that the School District deposit \$4,023,579 into an irrevocable trust with the bank for the payment to final maturity from the 1996 General Obligation Bonds. The funds deposited, per the agreement, purchased U.S. Government Securities in substitution of the general obligations of the School District. The funds deposited, together with interest earned thereon, shall be sufficient to pay semi-annual principal and interest payments, thus providing an in-substance defeasance. The (in-substance) defeasance has occurred for the following General Obligation bonds:

Original Amount	Amount Defeased	Outstanding Amount at 6/30/09
\$5,300,000	\$3,765,000	\$0

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

17. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

A. Jointly Governed Organizations

Miami Valley Educational Computer Association - The School District is a participant in the Miami Valley Educational Computer System (MVECA), which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene and Highland Counties and Cities of Springfield, Wilmington, Washington Court House, Xenia and Hillsboro. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The School District paid MVECA \$124,754 for services provided during the year. Financial information can be obtained from Angie Crandall, Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

Springfield/Clark County Career Technical Center - The Springfield/Clark County Career Technical Center (CTC) is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected boards, which possess its own budgeting and taxing authority. One member is appointed from the following: Clark-Shawnee Local School District, Greenon Local School District, Northeastern Local School District, Northwestern Local School District, Southeastern Local School District, Tecumseh Local School District, and the Clark County Educational Service Center. Two members are appointed from the Springfield City School District. The School District did not make any payments to the CTC for fiscal year 2009. To obtain financial information, write to the Springfield/Clark County Career Technical Center, Pamela Mustovich, Treasurer, 1901 Selma Road, Springfield, Ohio 45505-4239.

Southwestern Ohio Educational Purchasing Council -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the Fiscal Agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

Payments to SOEPC are made from the general fund. During fiscal year 2009, the School District paid \$1,803 to the SOEPC for membership fees. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

B. Insurance Purchasing Pool

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

18. SET-ASIDE CALCULATIONS

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

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

	Textbooks	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2008	(\$1,879,304)	
Current Year Set-aside Requirement	598,110	\$ 598,110
Current Year Offsets		(212,226)
Qualifying Disbursements	(579,722)	(3,229,696)
Totals	(1,860,916)	(2,843,812)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$1,860,916)	\$ 0

19. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 School District at June 30, 2009.

B. Litigation

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

20. CONTRACTUAL COMMITMENTS

The School District had the following contractual commitments as of June 30, 2009:

Contractor	Job Description	Amount
Seon	Cameras for Buses	\$ 9,900
Paxton Communications	2-way Radios for Buses	4,384
Cardinal Bus Sales, Inc	Handicap 72 Passenger Bus	75,925
		\$90,209

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

21. RESTATEMENT OF FUND BALANCES AND NET ASSETS

The following changes were made to fund balance and net assets for fiscal year 2009:

	Governmental Activities
Net Assets at June 30, 2008	\$21,035,427
Net Assets Reclassification	(11,578)
Restated Net Assets at July 1, 2008	\$21,023,849
Other Governmental Funds	
Fund Balance at June 30, 2008	\$1,320,727
Fund Reclassification	(11,578)
Restated Fund Balance at July 1, 2008	\$1,309,149
Fiduciary Funds	
Net Assets at June 30, 2008	\$16,805
Net Assets Reclassification	11,578
Restated Net Assets at July 1, 2008	\$28,383

22. INTERFUND TRANSFERS

During the year ended June 30, 2009, the General Fund transferred \$21,441 to All Other Governmental Funds. This transfer was made to cover the negative unencumbered fund balance in Food Service Fund. \$11,708 in transfers within All Other Governmental Funds were to move monies from one grant year to next.

23. INTERFUND ASSETS/LIABILITIES

As of June 30, 2009, on the fund financial statements, the Food Service special revenue fund owed the General Fund \$29,822. This amount has been presented as "Interfund Receivable/Payable" on the balance sheet.

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2009**

FEDERAL GRANTOR Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE					
<i>Passed Through Ohio Department of Education</i>					
Child Nutrition Cluster:					
Non-Cash Assistance (Food Distribution):					
National School Lunch Program	10.555		\$129,614		\$129,614
Cash Assistance:					
National School Lunch Program	10.555	\$225,430		\$225,430	
Total U.S. Department of Agriculture		<u>225,430</u>	<u>129,614</u>	<u>225,430</u>	<u>129,614</u>
U.S. DEPARTMENT OF EDUCATION					
<i>Passed Through Ohio Department of Education</i>					
Title I Grants to Local Educational Agencies	84.010	229,245		231,286	
Special Education Cluster:					
Special Education Grants to States	84.027	667,949		671,888	
Special Education Preschool Grants	84.173	20,927		18,245	
Total Special Education Cluster		<u>688,876</u>		<u>690,133</u>	
Safe and Drug-Free Schools and Communities State Grants	84.186	936		1,000	
State Grants for Innovative Programs	84.298	7,657		27,455	
Education Technology State Grants	84.318	717		1,180	
Improving Teacher Quality State Grants	84.367	45,100		33,754	
School Improvement Grants	84.377	6,000			
Total U.S. Department of Education		<u>978,531</u>		<u>984,808</u>	
U.S. DEPARTMENT OF HOMELAND SECURITY					
<i>Passed Through Ohio Department of Emergency Management Agency</i>					
Disaster Grants - Public Assistance (Presidentially Declared Disaster)	97.036	1,383		1,383	
Total U.S. Department of Homeland Security		<u>1,383</u>		<u>1,383</u>	
Total		<u>\$1,205,344</u>	<u>\$129,614</u>	<u>\$1,211,621</u>	<u>\$129,614</u>

The accompanying notes are an integral part of this schedule.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2009**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Northeastern Local School District's (the District's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

Program regulations do not require the District to maintain separate inventory records for purchased food versus food commodities it receives from the U.S. Department of Agriculture. The District reports commodities consumed on the Schedule at the fair value.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Local School District, Clark County, (the District) as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 12, 2010. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the District's management in a separate letter dated February 12, 2010.

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Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated February 12, 2010.

We intend this report solely for the information and use of the audit committee, management, Board of Education and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

February 12, 2010



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Northeastern Local School District, Clark County (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2009. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Northeastern Local School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2009. In a separate letter to the School District's management dated February 12, 2010, we reported another matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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**Internal Control Over Compliance
(Continued)**

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

February 12, 2010

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2009**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster: National School Lunch Program (CFDA 10.555) Special Education Cluster: Special Education Grants to States (CFDA 84.027); Special Education Preschool Grants (CFDA 84.173)
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA

Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedures

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Northeastern Local School District (the District) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on January 26, 2006.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - 1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - 2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - 3) A procedure for reporting prohibited incidents;
 - 4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - 5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
 - 6) A procedure for documenting any prohibited incident that is reported;
 - 7) A procedure for responding to and investigating any reported incident;

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- 8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- 9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- 10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

February 12, 2010



Mary Taylor, CPA
Auditor of State

NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 11, 2010