



Dave Yost • Auditor of State

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets - Cash Basis.....	9
Statement of Activities - Cash Basis	10
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Cash Balances - Governmental Funds.....	11
Statement of Cash Receipts, Disbursements, and Changes In Fund Balances – Governmental Funds	12
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual Comparison – General Fund.....	13
Statement of Fiduciary Net Assets – Cash Basis – Fiduciary Funds.....	14
Statement of Changes in Fiduciary Net Assets - Cash Basis – Fiduciary Fund	15
Notes to the Basic Financial Statements	17
Federal Awards Receipts and Expenditures Schedule.....	41
Notes to the Federal Awards Receipts and Expenditures Schedule	42
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	43
Independent Accountants' Report on Compliance With Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	45
Schedule of Findings.....	47
Schedule of Prior Audit Findings.....	49
Independent Accountants' Report on Applying Agreed-Upon Procedure	51

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INDEPENDENT ACCOUNTANTS' REPORT

Northeastern Local School District
Defiance County
05751 Domersville Road
Defiance, Ohio 43512-6703

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Northeastern Local School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 2011, 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.

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Northeastern Local School District, Defiance County, Ohio, as of June 30, 2011, and the respective changes in cash financial position, thereof and the budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

As described in Note 3 to the financial statements, for the year ended June 30, 2011, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2011, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the 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. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

December 9, 2011

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

The discussion and analysis of the financial performance of Northeastern Local School District (the District) provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2011 are as follows:

In total, net assets increased \$448,157.

General revenues accounted for \$9,539,048 or 81 percent of all revenues. Program specific revenues in the form of charges for services, operating and capital grants and contributions accounted for \$2,274,503 or 19 percent of total revenues of \$11,813,551.

The District's major fund is the General Fund. The General Fund had \$9,942,657 in revenues and other financing sources and \$9,473,479 in expenditures and other financing uses. The General Fund's balance increased \$469,178 from the prior fiscal year.

Using the Basic Financial Statements

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

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

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

For the District, the General Fund is by far the most significant fund and the only major fund.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities, both reported on the cash basis, reflect how the District performed financially during fiscal year 2011. These statements are reported on a cash basis of accounting, which reflects receipts and disbursements when cash is received or disbursed.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

In the statement of net assets and the statement of activities, the District discloses a single type of activity, its governmental activities, which includes all of the District's programs and services, are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

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

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2011 compared to fiscal year 2010 on a cash basis.

Table 1		
Net Assets		
Governmental Activities		
	2011	2010
<u>Assets:</u>		
Current Assets	\$4,432,892	\$3,984,735
<u>Net Assets:</u>		
Restricted for Debt Service	266,533	243,490
Restricted for Capital Outlay	87,970	121,766
Restricted for Other Purposes	129,004	145,869
Unrestricted	3,949,385	3,473,610
Total	\$4,432,892	\$3,984,735

The increase in net assets was attributed to several different factors. Contributing to this increase were federal stimulus dollars used to fund existing operations and conservative spending throughout FY 2011. Other factors contributing to the increase in net assets include additional open enrollment revenue and an increase in local tax revenue.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2011 compared to fiscal year 2010.

**Table 2
Change in Net Assets
Governmental Activities**

	<u>2011</u>	<u>2010</u>
Revenues:		
Program Revenues:		
Charges for Services and Sales	\$1,246,866	\$1,043,968
Operating Grants, Contributions and Interest	1,027,637	879,175
Total Program Revenues	<u>\$2,274,503</u>	<u>\$1,923,143</u>
General Revenues:		
Property Taxes	5,484,165	5,285,832
Grants and Entitlements	3,410,396	3,410,800
Interest	37,858	28,111
Revenue in Lieu of Taxes	514,292	440,808
Gifts and Donations	24,081	73,524
Miscellaneous	16,483	20,691
Insurance Recoveries	1,952	
Refund of Prior Year Expenditures	49,821	34,841
Total General Revenues	<u>\$9,539,048</u>	<u>\$9,294,607</u>
Total Revenues	<u>\$11,813,551</u>	<u>\$11,217,750</u>
Expenses:		
Instruction	\$6,087,795	\$5,948,454
Support Services:		
Pupils	494,879	513,290
Instructional Staff	418,340	314,043
Board of Education	43,944	45,904
Administration	919,466	877,561
Fiscal	340,156	326,383
Operation and Maintenance of Plant	760,672	802,258
Pupil Transportation	718,284	753,537
Central	72,423	63,607
Non-Instructional	502,047	480,367
Extracurricular Activities	375,795	324,958
Capital Outlay	8,007	21,845
Principal	435,000	415,000
Interest and Fiscal Charges	187,513	207,151
Refund of Prior Year Receipts	1,011	
Total Expenses	<u>\$11,365,332</u>	<u>\$11,094,358</u>
Transfers	<u>(62)</u>	<u>(143)</u>
Increase in Net Assets	<u>\$448,157</u>	<u>\$123,249</u>

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

**Table 3
Governmental Activities**

	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Instruction	\$6,087,795	\$4,566,011	\$5,948,454	\$4,653,289
Support Services:				
Pupils	494,879	487,061	513,290	507,818
Instructional Staff	418,340	386,772	314,043	313,783
Board of Education	43,944	43,944	45,904	45,904
Administration	919,466	865,686	877,561	844,269
Fiscal	340,156	340,156	326,383	326,383
Operation and Maintenance of Plant	760,672	756,182	802,258	802,258
Pupil Transportation	718,284	651,442	753,537	745,729
Central	72,423	62,785	63,607	53,931
Non-Instructional	502,047	57,391	480,367	21,432
Extracurricular Activities	375,795	241,868	324,958	212,423
Capital Outlay	8,007	8,007	21,845	21,845
Principal	435,000	435,000	415,000	415,000
Interest and Fiscal Charges	187,513	187,513	207,151	207,151
Refund of Prior Year Receipts	1,011	1,011		
Total Expenses	<u>\$11,365,332</u>	<u>\$9,090,829</u>	<u>\$11,094,358</u>	<u>\$9,171,215</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 75 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 80 percent. The remaining 20 percent is derived from tuition and fees, specific grants, and donations.

The District's Funds

The District's governmental funds are accounted for using the cash basis of accounting. The District's major governmental fund is the General Fund. Total governmental funds had revenues and other financing sources of \$11,927,946 and expenditures and other financing used of \$11,479,789. The District's net positive change of \$448,157 was primarily due to conservative spending and increases in local tax revenue and open enrollment revenue.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2011, the District amended its General Fund budget as needed.

Final estimated resources were more than original estimated resources by \$190,066 due to unexpected increases in intergovernmental revenues. Final revenues and other financing sources were budgeted at \$9,489,395 while actual revenues were \$9,880,092. The difference of \$390,697 is primarily due to an increase in local tax revenue and tuition and fees since more open enrollment students attended Northeastern.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Original expenditures and other financing uses were budgeted at \$11,684,279. Final expenditures and other financing uses were budgeted at \$11,825,676 while actual expenditures and other financing uses were \$9,657,651. The difference of \$2,168,025 is primarily due to a conservative "worst case scenario" approach. The District over-appropriated for regular and special instruction, instructional staff support, administration, operation and maintenance expenditures, and capital outlay.

Debt Administration

Debt

At June 30, 2011, the District had \$377,752 in school improvement general obligation bonds for building improvements. The bonds were issued in 2000, with final maturity on December 2013. The bonds are being retired through the Bond Retirement Fund.

At June 30, 2011, the District had \$5,847,318 in school improvement general obligation bonds for refunding prior building improvement bonds. The bonds were issued for a twenty-one year period, with final maturity on December 1, 2026. The bonds are being retired through the Bond Retirement Fund.

At June 30, 2011, the District's overall legal debt margin was \$11,989,920, with an un-voted debt margin of \$196,283.

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

Current Issues

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

The District is currently operating in the first year of the state biennium budget. In FY 2011 sixty-three percent of District revenue sources are from local funds, thirty percent from state funds and the remaining seven percent was from federal funds. The total expenditure per pupil was calculated at \$8,595.

The District has enjoyed steady growth in its tax base. New businesses continue to locate in the District allowing it to provide the educational opportunities to which the residents are accustomed. However, like all school districts in Ohio, the Northeastern Local School District is faced with financial challenges such as changes to state funding, the long-term effects of public utility deregulation, and the elimination of personal property taxes on business inventory.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Susan Garmyn, Treasurer, Northeastern Local School District, 05751 Domersville Road, Defiance, Ohio 43512-6703.

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Net Assets - Cash Basis
June 30, 2011**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$2,924,820
Investments	<u>1,508,072</u>
Total Assets	<u><u>4,432,892</u></u>
NET ASSETS:	
Restricted for Debt Service	266,533
Restricted for Capital Outlay	87,970
Restricted for Other Purposes	129,004
Unrestricted	<u>3,949,385</u>
Total Net Assets	<u><u>\$4,432,892</u></u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2011**

		Program Revenues		Net (Expense) Revenue and Changes in
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$4,386,732	\$776,758	\$239,547	(\$3,370,427)
Special	857,793	7,931	476,112	(373,750)
Vocational	112,339		6,917	(105,422)
Other	730,931		14,519	(716,412)
Support Services:				
Pupils	494,879		7,818	(487,061)
Instructional Staff	418,340		31,568	(386,772)
Board of Education	43,944			(43,944)
Administration	919,466	35,653	18,127	(865,686)
Fiscal	340,156			(340,156)
Operation and Maintenance of Plant	760,672		4,490	(756,182)
Pupil Transportation	718,284		66,842	(651,442)
Central	72,423		9,638	(62,785)
Operation of Non-Instructional Services	502,047	292,597	152,059	(57,391)
Extracurricular Activities	375,795	133,927		(241,868)
Capital Outlay	8,007			(8,007)
Principal	435,000			(435,000)
Interest and Fiscal Charges	187,513			(187,513)
Refund of Prior Year Receipts	1,011			(1,011)
Totals	\$11,365,332	\$1,246,866	\$1,027,637	(9,090,829)
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				4,962,419
Property Taxes, Levies for Capital Outlay				65,267
Property Taxes, Levied for Debt Service				456,479
Payments in Lieu of Taxes				514,292
Grants and Entitlements not Restricted to Specific Programs				3,410,396
Gifts and Donations				24,081
Investment Earnings				37,858
Miscellaneous				16,483
Insurance Recoveries				1,952
Refund of Prior Year Expenditures				49,821
Total General Revenues				9,539,048
Transfers				(62)
Total General Revenues and Transfers				9,538,986
Change in Net Assets				448,157
Net Assets Beginning of Year				3,984,735
Net Assets End of Year				\$4,432,892

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Balance Sheet - Cash Basis
Governmental Funds
June 30, 2011**

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,478,813	\$446,007	\$2,924,820
Investments	1,508,072		1,508,072
Total Assets	3,986,885	446,007	4,432,892
Fund Balances			
Restricted	18,770	431,383	450,153
Assigned	255,661	14,624	270,285
Unassigned	3,712,454		3,712,454
Total Fund Balances	\$3,986,885	\$446,007	\$4,432,892

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Receipts, Disbursements, and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2011**

	General Fund	All Other Governmental Funds	Total Governmental Funds
CASH RECEIPTS:			
Property and Other Local Taxes	\$4,962,419	\$521,746	\$5,484,165
Intergovernmental	3,478,540	959,493	4,438,033
Interest	37,858		37,858
Tuition and Fees	784,588		784,588
Rent	100		100
Extracurricular Activities	35,653	133,928	169,581
Gifts and Donations	19,211	4,870	24,081
Customer Sales and Services		292,597	292,597
Payments in Lieu of Taxes	514,292		514,292
Miscellaneous	16,402	81	16,483
Total Revenues	9,849,063	1,912,715	11,761,778
EXPENDITURES:			
Current:			
Instruction:			
Regular	4,164,712	222,020	4,386,732
Special	515,907	341,886	857,793
Vocational	112,339		112,339
Other	718,065	12,866	730,931
Support Services:			
Pupils	487,306	7,573	494,879
Instructional Staff	386,231	32,109	418,340
Board of Education	43,944		43,944
Administration	904,274	15,192	919,466
Fiscal	329,178	10,978	340,156
Operation and Maintenance of Plant	756,692	3,980	760,672
Pupil Transportation	668,143	50,141	718,284
Central	63,885	8,538	72,423
Operation of Non-Instructional Services	18,211	483,836	502,047
Extracurricular Activities	224,498	151,297	375,795
Capital Outlay	6,512	1,495	8,007
Debt Service:			
Principal		435,000	435,000
Interest		187,513	187,513
Total Expenditures	9,399,897	1,964,424	11,364,321
Excess of Revenues Over (Under) Expenditures	449,166	(51,709)	397,457
OTHER FINANCING SOURCES AND USES:			
Transfers In		67,387	67,387
Advances In	41,821	5,187	47,008
Insurance Recoveries	1,952		1,952
Refund of Prior Year Expenditures	49,821		49,821
Transfers Out	(67,449)		(67,449)
Advances Out	(5,187)	(41,821)	(47,008)
Refund of Prior Year Receipts	(946)	(65)	(1,011)
Total Other Financing Sources and Uses	20,012	30,688	50,700
Net Change in Fund Balances	469,178	(21,021)	448,157
Fund Balance at Beginning of Year (Restated - Note 3)	3,517,707	467,028	3,984,735
Fund Balance at End of Year	\$3,986,885	\$446,007	\$4,432,892

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
GENERAL FUND
For the Fiscal Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
CASH RECEIPTS:				
Property and Other Local Taxes	\$4,790,000	\$4,787,989	\$4,962,419	\$174,430
Intergovernmental	3,352,708	3,464,243	3,478,540	14,297
Interest	35,000	75,000	37,858	(37,142)
Tuition and Fees	581,750	588,257	758,493	170,236
Rent	300	300	100	(200)
Gifts and Donations			19,211	19,211
Payments in Lieu of Taxes	450,000	485,828	514,292	28,464
Miscellaneous	17,750	18,350	15,585	(2,765)
Total Revenues	<u>9,227,508</u>	<u>9,419,967</u>	<u>9,786,498</u>	<u>366,531</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	4,753,104	4,631,204	4,185,967	445,237
Special	1,039,424	1,015,674	537,482	478,192
Vocational	122,065	123,215	113,624	9,591
Other	621,875	755,875	726,405	29,470
Support Services:				
Pupils	568,415	584,965	490,011	94,954
Instructional Staff	459,216	581,166	396,558	184,608
Board of Education	80,475	88,475	44,209	44,266
Administration	1,195,292	1,204,292	875,748	328,544
Fiscal	368,890	374,890	330,818	44,072
Operation and Maintenance of Plant	1,085,989	1,085,989	869,178	216,811
Pupil Transportation	705,404	759,001	682,795	76,206
Central	67,600	71,925	63,885	8,040
Operation of Non-Instructional Services				
Extracurricular Activities	32,125	32,125	19,241	12,884
Capital Outlay	217,755	244,205	225,463	18,742
Capital Outlay	90,000	90,000	22,664	67,336
Total Expenditures	<u>11,407,629</u>	<u>11,643,001</u>	<u>9,584,048</u>	<u>2,058,953</u>
Excess of Revenues Over (Under) Expenditures	<u>(2,180,121)</u>	<u>(2,223,034)</u>	<u>202,450</u>	<u>2,425,484</u>
Other Financing Sources and Uses:				
Advances In	41,821	1,958	41,821	39,863
Insurance Recoveries			1,952	1,952
Refund of Prior Year Expenditures	30,000	67,470	49,821	(17,649)
Transfers Out	(76,650)	(70,000)	(67,470)	2,530
Advances Out	(50,000)	(50,000)	(5,187)	44,813
Refund of Prior Year Receipts	(50,000)	(25,000)	(946)	24,054
Other Financing Uses	(100,000)	(37,675)		37,675
Total Other Financing Sources and Uses	<u>(204,829)</u>	<u>(113,247)</u>	<u>19,991</u>	<u>133,238</u>
Net Change in Fund Balances	(2,384,950)	(2,336,281)	222,441	2,558,722
Fund Balance at Beginning of Year	3,276,375	3,276,375	3,276,375	
Prior Year Encumbrances Appropriated	197,235	197,235	197,235	
Fund Balance at End of Year	<u>\$1,088,660</u>	<u>\$1,137,329</u>	<u>\$3,696,051</u>	<u>\$2,558,722</u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2011**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$11,020	\$21,054
Total Assets	<u>11,020</u>	<u>21,054</u>
Liabilities		
Current Liabilities:		
Undistributed Monies		21,054
Total Liabilities		<u>\$21,054</u>
Net Assets		
Held in Trust for Scholarships	11,020	
Total Net Assets	<u>\$11,020</u>	

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Changes in Fiduciary Net Assets - Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2011**

	<u>Private Purpose Trust</u>
ADDITIONS:	
Donations and gifts	\$500
Transfers In	<u>16</u>
	516
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>500</u>
Change in Net Assets	16
Net Assets Beginning of Year	<u>11,004</u>
Net Assets End of Year	<u><u>\$11,020</u></u>

See Accompanying Notes to the Basic Financial Statements

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

1. DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

Northeastern Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Northeastern Local School District is a local school district as defined by §3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's three instructional/support facilities staffed by 55 non-certified and 78 certified part-time and full-time teaching personnel who provide services to 1,142 students and other community members.

The Reporting Entity

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

The District's basic financial statements consist of government-wide financial 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
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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 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 cash balance of the governmental activities of the District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the District's general receipts.

2. Fund Financial Statements

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

B. Fund Accounting

The 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. The funds of the District are divided into two categories, governmental and fiduciary.

1. Governmental Funds

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The District's only major fund is the General Fund.

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. The District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature. The District's agency fund accounts for various student-managed activities.

C. Basis of Accounting

Although the Ohio Administrative Code § 117-2-03(B) requires that the District's financial report to follow generally accepted accounting principles, the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. This is a comprehensive basis of accounting other than generally accepted accounting principles.

The District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

The budgetary process is prescribed by provision of the Ohio Revised Code and entails the preparation of budgetary documents within established timetable. All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the fund, function, object level within the General Fund and the fund, special cost center level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations below these levels are made by the Treasurer.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. Expenditures plus encumbrances may not legally exceed appropriations. Encumbrances at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

The Title VI-B Special Education and Handicapped Preschool special revenue funds are pass-through grants in which the Northwest Ohio Educational Service Center is the primary recipient. The District as a secondary recipient reports these monies spent on its behalf by the primary recipient as revenue and operating expenses. Budgetary information for these funds is not included within the District's reporting entity for which the "appropriated budget" is adopted.

E. Cash and Investments

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

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2011, investments were limited to STAR Ohio, certificate of deposits, a money market mutual fund, and federal agency securities. Investments are reported at cost, except for the money market mutual fund and STAR Ohio. The District's money market mutual fund investment is recorded at the amount reported by Fifth Third Securities, Inc. at June 30, 2011.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District had invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2011. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2011.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2011 amounted to \$37,858, which includes \$3,614 assigned from other District funds.

F. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by law through constitutional provisions or enabling legislation.

G. Inventory and Prepaid Items

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Interfund Receivables/Payables

The District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

J. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's cash basis of accounting.

K. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

Nonspendable - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.

Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

L. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

M. Long-term Obligations

The District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor capital outlay expenditure are reported at inception. Lease payments are reported when paid.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. There are no amounts restricted by enabling legislation.

O. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 cash disbursements to the funds that initially paid for them are not presented in the financial statements.

3. RESTATEMENT OF FUND BALANCE/NET ASSETS

For fiscal year 2011, the District modified its financial statements to reflect the modifications outlined in GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". GASB Statement No. 54 provides fund balance classifications that can be more consistently applied and clarifies the existing governmental fund type definitions. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned, and/or unassigned.

The restatement due to the implementation of GASB Statement No. 54 had the following effect on fund balance of the major and nonmajor funds of the School District as they were previously reported.

	General	Other Governmental	Total Governmental Funds
Fund Balance at June 30, 2010	\$3,473,610	\$511,125	\$3,984,735
Change in Fund Structure	44,097	(44,097)	
Adjusted Fund Balance at June 30, 2010	<u>\$3,517,707</u>	<u>\$467,028</u>	<u>\$3,984,735</u>

4. BUDGETARY BASIS OF ACCOUNTING

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 Receipts, Disbursements, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. Outstanding year end encumbrances are treated as expenditures (budget basis) rather than restricted, committed, or assigned fund balance (cash basis).

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

**Net Change in Fund Balance
Major Governmental Fund**

Budget Basis	\$222,441
<u>Increase (Decrease) Due To:</u>	
Encumbrances Outstanding at Year End (Budget Basis)	253,334
GASB 54 change in Fund Structure	(6,597)
Cash Basis	\$469,178

5. DEPOSITS AND INVESTMENTS

Monies held by the District are classified by State statute into three categories.

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

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

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

Interim monies held by the District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 agreement by at least two percent and to be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

At year end, the District had \$100 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents."

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,850,764 of the District's bank balance of \$2,621,921 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2011, the District had the following investments:

<u>Investment Type</u>	<u>Cost Value</u>	<u>Investment Maturities</u>		
		<u>Less than One year</u>	<u>One to Two Years</u>	<u>Three to Five Years</u>
Money Market Mutual Fund Account	\$305,173	\$305,173		
Federal Home Loan Bank Notes \$801,479	801,479			
Federal National Mortgage Assn Notes 505,166	706,593		\$201,427	
STAR Ohio	<u>171,201</u>	<u>171,201</u>		
Total Investments	<u>\$1,984,446</u>	<u>\$476,374</u>	<u>\$201,427</u>	<u>\$1,306,645</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk - Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

Credit Risk - The Federal Home Loan Bank Notes, and the Federal National Mortgage Association Notes carry a rating of Aaa by Moody's and AAA by Standard and Poor's. The Federated United States Treasury Cash Reserve Mutual Fund and STAR Ohio carry a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal National Mortgage Association Notes, and the Federal Home Loan Bank Notes are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk - The District places no limit on the amount it may invest in any one issuer, however state statute limits investments in commercial paper and bankers' acceptances to 25 percent of the interim monies available for investment at any one time. The District's investment in the Federal Home Loan Bank Notes and the Federal National Mortgage Association Notes represent 40 percent and 36 percent respectively, of the District's total investments.

6. PROPERTY TAXES

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

6. PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real and public utility property located in the District. Real and public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes for 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2011 were levied after April 1, 2010, on the assessed values as of December 31, 2009, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenue received during calendar year 2011 (other than public utility property) represents the collection of 2011 taxes. Tangible personal property taxes received in calendar year 2011 were levied after April 1, 2010, on the value as of December 31, 2010. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Defiance County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second- Half Collections		2011 First- Half Collections	
	Amount	Percent	Amount	Percent
Residential/Agricultural	\$121,075,870	63%	\$121,983,020	62%
Commercial/Industrial	44,737,920	23%	45,247,560	23%
Public Utility	26,073,940	14%	29,052,910	15%
Total Assessed Value	<u>\$191,887,730</u>	<u>100%</u>	<u>\$196,283,490</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$45.30		\$44.35	

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

7. RISK MANAGEMENT

A. Comprehensive

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

Property Insurance	\$42,450,801
Equipment Breakdown	50,000,000
Automobile Liability	12,000,000
Wrongful Acts	12,000,000
Crime Coverage	100,000
General Liability:	
Per Occurrence	12,000,000
Total Per Year	14,000,000

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

B. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities (see Note 16). The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, and life insurance plans. Northern Buckeye Education Council is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

C. Workers' Compensation Group Program

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

8. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

Plan Description - The 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 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 District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2011, 11.81 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers.

Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$151,187, \$162,184, and \$112,030, and respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

B. State Teachers Retirement System

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a 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.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

8. DEFINED PENSION BENEFIT PLANS (Continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan 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, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2010, 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 District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009, were \$563,797, 587,528, and \$568,041, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

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 Retirement System. As of June 30, 2011, three members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

9. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The 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.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

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 2011, 1.43 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 2011, this amount was \$35,800. The District's SERS surcharge amount for 2011 was \$19,161.

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 District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$37,468, \$24,297, and \$67,988, respectively; 100 percent has been contributed for fiscal years 2011, 2010, and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal year ended June 30, 2011 was \$9,729.

B. State Teachers Retirement System

Plan Description – The 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.

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 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009, were \$43,369, \$45,194, and \$43,695 respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

10. COMPENSATED ABSENCES

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

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 59.75 days for certified employees and 57.5 days for non-certified employees.

11. LONG-TERM OBLIGATIONS

Changes in long-term obligations of the District during fiscal year 2011 were as follows:

	<u>Balance at 06/30/10</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 06/30/11</u>	<u>Amount Due In one Year</u>
Series 2000:					
Current interest bonds	\$170,000		\$170,000		
Capital appreciation bonds	346,541	\$31,211		377,752	\$184,843
Total Series 2000	516,541	31,211	170,000	377,752	
Series 2005:					
Current interest bonds	4,350,000		120,000	4,230,000	125,000
Capital appreciation bonds	938,208	129,646		1,067,854	
Unamortized Bond Costs	584,102		34,638	549,464	34,638
Total Series 2005	5,872,310	129,646	154,638	5,847,318	159,638
Energy Conservation Improvement Bonds	35,000		35,000		
Capital Lease	110,000		110,000		
Total Long-Term Obligations	<u>\$6,533,851</u>	<u>\$160,857</u>	<u>\$469,638</u>	<u>\$6,225,070</u>	<u>\$344,481</u>

Total expenditures for interest for the above debt for the period ended June 30, 2011 was \$187,513.

The scheduled payments of principal and interest on debt outstanding at June 30, 2011, are as follows:

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

11. LONG-TERM OBLIGATIONS (Continued)

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$344,481	\$190,541	\$535,022
2013	329,532	228,293	557,825
2014	304,846	267,985	572,831
2015	287,409	295,423	582,832
2016	265,638	317,194	582,832
2017-2021	1,980,080	898,848	2,878,928
2022-2026	2,583,190	289,823	2,873,013
2027	129,894	2,200	132,094
Total	<u>\$6,225,070</u>	<u>\$2,490,307</u>	<u>\$8,715,377</u>

General Obligation Bonds – Series 2000

The general obligation bonds were issued in March 2000 for the purpose of constructing, furnishing, and equipping a new elementary building, and for the purpose of improving the junior/senior high school building. These bonds were refinanced on May 11, 2005. The remaining bonds consist of \$450,000 capital appreciation bonds.

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

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

The capital appreciation bonds were issued in the aggregate original principal amount of \$34,421 and mature on December 1 in the years, have the original principal amounts and mature with the accreted values at maturity, as follows:

<u>Maturity Date</u>	<u>Original Principal Amount</u>	<u>Accreted Value At Maturity</u>
2011	\$17,974	\$200,000
2012	16,447	225,000

The value of the capital appreciation bonds at June 30, 2011 was \$377,752. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$343,331 has been included in the value. The bonds are being retired through the Bond Retirement Debt Service Fund.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

11. LONG-TERM OBLIGATIONS (Continued)

General Obligation Bonds – Series 2005

The general obligation bonds were issued in May 11, 2005 for the purpose of school improvement refunding bond. The bonds consist of \$4,965,000 in current interest bonds and \$289,990 capital appreciation bonds. The bonds are dated as of May 11, 2005.

The bonds shall mature on December 1 in the years and in the principal amounts set forth.

The current interest bonds will bear interest payable on June 1 and December 1 of each year, commencing on June 1, 2005. All current interest bonds will be issued as current interest serial bonds, and none of the current interest bonds will be issued as term bonds.

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2011	125,000	3.50%
2017	375,000	4.25%
2018	390,000	4.25%
2019	405,000	4.00%
2020	425,000	4.10%
2021	445,000	4.15%
2022	460,000	4.20%
2023	480,000	4.25%
2024	500,000	4.30%
2025	525,000	4.37%
2026	100,000	4.40%

The capital appreciation bonds were issued in the principal amounts will mature and be payable as both principal and interest in the maturity amounts on the principal payment dates, and will bear interest at the compounding rates per year as follows:

<u>Maturity Date</u>	<u>Original Principal Amount</u>	<u>Accreted Value At Maturity</u>
2012	\$32,942	\$125,000
2013	80,629	365,000
2014	69,435	375,000
2015	58,200	375,000
2016	48,784	375,000

The value of the capital appreciation bonds at June 30, 2011 was \$1,067,854. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$777,864 has been included in the value. The bonds are being retired through the Bond Retirement Debt Service Fund.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

11. LONG-TERM OBLIGATIONS (Continued)

Energy Conservation Improvements Bonds

The energy conservation bonds were issued in May 2000 for the purpose of paying costs of installations, modifications, and remodeling of school buildings to conserve energy, pursuant to the laws of the State of Ohio, particularly 113.06 (G) of the Ohio Revised Code. These bonds were paid off in November 2010.

12. CAPITALIZED LEASES - LESSEE DISCLOSURE

The District has entered into capitalized lease for the construction of an athletic field house.

The terms of the agreement provides an option to purchase the athletic field house. The lease meets the criteria of a capital lease as defined by Statement No. 13 of the Financial Accounting Standards Board

(FASB), "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Fund Types. These expenditures are reflected as program/function expenditures on a budgetary basis.

The final principal payment in the amount of \$110,000 was made on November 22, 2010.

13. SET-ASIDE CALCULATIONS

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

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

	Textbooks	Capital Acquisition
Set Aside Reserve Balance June 30, 2011		
Current Year Set-aside Requirement	\$164,691	\$164,691
Current Year Set-Qualifying Expenditures	(135,138)	(101,147)
Excess Qualified Expenditures from Prior Years	(635,331)	
Current Year Offsets		(81,428)
Total	(\$605,778)	(\$17,884)
Balance Carried Forward to Fiscal Year 2012	(\$605,778)	

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

14. FUND BALANCE

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented on the following page:

Fund Balance	General	Other Governmental	Total Governmental Funds
Restricted for:			
Regular Instruction		\$22,372	\$22,372
Special Instruction		2	2
Extra-Curricular Activities		22,232	22,232
Food Service Operations		32,274	32,274
Facilities Maintenance	\$18,770	12,409	31,179
Debt Retirement		266,533	266,533
Permanent Improvements		75,561	75,561
Total Restricted	<u>18,770</u>	<u>431,383</u>	<u>450,153</u>
Assigned for:			
Educational Activities	255,661	1,319	256,980
Food Service Operations		505	505
Extra-Curricular Activities		12,800	12,800
Total Assigned	<u>255,661</u>	<u>14,624</u>	<u>270,285</u>
Unassigned:	<u>3,712,454</u>		<u>3,712,454</u>
Total Fund Balance	<u>\$3,986,885</u>	<u>\$446,007</u>	<u>\$4,432,892</u>

15. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NWOCA during this fiscal year were \$62,431. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 209 Nolan Parkway, Archbold, Ohio 43502.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

15. JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located.

The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC during this fiscal year were \$250. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, at 209 Nolan Parkway, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center—one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. Total disbursements made by the District to the Four County Career Center during this fiscal year were \$28,504. To obtain financial information write to the Four County Career Center, Jennifer Bonner, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials and provide opportunities for training. The NOERC serves twenty-five county area of Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Total disbursements made by the District to NOERC during this fiscal year were \$200. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

16. GROUP PURCHASING POOLS

A. Northern Buckeye Education Council Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were \$919,355. Financial information can be obtained from Northern Buckeye Education Council, Crystal Meyer, at 209 Nolan Parkway, Archbold, Ohio 43502.

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

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$1,099 to the WCGRP to cover the costs of administering the program.

C. Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code – Non-Profit Corporations and functioning under authority granted by Section 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool to assist member school districts in preventing and reducing losses and injuries to property and persons which might result in claims being made against members of SORSA, their employees or officers. The District paid \$51,299 for those services to SORSA during fiscal year 2011

A nine-person Board of Directors manages the business and affairs of SORSA and is elected annually by the members of the pool. The Board of Directors consists of superintendents, treasurers, or business managers from the participating school districts. SORSA employs an Executive Director and a Member Services Coordinator to administer the pool while claims are processed by Avizent. Financial information can be obtained from SORSA at 8050 North High Street, Suite 160, Columbus, Ohio 43235 or by calling 866-767-7299.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

17. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2011, consisted of the following, as reported on the fund statements:

Transfers from the General Fund to:	Amount
Other Governmental Funds:	
Bond Retirement Fund	\$36,048
Food Service Fund	30,042
Athletic Fund	1,297
Total	67,387
Private Purpose Funds:	
Scholarship fund	16
Agency Funds:	
Student Activities	46
Total Transfers	\$67,449

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

18. INTERFUND RECEIVABLES / PAYABLES

Interfund balances at June 30, 2011, consisted of the following individual fund receivables and payables:

Due to the General Fund From:	Amount
Other Governmental Funds:	
Title II-D Fund	\$187
Athletic Fund	5,000
Total	\$5,000

The balance due to the General Fund includes loans made cover costs in grant and other funds where revenues were not received by June 30. All of these amounts are expected to be repaid within one year. These amounts are not included on the accompanying financial statements. All interfund balances outstanding at June 30, 2010 were repaid during FY 2011.

19. CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2011.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

19. CONTINGENCIES (Continued)

B. Litigation

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
<u>Child Nutrition Cluster:</u>			
School Breakfast Program	10.553	\$10,401	\$10,401
National School Lunch Program	10.555		
Cash Assistance		137,769	137,769
Non- Cash Assistance (Food Distribution)		46,664	46,664
Total National School Lunch Program		<u>184,433</u>	<u>184,433</u>
Total U.S. Department of Agriculture		<u>194,834</u>	<u>194,834</u>
UNITED STATES DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education:</i>			
<u>Title I, Part A Cluster:</u>			
Title I Grants to Local Educational Agencies - 2010	84.010	13,172	13,172
Title I Grants to Local Educational Agencies - 2011	84.010	73,386	73,386
Total I Grants to Local Educational Agencies		<u>86,558</u>	<u>86,558</u>
ARRA - Title I Grants to Local Educational Agencies	84.389	5,191	5,191
Total Title I, Part A Cluster		<u>91,749</u>	<u>91,749</u>
Education JOBS	84.410	33,020	33,019
Education Technology State Grants	84.318	131	99
Improving Teacher Quality State Grants - 2010	84.367	4,924	4,924
Improving Teacher Quality State Grants - 2011	84.367	44,212	44,212
Total Improving Teacher Quality State Grants		<u>49,136</u>	<u>49,136</u>
ARRA - State Fiscal Stabilization Fund (SFSP) - Education State Grants	84.394	172,965	153,274
Total U.S. Department of Education		<u>347,001</u>	<u>327,277</u>
Total Federal Awards Receipts and Expenditures		<u>\$541,835</u>	<u>\$522,111</u>

The accompanying notes are an integral part of this Schedule.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • 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
Defiance County
05751 Domersville Road
Defiance, Ohio 43512-6703

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Northeastern Local School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 9, 2011, wherein we noted the District uses a comprehensive accounting basis other than generally accepted accounting principles and the District adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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 an instance of noncompliance we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-001.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated December 9, 2011.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

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



Dave Yost
Auditor of State

December 9, 2011



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

Northeastern Local School District
Defiance County
05751 Domersville Road
Defiance, Ohio 43512-6703

To the Board of Education:

Compliance

We have audited the compliance of Northeastern Local School District, Defiance County, Ohio (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 could directly and materially affect each of the District's major federal programs for the year ended June 30, 2011. 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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 could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

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, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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www.auditor.state.oh.us

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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 over compliance that might be deficiencies, 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 noted a matter involving federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated December 9, 2011.

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



Dave Yost
Auditor of State

December 9, 2011

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

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 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)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any 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(a)?	No
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster – CFDA #10.553 and #10.555 ARRA – State Fiscal Stabilization Fund – Education State Grants – CFDA #84.394
(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**

FINDING NUMBER 2011-001

Noncompliance Citation

Ohio Revised Code, § 117.38, provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.

Ohio Administrative Code, § 117-2-03(B), which further clarifies the requirements of Ohio Revised Code § 117.38, requires the County to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

For 2011, the District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the cash basis of accounting. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between the County's accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

We recommend the District take the necessary steps to ensure the financial report is prepared in accordance with generally accepted accounting principles.

Officials' Response:

Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient.

3. FINDINGS FOR FEDERAL AWARDS

None

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Ohio Revised Code §117.38 and Ohio Administrative Code §117-2-03 (B) – requires the District to prepare its annual financial report in accordance with generally accepted accounting principles.	No	Not Corrected. Reissued as finding 2011-001 in this report.

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Northeastern Local School District
Defiance County
05751 Domersville Road
Defiance, Ohio 43512-6703

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

We noted the Board amended its anti-harassment policy at its meeting on December 16, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 9, 2011

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Dave Yost • Auditor of State

NORTHEASTERN LOCAL SCHOOL DISTRICT

DEFIANCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 27, 2011**