



**Auditor of State
Betty Montgomery**

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Northeastern Local School District (the District) as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Northeastern Local School District as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

December 23, 2003

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2003

| | Governmental Fund Types | | | |
|--|--------------------------------|----------------------------|-------------------------|-----------------------------|
| | General | Special Revenue | Debt Service | Capital Projects |
| ASSETS AND OTHER DEBITS | | | | |
| Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$3,833,937 | \$80,758 | \$63,983 | \$296,492 |
| Cash and Cash Equivalents: | | | | |
| With Fiscal Agents | | 118 | | |
| Receivables: | | | | |
| Taxes | 4,774,942 | | 547,298 | 66,372 |
| Accounts | 1,682 | 292 | | |
| Intergovernmental | 178 | 45,978 | | |
| Accrued Interest | | | | |
| Interfund Receivable | 2,624 | | | |
| Materials and Supplies Inventory | 42,969 | | | |
| Prepaid Items | 46,574 | | | |
| Fixed Assets | | | | |
| Accumulated Depreciation | | | | |
| Other Debits: | | | | |
| Amount Available in Debt Service Fund for Retirement of Long-Term Obligations | | | | |
| Amount to be Provided From General Government Resources | | | | |
| Total Assets and Other Debits | \$8,702,906 | \$127,146 | \$611,281 | \$362,864 |

| <u>Proprietary Fund Type</u> | <u>Fiduciary Fund Types</u> | <u>Account Groups</u> | | <u>Totals (Memorandum Only)</u> |
|----------------------------------|---------------------------------|-------------------------------------|--|---|
| | | <u>General Fixed Assets</u> | <u>General Long-Term Obligations</u> | |
| <u>Enterprise</u> | <u>Trust and Agency</u> | | | |
| \$77,906 | \$38,778 | | | \$4,391,854 |
| | | | | 118 |
| | | | | 5,388,612 |
| 829 | 1,050 | | | 3,853 |
| | | | | 46,156 |
| | 81 | | | 81 |
| | | | | 2,624 |
| 11,230 | | | | 54,199 |
| | | | | 46,574 |
| 301,245 | | \$12,498,718 | | 12,799,963 |
| (93,942) | | | | (93,942) |
| | | | \$63,893 | 63,893 |
| | | | 7,202,621 | 7,202,621 |
| <u>\$297,268</u> | <u>\$39,909</u> | <u>\$12,498,718</u> | <u>\$7,266,514</u> | <u>\$29,906,606</u> |

(Continued)

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF JUNE 30, 2003
(Continued)

| | Governmental Fund Types | | | |
|--|--------------------------------|----------------------------|-------------------------|-----------------------------|
| | General | Special Revenue | Debt Service | Capital Projects |
| LIABILITIES, FUND EQUITY AND OTHER CREDITS | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$124,886 | \$3,589 | | |
| Accrued Wages and Benefits | 693,663 | 15,714 | | |
| Compensated Absences Payable | 14,095 | | | |
| Interfund Payable | | 2,624 | | |
| Intergovernmental Payable | 107,114 | 2,308 | | |
| Deferred Revenue | 4,589,942 | 28,454 | \$521,298 | \$63,572 |
| Due to Students | | | | |
| Notes Payable | | | | 1,050,000 |
| Energy Conservation Loan Payable | | | | |
| General Obligation Bonds Payable | | | | |
| | | | | |
| Total Liabilities | 5,529,700 | 52,689 | 521,298 | 1,113,572 |
| Fund Equity and Other Credits: | | | | |
| Investment in General Fixed Assets | | | | |
| Contributed Capital | | | | |
| Retained Earnings: | | | | |
| Unreserved | | | | |
| Fund Balances: | | | | |
| Reserved for Encumbrances | 126,868 | 15,993 | | 73,229 |
| Reserved for Inventory | 42,969 | | | |
| Reserved for Prepaid Items | 46,574 | | | |
| Reserved for Debt Service Principal | | | 63,983 | |
| Reserved for Contributions | | | | |
| Reserved for Property Taxes | 185,000 | | 26,000 | 2,800 |
| Unreserved, Undesignated | 2,771,795 | 58,464 | | (826,737) |
| | | | | |
| Total Fund Equity and Other Credits | 3,173,206 | 74,457 | 89,983 | (750,708) |
| Total Liabilities, Fund Equity, and Other Credits | \$8,702,906 | \$127,146 | \$611,281 | \$362,864 |

The notes to the general-purpose financial statements are an integral part of this statement.

| <u>Proprietary Fund Type</u> | <u>Fiduciary Fund Types</u> | <u>Account Groups</u> | | <u>Totals (Memorandum Only)</u> |
|----------------------------------|---------------------------------|-------------------------------------|--|---|
| | | <u>General Fixed Assets</u> | <u>General Long-Term Obligations</u> | |
| <u>Enterprise</u> | <u>Trust and Agency</u> | | | |
| | \$1,850 | | | \$130,325 |
| \$23,108 | | | | 732,485 |
| 4,563 | | | \$660,955 | 679,613 |
| | | | | 2,624 |
| 17,661 | | | 59,505 | 186,588 |
| | | | | 5,203,266 |
| | 25,214 | | | 25,214 |
| | | | | 1,050,000 |
| | | | 288,000 | 288,000 |
| | | | 6,258,054 | 6,258,054 |
| <u>45,332</u> | <u>27,064</u> | | <u>7,266,514</u> | <u>14,556,169</u> |
| | | \$12,498,718 | | 12,498,718 |
| 125,422 | | | | 125,422 |
| 126,514 | | | | 126,514 |
| | | | | 216,090 |
| | | | | 42,969 |
| | | | | 46,574 |
| | | | | 63,983 |
| | 10,600 | | | 10,600 |
| | | | | 213,800 |
| | 2,245 | | | 2,005,767 |
| <u>251,936</u> | <u>12,845</u> | <u>12,498,718</u> | | <u>15,350,437</u> |
| <u>\$297,268</u> | <u>\$39,909</u> | <u>\$12,498,718</u> | <u>\$7,266,514</u> | <u>\$29,906,606</u> |

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003

| | <u>Governmental Fund Types</u> | |
|--|--------------------------------|----------------------------|
| | <u>General</u> | <u>Special Revenue</u> |
| Revenues: | | |
| Intergovernmental | \$2,582,882 | \$302,390 |
| Interest | 66,130 | |
| Tuition and Fees | 419,296 | |
| Rent | 1,038 | |
| Extracurricular Activities | | 226,130 |
| Gifts and Donations | 18,985 | 2,686 |
| Property and Other Local Taxes | 4,414,010 | |
| Miscellaneous | 472,097 | 2,188 |
| Total Revenues | <u>7,974,438</u> | <u>533,394</u> |
| Expenditures: | | |
| Current: | | |
| Instruction: | | |
| Regular | 4,000,920 | 7,442 |
| Special | 614,877 | 195,944 |
| Vocational | 139,866 | |
| Adult/Continuing | | |
| Other | 215,931 | |
| Support Services: | | |
| Pupils | 346,434 | 67,743 |
| Instructional Staff | 229,649 | 19,753 |
| Board of Education | 32,376 | |
| Administration | 690,813 | 49,017 |
| Fiscal | 244,217 | 611 |
| Operation and Maintenance of Plant | 716,368 | |
| Pupil Transportation | 512,782 | |
| Central | 12,484 | 14,666 |
| Non-Instructional Services | 5,033 | |
| Extracurricular activities | 148,432 | 182,550 |
| Capital Outlay | 161,765 | 20,824 |
| Debt Service: | | |
| Debt Service - Principal | | |
| Debt Service - Interest | | |
| Total Expenditures | <u>8,071,947</u> | <u>558,550</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(97,509)</u> | <u>(25,156)</u> |
| Other Financing Sources (Uses) | | |
| Operating Transfers In | | 9,686 |
| Proceeds from Sale of Fixed Assets | 28,500 | |
| Refund of Prior Year Expenditures | 30,095 | |
| Operating Transfers Out | (150,670) | (6,799) |
| Refund of Prior Year Receipts | (43,245) | |
| Total Other Financing Sources (Uses) | <u>(135,320)</u> | <u>2,887</u> |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | <u>(232,829)</u> | <u>(22,269)</u> |
| Fund Balance at Beginning of Year | 3,406,035 | 96,726 |
| Fund Balance at End of Year | <u><u>\$3,173,206</u></u> | <u><u>\$74,457</u></u> |

The notes to the general-purpose financial statements are an integral part of this statement.

| <u>Governmental Fund Types</u> | | <u>Fiduciary Fund Type</u> | <u>Totals (Memorandum Only)</u> |
|--------------------------------|-------------------------|----------------------------|---------------------------------|
| <u>Debt Service</u> | <u>Capital Projects</u> | <u>Expendable Trust</u> | |
| \$45,901 | \$22,733 | | \$2,953,906 |
| | | | 66,130 |
| | | | 419,296 |
| | | | 1,038 |
| | | | 226,130 |
| | | \$1,589 | 23,260 |
| 511,119 | 63,732 | | 4,988,861 |
| | 91,790 | | 566,075 |
| <u>557,020</u> | <u>178,255</u> | <u>1,589</u> | <u>9,244,696</u> |
| | 17,250 | | 4,025,612 |
| | | | 810,821 |
| | | | 139,866 |
| | | 1,500 | 1,500 |
| | | | 215,931 |
| | | | 414,177 |
| | | | 249,402 |
| | | | 32,376 |
| | | | 739,830 |
| 11,872 | 1,500 | | 258,200 |
| | | | 716,368 |
| | | | 512,782 |
| | | | 27,150 |
| | | | 5,033 |
| | | | 330,982 |
| | 186,972 | | 369,561 |
| 88,000 | | | 88,000 |
| <u>366,955</u> | <u>28,674</u> | | <u>395,629</u> |
| <u>466,827</u> | <u>234,396</u> | <u>1,500</u> | <u>9,333,220</u> |
| <u>90,193</u> | <u>(56,141)</u> | <u>89</u> | <u>(88,524)</u> |
| 111,474 | 193,674 | 53 | 314,887 |
| | | | 28,500 |
| | | | 30,095 |
| (193,674) | | | (351,143) |
| | | | (43,245) |
| <u>(82,200)</u> | <u>193,674</u> | <u>53</u> | <u>(20,906)</u> |
| 7,993 | 137,533 | 142 | (109,430) |
| 81,990 | (888,241) | 2,022 | 2,698,532 |
| <u>\$89,983</u> | <u>(\$750,708)</u> | <u>\$2,164</u> | <u>\$2,589,102</u> |

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003

| | General | | Variance: Favorable (Unfavorable) |
|--|---------------------------|---------------------------|---|
| | Budget | Actual | |
| Revenues: | | | |
| Intergovernmental | \$2,605,453 | \$2,609,737 | \$4,284 |
| Interest | 65,700 | 66,504 | 804 |
| Tuition and Fees | 365,625 | 419,340 | 53,715 |
| Rent | 650 | 1,038 | 388 |
| Extracurricular Activities | | | |
| Gifts and Donations | 3,100 | 18,985 | 15,885 |
| Property and Other Local Taxes | 4,446,400 | 4,462,560 | 16,160 |
| Miscellaneous | 526,300 | 492,284 | (34,016) |
| Total Revenues | <u>8,013,228</u> | <u>8,070,448</u> | <u>57,220</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 4,156,380 | 3,996,612 | 159,768 |
| Special | 620,650 | 610,026 | 10,624 |
| Vocational | 148,725 | 139,401 | 9,324 |
| Adult/Continuing | 1,175 | | 1,175 |
| Other | 260,018 | 218,935 | 41,083 |
| Support services: | | | |
| Pupils | 372,072 | 344,670 | 27,402 |
| Instructional Staff | 262,056 | 230,573 | 31,483 |
| Board of Education | 47,392 | 42,095 | 5,297 |
| Administration | 1,004,851 | 710,936 | 293,915 |
| Fiscal | 284,301 | 244,828 | 39,473 |
| Operation and Maintenance of Plant | 906,841 | 834,125 | 72,716 |
| Pupil Transportation | 579,688 | 528,088 | 51,600 |
| Central | 19,400 | 12,484 | 6,916 |
| Non-Instructional Services | 11,280 | 5,658 | 5,622 |
| Extracurricular activities | 159,875 | 147,339 | 12,536 |
| Capital Outlay | 238,546 | 202,538 | 36,008 |
| Debt Service: | | | |
| Principal | | | |
| Interest | | | |
| Total Expenditures | <u>9,073,250</u> | <u>8,268,308</u> | <u>804,942</u> |
| Excess of Revenues Under Expenditures | <u>(1,060,022)</u> | <u>(197,860)</u> | <u>862,162</u> |
| Other Financing Sources (Uses) | | | |
| Operating Transfers In | | | |
| Proceeds from Sale of Bonds | | | |
| Proceeds from Sale of Fixed Assets | 28,500 | 28,500 | |
| Refund of Prior Year Expenditures | 30,000 | 30,095 | 95 |
| Advances In | 28,653 | 29,096 | 443 |
| Operating Transfers Out | (152,000) | (150,670) | 1,330 |
| Refund of Prior Year Receipts | (75,000) | (43,245) | 31,755 |
| Advances Out | (25,000) | (2,624) | 22,376 |
| Total Other Financing Sources (Uses) | <u>(164,847)</u> | <u>(108,848)</u> | <u>55,999</u> |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses | (1,224,869) | (306,708) | 918,161 |
| Fund Balance at Beginning of Year | 3,653,648 | 3,653,648 | |
| Prior Year Encumbrances Appropriated | 236,062 | 236,062 | |
| Fund Balance at end of Year | <u>\$2,664,841</u> | <u>\$3,583,002</u> | <u>\$918,161</u> |

| Special Revenue | | | Debt Service | | |
|-----------------|-----------------|---|-----------------|-----------------|---|
| Budget | Actual | Variance: Favorable (Unfavorable) | Budget | Actual | Variance: Favorable (Unfavorable) |
| \$174,818 | \$314,262 | \$139,444 | \$45,900 | \$45,901 | \$1 |
| 225,024 | 225,838 | 814 | | | |
| 2,686 | 2,686 | | | | |
| 1,945 | 2,188 | 243 | 510,675 | 510,669 | (6) |
| 404,473 | 544,974 | 140,501 | 556,575 | 556,570 | (5) |
| 7,552 | 7,552 | | | | |
| 131,076 | 198,213 | (67,137) | | | |
| | 67,743 | (67,743) | | | |
| 20,018 | 20,357 | (339) | | | |
| 57,444 | 49,219 | 8,225 | | | |
| 604 | 611 | (7) | 15,000 | 11,872 | 3,128 |
| 16,991 | 14,666 | 2,325 | | | |
| 220,604 | 201,211 | 19,393 | | | |
| 20,824 | 20,823 | 1 | | | |
| | | | 1,303,000 | 1,303,000 | |
| | | | 403,465 | 395,629 | 7,836 |
| 475,113 | 580,395 | (105,282) | 1,721,465 | 1,710,501 | 10,964 |
| (70,640) | (35,421) | 35,219 | (1,164,890) | (1,153,931) | 10,959 |
| 9,329 | 9,686 | 357 | 111,450 | 111,474 | 24 |
| | | | 1,050,000 | 1,050,000 | |
| | 2,624 | 2,624 | | | |
| (6,800) | (6,799) | 1 | | | |
| (29,096) | (29,096) | | | | |
| (26,567) | (23,585) | 2,982 | 1,161,450 | 1,161,474 | 24 |
| (97,207) | (59,006) | 38,201 | (3,440) | 7,543 | 10,983 |
| 94,154 | 94,154 | | 56,440 | 56,440 | |
| 26,030 | 26,030 | | | | |
| \$22,977 | \$61,178 | \$38,201 | \$53,000 | \$63,983 | \$10,983 |

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)

| | Capital Projects | | |
|--|-------------------------|-------------------------|--|
| | Budget | Actual | Variance: Favorable (Unfavorable) |
| Revenues: | | | |
| Intergovernmental | \$23,303 | \$22,733 | (\$570) |
| Interest | | | |
| Tuition and Fees | | | |
| Rent | | | |
| Extracurricular Activities | | | |
| Gifts and Donations | | | |
| Property and Other Local Taxes | 63,500 | 64,132 | 632 |
| Miscellaneous | 74,721 | 166,593 | 91,872 |
| Total Revenues | <u>161,524</u> | <u>253,458</u> | <u>91,934</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 17,303 | 17,250 | 53 |
| Special | | | |
| Vocational | | | |
| Adult/Continuing | | | |
| Other | | | |
| Support services: | | | |
| Pupils | | | |
| Instructional Staff | | | |
| Board of Education | | | |
| Administration | | | |
| Fiscal | 2,000 | 1,500 | 500 |
| Operation and Maintenance of Plant | | | |
| Pupil Transportation | | | |
| Central | | | |
| Non-Instructional Services | | | |
| Extracurricular activities | | | |
| Capital Outlay | 491,783 | 396,869 | 94,914 |
| Debt Service: | | | |
| Principal | | | |
| Interest | | | |
| Total Expenditures | <u>511,086</u> | <u>415,619</u> | <u>95,467</u> |
| Excess of Revenues Under Expenditures | <u>(349,562)</u> | <u>(162,161)</u> | <u>187,401</u> |
| Other Financing Sources (Uses) | | | |
| Operating Transfers In | | | |
| Proceeds from Sale of Bonds | | | |
| Proceeds from Sale of Fixed Assets | | | |
| Refund of Prior Year Expenditures | | | |
| Advances In | | | |
| Operating Transfers Out | | | |
| Refund of Prior Year Receipts | | | |
| Advances Out | | | |
| Total Other Financing Sources (Uses) | | | |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses | (349,562) | (162,161) | 187,401 |
| Fund Balance at Beginning of Year | 43,642 | 43,642 | |
| Prior Year Encumbrances Appropriated | 341,783 | 341,783 | |
| Fund Balance at end of Year | <u>\$35,863</u> | <u>\$223,264</u> | <u>\$187,401</u> |

The notes to the general-purpose financial statements are an integral part of this statement.

| Expendable Trust | | | Totals (Memorandum Only) | | |
|------------------|----------------|---|--------------------------|--------------------|---|
| Budget | Actual | Variance: Favorable (Unfavorable) | Budget | Actual | Variance: Favorable (Unfavorable) |
| | | | \$2,849,474 | \$2,992,633 | \$143,159 |
| | | | 65,700 | 66,504 | 804 |
| | | | 365,625 | 419,340 | 53,715 |
| | | | 650 | 1,038 | 388 |
| | | | 225,024 | 225,838 | 814 |
| \$1,550 | \$1,589 | \$39 | 7,336 | 23,260 | 15,924 |
| | | | 5,020,575 | 5,037,361 | 16,786 |
| | | | 602,966 | 661,065 | 58,099 |
| <u>1,550</u> | <u>1,589</u> | <u>39</u> | <u>9,137,350</u> | <u>9,427,039</u> | <u>289,689</u> |
| | | | 4,181,235 | 4,021,414 | 159,821 |
| | | | 751,726 | 808,239 | (56,513) |
| | | | 148,725 | 139,401 | 9,324 |
| 2,600 | 1,950 | 650 | 3,775 | 1,950 | 1,825 |
| | | | 260,018 | 218,935 | 41,083 |
| | | | 372,072 | 412,413 | (40,341) |
| | | | 282,074 | 250,930 | 31,144 |
| | | | 47,392 | 42,095 | 5,297 |
| | | | 1,062,295 | 760,155 | 302,140 |
| | | | 301,905 | 258,811 | 43,094 |
| | | | 906,841 | 834,125 | 72,716 |
| | | | 579,688 | 528,088 | 51,600 |
| | | | 36,391 | 27,150 | 9,241 |
| | | | 11,280 | 5,658 | 5,622 |
| | | | 380,479 | 348,550 | 31,929 |
| | | | 751,153 | 620,230 | 130,923 |
| | | | 1,303,000 | 1,303,000 | |
| | | | 403,465 | 395,629 | 7,836 |
| <u>2,600</u> | <u>1,950</u> | <u>650</u> | <u>11,783,514</u> | <u>10,976,773</u> | <u>806,741</u> |
| <u>(1,050)</u> | <u>(361)</u> | <u>689</u> | <u>(2,646,164)</u> | <u>(1,549,734)</u> | <u>1,096,430</u> |
| 40 | 53 | 13 | 120,819 | 121,213 | 394 |
| | | | 1,050,000 | 1,050,000 | |
| | | | 28,500 | 28,500 | |
| | | | 30,000 | 30,095 | 95 |
| | | | 28,653 | 31,720 | 3,067 |
| | | | (158,800) | (157,469) | 1,331 |
| | | | (75,000) | (43,245) | 31,755 |
| | | | (54,096) | (31,720) | 22,376 |
| <u>40</u> | <u>53</u> | <u>13</u> | <u>970,076</u> | <u>1,029,094</u> | <u>59,018</u> |
| (1,010) | (308) | 702 | (1,676,088) | (520,640) | 1,155,448 |
| 1,873 | 1,873 | | 3,849,757 | 3,849,757 | |
| 500 | 500 | | 604,375 | 604,375 | |
| <u>\$1,363</u> | <u>\$2,065</u> | <u>\$702</u> | <u>\$2,778,044</u> | <u>\$3,933,492</u> | <u>\$1,155,448</u> |

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003

| | <u>Proprietary Fund Type</u> | <u>Fiduciary Fund Type</u> | <u>Totals (Memorandum Only)</u> |
|---|----------------------------------|--------------------------------|---|
| | <u>Enterprise</u> | <u>Nonexpendable Trust</u> | |
| Operating Revenues: | | | |
| Sales | \$293,522 | | \$293,522 |
| Interest | | \$272 | 272 |
| Other Revenues | 126 | | 126 |
| Contributions and Donations | | 195 | 195 |
| Total Operating Revenues | <u>293,648</u> | <u>467</u> | <u>\$294,115</u> |
| Operating Expenses: | | | |
| Salaries | 138,469 | | 138,469 |
| Fringe Benefits | 64,992 | | 64,992 |
| Purchased Services | 2,989 | | 2,989 |
| Materials and Supplies | 218,060 | 500 | 218,560 |
| Depreciation | 24,928 | | 24,928 |
| Other | 791 | | 791 |
| Total Operating Expenses | <u>450,229</u> | <u>500</u> | <u>450,729</u> |
| Operating Loss | <u>(156,581)</u> | <u>(33)</u> | <u>(156,614)</u> |
| Non-Operating Revenues | | | |
| Federal Donated Commodities | 23,894 | | 23,894 |
| Federal and State Subsidies | 73,202 | | 73,202 |
| Total Non-Operating Revenues | <u>97,096</u> | | <u>97,096</u> |
| Loss Before Operating Transfers | <u>(59,485)</u> | <u>(33)</u> | <u>(59,518)</u> |
| Operating Transfers-In | 35,599 | 7 | 35,606 |
| Net Loss | <u>(23,886)</u> | <u>(26)</u> | <u>(23,912)</u> |
| Retained Earnings/Fund Balances at Beginning of Year | 150,400 | 10,707 | 161,107 |
| Retained Earnings/Fund Balances at End of Year | <u>126,514</u> | <u>10,681</u> | <u>137,195</u> |
| Contributed Capital at Beginning of Year | 125,422 | | 125,422 |
| Contributed Capital at End of Year | 125,422 | | 125,422 |
| Total Fund Equity at End of Year | <u><u>\$251,936</u></u> | <u><u>\$10,681</u></u> | <u><u>\$262,617</u></u> |

The notes to the general-purpose financial statements are an integral part of this statement.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003

| | <u>Proprietary Fund Type</u> | <u>Fiduciary Fund Type</u> | <u>Totals (Memorandum Only)</u> |
|---|----------------------------------|--------------------------------|---|
| | <u>Enterprise</u> | <u>Nonexpendable Trust</u> | |
| Increase (Decrease) in Cash and Cash Equivalents | | | |
| <u>Cash Flows from Operating Activities:</u> | | | |
| Cash Received from Sales | \$293,630 | | \$293,630 |
| Other Cash Receipts | 126 | 195 | 321 |
| Cash Payments to Suppliers for Goods and Services | (202,388) | | (202,388) |
| Cash Payments for Contract Services | (2,989) | | (2,989) |
| Cash Payments for Employee Services | (138,600) | | (138,600) |
| Cash Payments for Employee Benefits | (59,706) | | (59,706) |
| Other Cash Payments | (791) | (\$503) | (1,294) |
| Net Cash Used by Operating Activities | <u>(110,718)</u> | <u>(308)</u> | <u>(111,026)</u> |
| <u>Cash Flows from Noncapital Financing Activities:</u> | | | |
| Operating Grants Received | 82,755 | | 82,755 |
| Transfers In | 35,599 | 7 | 35,606 |
| Net Cash Provided by Noncapital Financing Activities | <u>118,354</u> | <u>7</u> | <u>118,361</u> |
| <u>Cash Flows from Investing Activities:</u> | | | |
| Interest Received | | 298 | 298 |
| Net Cash Provided by Investing Activities | | <u>298</u> | <u>298</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 7,636 | (3) | 7,633 |
| Cash and Cash Equivalents at Beginning of Year | <u>70,270</u> | <u>11,103</u> | <u>81,373</u> |
| Cash and Cash Equivalents at End of Year | <u>\$77,906</u> | <u>\$11,100</u> | <u>\$89,006</u> |

(Continued)

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)

| | <u>Proprietary Fund Type</u> | <u>Fiduciary Fund Type</u> | <u>Totals (Memorandum Only)</u> |
|--|----------------------------------|--------------------------------|---|
| | <u>Enterprise</u> | <u>Nonexpendable Trust</u> | |
| Reconciliation of Operating Loss to Net Cash Used by Operating Activities: | | | |
| Operating Loss | (\$156,581) | (\$33) | (\$156,614) |
| <u>Adjustments to Reconcile Operating Income (Loss) To Net Cash Provided (Used) by Operating Activities:</u> | | | |
| Depreciation | 24,928 | | 24,928 |
| Donated Commodities Used During the Year | 23,894 | | 23,894 |
| Nonexpendable Trust Interest | | (298) | (298) |
| (Increase) Decrease in Assets: | | | |
| Accounts Receivable | 108 | | 108 |
| Accrued Interest | | 26 | 26 |
| Material and Supplies Inventory | 726 | | 726 |
| Increase (Decrease) in Liabilities: | | | |
| Compensated Absences Payable | (3,018) | | (3,018) |
| Intergovernmental Payable | 4,861 | | 4,861 |
| Deferred Revenue | (5,798) | | (5,798) |
| Accrued Wages and Benefits | 3,312 | | 3,312 |
| Accounts Payable | (3,150) | (3) | (3,153) |
| Total Adjustments | <u>45,863</u> | <u>(275)</u> | <u>45,588</u> |
| Net Cash Used by Operating Activities | <u>(\$110,718)</u> | <u>(\$308)</u> | <u>(\$111,026)</u> |
| Reconciliation of Nonexpendable Trust Fund Cash Balance as of June 30, 2003: | | | |
| Cash and Cash Equivalents - Trust and Agency Funds | | | \$38,778 |
| Less: Expendable Trust Funds | | | (3,514) |
| Less: Agency Funds | | | <u>(24,164)</u> |
| Cash and Cash Equivalents - Nonexpendable Trust Funds | | | <u>\$11,100</u> |

The food service fund consumed donated commodities with a value of \$23,894. The use of these commodities is reflected as an operating expense.

The notes to the general-purpose financial statements are an integral part of this statement.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Northeastern Local School 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 (the District) is a local school district as defined by § 3311.03 of 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.

The Reporting Entity

The District has implemented the Government Accounting Standards Board (GASB) pronouncements concerning the definition of the reporting entity. Accordingly, the District's balance sheet includes all funds, account groups, agencies, boards, commissions, and component units over which the District officials exercise oversight responsibility.

Oversight responsibility includes such aspects as appointment of governing body members, budget review, approval of property tax levies, outstanding debt secured by District full faith and credit or revenues, and responsibility for funding deficits. On this basis, there were no organizations subject to the District's oversight responsibility, which required incorporation into the financial statements.

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, Cisco Academy of Northwest Ohio, the Northwestern Ohio Educational Research Council, Inc., the Northern Buckeye Education Council's Employee Insurance Benefit Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 14 and 15 to the general-purpose financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The enterprise funds and non-expendable trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

associated with the operation of this fund are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into retained earnings components. The enterprise and non-expendable trust funds' operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The Agency funds are custodial in nature and do not present results of operations or have a measurement focus.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental fund types, expendable trust, and agency funds. The full accrual basis of accounting is followed by the enterprise funds and non-expendable trust fund.

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

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

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

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Delinquent property taxes and property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met and receivables that are not collected within the available period are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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

B. Fund Accounting

The District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity, which stands separate from the activities reporting in other funds. The restrictions associated with each class of funds are as follows:

GOVERNMENTAL FUNDS

The funds through which most Board of Education functions are typically financed.

General Fund - The fund used to account for all financial resources except those required to be segregated and accounted for in other funds. The General Fund is the general operating fund of the District.

Special Revenue Funds - The funds used to account for the proceeds of specific revenue sources (other than capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Fund - The fund used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. According to the governmental accounting principles, the Debt Service Fund accounts for the payment of long-term debt for Governmental Funds only. Under Ohio law, the Debt Service Fund might also be used to account for the payment of debt for Proprietary Funds and the short-term debt of both Governmental and Proprietary Funds.

Capital Projects Funds - The funds used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Non-expendable Trust Funds).

FIDUCIARY FUNDS

The funds used to account for assets not owned by the Board, but held for a separate entity.

Trust Funds - The funds used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Expendable Trust Funds and Non-expendable Trust Funds.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

Agency Funds - The funds used to account for assets held by the District as an agent. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

PROPRIETARY FUNDS

The funds used to account for Board activities that are similar to business operations in the private sector. Proprietary Funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Proprietary fund measurement focus is upon determination of net income, financial position and cash flows.

Enterprise Funds - The funds used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

ACCOUNT GROUPS

General Fixed Assets - Fixed assets acquired or constructed for general governmental services are recorded as expenditures in the fund making the expenditures and capitalized at cost in the General Fixed Assets Account Group.

General Long-Term Obligations - This group of accounts is established to account for all long-term obligations of the District except those accounted for in the Proprietary Funds.

C. Budgetary Accounting

Budgets are adopted on a cash basis.

The District is required by State statute to adopt an annual appropriation budget for all funds. The specific timetable is as follows:

1. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. The annual appropriation measure (the true operating budget) is then developed at the function level of expenditures for the General fund and the fund level of expenditures for all other funds, which are the legal levels of budgetary control.
2. A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for a period July 1 to June 30. The appropriation measure may be amended or supplemental during the year as new information becomes available. Appropriations may not exceed estimated resources.
3. The District maintains budgetary control by not permitting expenditures to exceed appropriations within each fund, function and object without approval of the Board of Education. The Board permits management to make discretionary budgetary

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

adjustments within each fund, which are approved by the Board on a monthly basis. Any adjustments that alter the total fund appropriation require specific action of the Board.

4. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

The District's budget (budget basis) for all funds accounts for certain transactions on a basis, which differs from generally accepted accounting principles (GAAP basis). The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes.
2. Expenditures and expenses are recorded when paid in cash or encumbered for budget purposes as opposed to when the liability is incurred for GAAP purposes.
3. The District repays short-term note debt from the debt service fund (budget basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

An analysis of the difference between GAAP and budgetary basis for all governmental fund types and expendable trust funds for the year ended June 30, 2003 follows:

| | Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | | | | |
|----------------------|--|--------------------|-----------------|---------------------|---------------------|
| | General | Special Revenue | Debt Service | Capital Projects | Expendable Trust |
| Budget Basis | \$ (306,708) | \$ (59,006) | \$ 7,543 | \$ (162,161) | \$ (308) |
| Adjustments for: | | | | | |
| Revenue Accruals | (96,010) | (11,580) | 450 | (75,203) | - |
| Expenditure Accruals | (54,572) | 2,264 | 1,243,674 | 107,995 | (1,000) |
| Other Sources/Uses | (26,472) | 26,472 | (1,243,674) | 193,674 | - |
| Encumbrances | 250,933 | 19,581 | - | 73,228 | 1,450 |
| GAAP Basis | <u>\$ (232,829)</u> | <u>\$ (22,269)</u> | <u>\$ 7,993</u> | <u>\$ 137,533</u> | <u>\$ 142</u> |

D. Encumbrances

The District is required to use the encumbrance method of accounting. 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. 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.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

E. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

During fiscal year 2003, investments were limited to STAR Ohio.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2003. 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, 2003.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. The general fund was credited more interest than would have been received based upon its share of the District's investments during fiscal year 2003. The general fund received \$66,130 in interest, which includes \$8,255 assigned from other funds.

For purposes of the combined statement of cash flows and for preparation on the combined balance sheet, 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. For the purpose of reporting cash flows, cash and cash equivalents are defined as equity in pooled cash and cash equivalents as these amounts are available for immediate withdrawal.

F. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost has been recorded as an expenditure at the time individual inventory items were purchased. Reported inventories in these funds are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expended when used.

G. Property, Plant and Equipment

GENERAL FIXED ASSETS ACCOUNT GROUP

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Contributed fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing individual assets with a cost of less than \$2,000. No depreciation is

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

recognized for asset in General Fixed Assets Account Group. Interest on debt, issued to construct general fund assets is not capitalized in the account group.

Public Domain ("infrastructure") general fixed assets consisting of curbs gutters, sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government. The District does not have any infrastructure.

PROPRIETARY FUNDS

Property plant and equipment reflected in the Proprietary Funds are stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Contributed fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided for furniture, fixtures, and equipment on a straight-line basis over an estimated useful life of five to twenty years.

H. Intergovernmental Revenues

In governmental funds, entitlements and non-reimbursable grants are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Other than commodities, grants for proprietary fund operations are recognized as revenue when measurable and earned. This District currently participates in various state and federal programs, categorized as follows:

Entitlements

General Fund

State Foundation Program
School Bus Purchase Reimbursement

Non-Reimbursable Grants

Special Revenue Funds

Educational Management Information Systems
SchoolNet Professional Development
Summer School Subsidy
Extended Learning Opportunity Grant
Ohio Reads Grant
Eisenhower Grant
Title VI-B (Through Northwest Ohio Educational Service Center)
Title I
Title III (Through Northwest Ohio Educational Service Center)
Title VI
Drug Free Schools Grant
Federal Preschool Grant (Through Northwest Ohio Educational Service Center)
Title VI-R
Title II-A
Technology Grant

Capital Projects Funds

SchoolNet Plus

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

Reimbursable Grants

General Fund

Driver Education Reimbursement
Vocational Education Equipment Fund

Enterprise Fund

National School Lunch Program
Food Distribution Program

I. Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be expended are recorded as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans are reflected as interfund receivables and interfund payables.

J. Compensated Absences

The District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 16, "Accounting for Compensated Absences". In conformity with GASB Statement No. 16, the District accrues vacation as earned by its employees if the leave is attributable to past service and it is probable that the District will compensate the employees for the benefits through paid time or some other means, such as cash payments at termination or retirement.

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

For governmental funds, the District provides a liability for unpaid accumulated sick leave and vacation time for eligible employees in the period the employees become eligible to receive payment. The current portion of unpaid compensated absences is the amount to be paid using expendable available resources and is reported as an accrued liability in the fund from which the individuals who have accumulated the unpaid compensated absences are paid. The balance of the liability is reported in the General Long-Term Obligations Account Group. In proprietary funds, compensated absences are expensed when earned. The entire amount of unpaid compensated absences is reported as a fund liability.

K. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventory, prepaid items, contributions, debt service, and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for contributions signifies the legal restrictions on the use of principal.

L. Accrued Liabilities and Long-term Obligations

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the debt service fund for payment early in the following year. For the other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Obligations Account Group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

M. Estimates

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

N. Pass-Through Grants

The Title VI-B, Title III, and Handicapped Preschool special revenue funds are pass-through grants in which the Northwest Ohio Educational Service Center is the primary recipient. In accordance with GASB Statement 24 "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance" the secondary recipients should report monies spent on their behalf by the primary recipient as revenue and operating expenditures.

O. Total Columns on Financial Statements

Total columns on the financial statements are captioned "(Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. This information is not comparable to a consolidation. Interfund-type eliminations have not been made in the combining of the data.

3. ACCOUNTABILITY

At June 30, 2003, the Title I and the Building Construction funds had deficit fund balances of \$2,476 and \$1,045,242, which were created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

4. EQUITY IN POOLED CASH AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District Treasury, in commercial accounts payable or

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withdrawal on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

Interim monies may be deposited or invested in the following securities:

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

Investments in stripped principal or interest obligations, reverse purchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short

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selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At fiscal year end, the District had \$100 in undeposited cash on hand, which is included on the balance sheet of the District as part of "equity in pooled cash and cash equivalents."

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

Deposits

At the year-end, the carrying amount of the District's deposits was \$1,374,082 and the bank balance was \$1,538,829. Of the bank balance:

1. \$162,519 was covered by Federal Depository Insurance; and
2. \$1,376,310 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments

The District's investments are required to be categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

The reported amount and fair value of STAR Ohio was \$3,017,672 as of June 30, 2003. The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting cash flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that was Proprietary Fund Accounting."

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

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| | Cash and Cash Equivalents | Investments |
|------------------|------------------------------|--------------|
| GASB Statement 9 | \$ 4,391,854 | \$ - |
| Cash on Hand | (100) | - |
| STAR Ohio | (3,017,672) | 3,017,672 |
| GASB Statement 3 | \$ 1,374,082 | \$ 3,017,672 |

5. PROPERTY TAXES

Property taxes include amounts levied against real, public utility, and tangible property located within the District. All property is required to be reappraised every six years with a triennial update.

Real property taxes, excluding public utility property, are assessed at 35 percent of appraised market value. Pertinent real property tax dates are:

| | |
|------------------|---|
| Collection Dates | February and July of the current year |
| Lien Date | January 1 of the year preceding the collection year |
| Levy Date | April 1 of the year preceding the collection year |

Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value.

The taxes are based on assessed values determined at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of the current calendar year. Pertinent tangible personal property tax dates are:

| | |
|------------------|---|
| Collection Dates | April and October of the current year |
| Lien Date | December 31 of the current year |
| Levy Date | April 1 of the year preceding the collection year |

Most public utility tangible personal property currently is assessed at 35 percent of its true value. Pertinent public utility tangible personal property tax dates are:

| | |
|------------------|--|
| Collection Dates | April and October of the current year |
| Lien Date | December 31 of the second year preceding the collection year |
| Levy Date | April 1 of the year preceding the collection year |

The County Treasurer collects real estate property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the District its portion of the taxes collected with final settlement in March and September.

The County Treasurer collects personal property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the District its portion of the taxes collected with final settlement in May and October.

Taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes, which are measurable at June 30, 2003. These taxes are intended to finance the next fiscal year's operations, and are therefore offset by a credit to deferred revenue, except for the portion, which is available to advance as of June 30, 2003.

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The assessed values of properties upon which property tax revenues were based are as follows:

| | Amount |
|----------------------------------|----------------|
| Residential/Agricultural | \$ 82,935,910 |
| Commercial/Industrial | 36,020,730 |
| Public Utility Personal Property | 27,099,870 |
| General Personal Property | 22,169,630 |
| Total Valuation | \$ 168,226,140 |

6. FIXED ASSETS

A summary of changes in the General Fixed Assets Account Group is as follows:

| Asset Category | Restated Balance at 07/01/02 | Additions | Disposals | Balance at 06/30/03 |
|------------------------------------|------------------------------------|------------|------------|------------------------|
| Land and land improvements | \$ 210,129 | \$ 484,747 | \$ - | \$ 694,876 |
| Buildings | 10,812,573 | - | 651,141 | 10,161,432 |
| Furniture, fixtures, and equipment | 677,422 | 132,567 | 160,922 | 649,067 |
| Vehicles | 972,911 | 54,153 | 33,721 | 993,343 |
| Totals | \$ 12,673,035 | \$ 671,467 | \$ 845,784 | \$ 12,498,718 |

A summary of Enterprise Fund fixed assets at June 30, 2003 follows:

| Asset Category | Balance at 06/30/03 |
|--------------------------------|------------------------|
| Furniture and Equipment | \$ 301,245 |
| Less: Accumulated Depreciation | 93,942 |
| Totals | \$ 207,303 |

During fiscal year 2003, the District determined that fixed assets reported in the General Fixed Asset Account Group were overstated as of June 30, 2002. The effect of these changes on the beginning balance of the fixed assets in the General Fixed Asset Account Group is as follows:

| | General Fixed Assets Account Group - Fixed Assets |
|----------------------------------|---|
| Amount as perviously reported | \$ 13,108,815 |
| Adjustment | (435,780) |
| Restated Amounts at July 1, 2002 | \$ 12,673,035 |

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7. NOTES PAYABLE

During the fiscal year ended June 30, 2003, the following changes occurred in notes payable reported in Capital Projects fund type:

| | Interest Rate | Maturity Date | Balance at 07/01/02 | Additions | Deletions | Balance at 06/30/03 |
|-----------------------------------|------------------|------------------|------------------------|---------------------|---------------------|------------------------|
| Bond Anticipatory Notes - 2002 | 2.36% | 06/26/03 | \$ 1,215,000 | \$ - | \$ 1,215,000 | \$ - |
| Bond Anticipatory Notes - 2003 | 1.50% | 06/24/04 | - | 1,050,000 | - | 1,050,000 |
| | | | <u>\$ 1,215,000</u> | <u>\$ 1,050,000</u> | <u>\$ 1,215,000</u> | <u>\$ 1,050,000</u> |

8. LONG-TERM OBLIGATIONS

During the year ended June 30, 2003, the following changes occurred in obligations reported in the General Long-Term Obligations Account Group:

| | Interest Rate | Maturity Date | Balance at 07/01/02 | Additions | Deletions | Balance at 06/30/03 |
|--|------------------|------------------|------------------------|------------------|------------------|------------------------|
| General Obligation Bonds | Various | 12/01/26 | \$ 6,271,843 | \$ 31,211 | \$ 45,000 | \$ 6,258,054 |
| Energy Conservation Loan | 4.40% | 11/23/03 | 16,000 | - | 8,000 | 8,000 |
| Energy Conservation Improvement Bonds | 5.99% | 11/23/10 | 315,000 | - | 35,000 | 280,000 |
| Intergovernmental Payable | | | 52,345 | 7,160 | - | 59,505 |
| Compensated Absences | | | 610,292 | 50,663 | - | 660,955 |
| Total Long-Term Obligations | | | <u>\$ 7,265,480</u> | <u>\$ 89,034</u> | <u>\$ 88,000</u> | <u>\$ 7,266,514</u> |

Total expenditures for interest for the above debt for the period ended June 30, 2003 was \$395,629.

The scheduled payments of principal and interest on debt outstanding at June 30, 2003 are as follows:

| Fiscal Year Ending June 30 | Principal | Interest | Total |
|----------------------------|---------------------|---------------------|----------------------|
| 2004 | \$ 98,000 | \$ 362,025 | \$ 460,025 |
| 2005 | 105,000 | 356,630 | 461,630 |
| 2006 | 115,000 | 350,818 | 465,818 |
| 2007 | 135,000 | 344,197 | 479,197 |
| 2008 | 145,000 | 336,770 | 481,770 |
| 2009-2013 | 693,054 | 1,857,709 | 2,550,763 |
| 2014-2018 | 1,410,000 | 1,322,785 | 2,732,785 |
| 2019-2023 | 1,880,000 | 853,930 | 2,733,930 |
| 2024-2027 | 1,965,000 | 238,235 | 2,203,235 |
| Total | <u>\$ 6,546,054</u> | <u>\$ 6,023,099</u> | <u>\$ 12,569,153</u> |

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

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

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

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

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

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

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| Year | Principal Amount to be Redeemed |
|------|---------------------------------------|
| 2020 | \$ 375,000 |
| 2021 | 395,000 |
| 2022 | 420,000 |
| 2023 | 445,000 |
| 2024 | 470,000 |
| 2025 | 495,000 |
| 2026 | 555,000 |

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

| Redemption Date (Dates Inclusive) | Redemption Prices |
|--|----------------------|
| December 1, 2010 through November 30, 2011 | 101% |
| December 1, 2011 and thereafter | 100% |

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

| Maturity Date | Original Principal Amount | Accreted Value at Maturity |
|------------------|---------------------------------|----------------------------------|
| 2011 | \$ 17,974 | \$ 200,000 |
| 2012 | 16,448 | 225,000 |

The value of the capital appreciation bonds reported in the General Long-Term Obligations Account Group at June 30, 2003 was \$128,054. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$93,632 has been included in the value. The bonds are being retired through the Bond Retirement debt service fund.

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

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

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9. 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 55 days for certified employees and 55 days for non-certified employees.

At June 30, 2003 the current amount of unpaid compensated absences in all funds, except for the proprietary funds, and the balance of the liability in the General Long-Term Obligations Account Group were \$14,095 and \$660,955, respectively. The liability for compensated absences in the proprietary funds at June 30, 2003 was \$4,563.

10. PENSION AND RETIREMENT PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. 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 Broad Street, Suite 1100, Columbus, Ohio 43215 – 3746 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll, for fiscal year 2003; 8.17 percent was the portion to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$96,741, \$66,607, and \$49,196, respectively; 62 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$36,303 representing the unpaid contribution for fiscal year 2003 is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that

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includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 E. Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$561,575, \$396,616, and \$423,431, respectively; 90 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. \$84,830 representing the unpaid contribution for fiscal year 2003 is recorded as a liability within the respective funds.

11. POST EMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2002, the board allocated employer contributions equal to 4.5 percent of covered payroll to Health Care Stabilization Fund. Effective July 1, 2002, 1 percent of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was \$3.011 billion on June 30, 2002.

For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000. There were 105,300 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2003, the allocation rate is 5.83 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2003, the minimum pay has been established as \$14,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

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Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003 were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, the Retirement System's net assets available for payment of health care benefits were \$303.6 million.

The number of participants currently receiving health care benefits is approximately 50,000.

In 2003, the District, paid \$86,862 including surcharge to fund postemployment healthcare benefits.

12. RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are fully insured.

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

B. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities. The District pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, and life insurance plans. Northern Buckeye Education Council is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a 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 15). 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.

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13. ENTERPRISE FUNDS SEGMENT INFORMATION

The District maintains two Enterprise Funds, which provide lunchroom/cafeteria and uniform school supply services. Segment information for the year ended June 30, 2003 was as follows:

| | Lunchroom/ Cafeteria | Uniform School Supplies | Total Enterprise Funds |
|--|-------------------------|-------------------------------|------------------------------|
| Operating revenues | \$ 265,826 | \$ 27,822 | \$ 293,648 |
| Depreciation | 24,928 | - | 24,928 |
| Operating loss | (148,611) | (7,970) | (156,581) |
| Donated commodities | 23,894 | - | 23,894 |
| Grants | 73,202 | - | 73,202 |
| Operating transfers - in | 35,599 | - | 35,599 |
| Property, plant & equipment Deletions | 13,799 | - | 13,799 |
| Net loss | (15,916) | (7,970) | (23,886) |
| Net working capital | (6,737) | 51,370 | 44,633 |
| Total assets | 245,898 | 51,370 | 297,268 |
| Total liabilities | 45,332 | - | 45,332 |
| Total equity | 200,566 | 51,370 | 251,936 |

14. 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 \$45,877. Financial information can be obtained from Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC for GAAP conversion services during this fiscal year were \$3,000. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

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C. Four County Career Center

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

D. Cisco Academy of Northwest Ohio

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

E. Northwestern Ohio Educational Research Council, Inc.

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

15. 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 \$700,472. Financial information can be obtained from Northern Buckeye Education Council, Cindy Siler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

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

The District participates in a group rating plan for workers' compensation as established under § 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$924 to the WCGRP to cover the costs of administering the program.

16. INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2003 consist of the following individual fund receivables and payables.

| | Interfund Receivable | Interfund Payable |
|-----------------------|-------------------------|----------------------|
| General Fund | \$ 2,624 | \$ - |
| Special Revenue Funds | - | 2,624 |
| Total | \$ 2,624 | \$ 2,624 |

B. Interfund transfers between funds during the year ended June 30, 2003 were as follows:

| | Transfers In | Transfers Out |
|-----------------------|-----------------|------------------|
| General Fund | \$ - | \$ 150,670 |
| Special Revenue Fund | 9,686 | 6,799 |
| Debt Service Fund | 111,474 | 193,674 |
| Capital Project Fund | 193,674 | - |
| Expendable Trust Fund | 53 | - |
| Enterprise Fund | 35,599 | - |
| Nonexpendable Fund | 7 | - |
| Agency Fund | 650 | - |
| Total All Funds | \$ 351,143 | \$ 351,143 |

17. SET-ASIDE CALCULATIONS AND FUND RESERVES

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. For fiscal year 2003, only the unspent portion of certain workers' compensation refunds was required to be set aside at fiscal year end. The budget stabilization reserve was used to purchase a bus in July 2002.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

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

| | <u>Textbooks</u> | <u>Capital Acquisition</u> | <u>Budget Stabilization</u> |
|---------------------------------------|---------------------|--------------------------------|---------------------------------|
| Set-aside Balance as of June 30, 2002 | \$ (227,563) | \$ - | \$ 26,070 |
| Current Year Set-aside Requirement | 155,769 | 155,769 | - |
| Current Year Offsets | - | (230,729) | - |
| Qualifying Disbursements | <u>(161,671)</u> | <u>(249,096)</u> | <u>(26,070)</u> |
| Total | <u>\$ (233,465)</u> | <u>\$ (324,056)</u> | <u>\$ -</u> |
| Balance Carried Forward to FY 2004 | <u>\$ (233,465)</u> | <u>\$ -</u> | <u>\$ -</u> |

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

18. STATE SCHOOL FUNDING DECISION

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

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

19. CONTRACTUAL COMMITMENTS

As of June 30, 2003, the District had the following contractual purchase commitments:

| <u>Company</u> | <u>Amount Remaining</u> |
|---------------------|-----------------------------|
| Bauman Enterprises | \$ 16,500 |
| Ward Construction | 58,867 |
| Beilharz Architects | <u>14,042</u> |
| Total | <u>\$ 89,409</u> |

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**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of Northeastern Local School District (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 23, 2003, wherein we noted the change in its policy regarding fixed asset capitalization. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated December 23, 2003.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 23, 2003.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

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

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

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

Betty Montgomery
Auditor of State

December 23, 2003



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

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
JANUARY 27, 2004**