



**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2009



Mary Taylor, CPA
Auditor of State

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Northeastern Local School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Northeastern Local School District, Defiance County, Ohio, as of June 30, 2009 and the respective changes in cash financial position and the budgetary comparison for the General fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

October 21, 2009

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2009**

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

Financial Highlights

Key financial highlights for fiscal year 2009 are as follows:

In total, net assets increased \$268,993.

General revenues accounted for \$9,732,064 or 84 percent of all revenues. Program specific revenues in the form of charges for services, operating and capital grants and contributions accounted for \$1,898,701 or 16 percent of total revenues of \$11,630,765.

The District's major fund is the General Fund. The General Fund had \$9,749,161 in revenues and other financing sources and \$9,625,289 in expenditures and other financing uses. The General Fund's balance increased \$123,872 from the prior fiscal year.

Using the Basic Financial Statements

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

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

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

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

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities, both reported on the cash basis, reflect how the District performed financially during fiscal year 2009. These statements are reported on a cash basis of accounting, which reflects receipts and disbursements when cash is received or disbursed.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2009 compared to fiscal year 2008 on a cash basis.

**Table 1
Net Assets
Governmental Activities**

	<u>2009</u>	<u>2008</u>
<u>Assets:</u>		
Current Assets	\$3,861,486	\$3,592,493
<u>Net Assets:</u>		
Restricted for Debt Service	236,340	122,850
Restricted for Capital Outlay	97,645	72,768
Restricted for Other Purposes	112,821	106,067
Unrestricted	3,414,680	3,290,808
Total	<u>\$3,861,486</u>	<u>\$3,592,493</u>

The increase in net assets was attributed to several different factors. General fund expenditures decreased from 2008 to 2009 by \$186,888. Contributing to this decrease in expenditures was a change in the health insurance offered to our employees which reduced the monthly premiums combined with a health insurance premium moratorium for the month of April 2009. Other factors contributing to the increase in net assets include donations received from the Northeastern Local School Foundation and the Tinora Athletic Boosters to pay a portion of the lease on the field house and conservative spending throughout 2009.

Table 2 reflects the changes in net assets for fiscal year 2009 compared to fiscal year 2008.

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

	<u>2009</u>	<u>2008</u>
<u>Revenues:</u>		
Program Revenues:		
Charges for Services and Sales	\$1,147,869	\$1,083,579
Operating Grants, Contributions and Interest	738,335	733,464
Capital Grants and Contributions	12,497	8,282
Total Program Revenues	<u>\$1,898,701</u>	<u>\$1,825,325</u>
General Revenues:		
Property Taxes	5,644,166	5,666,181
Grants and Entitlements	3,346,071	3,127,505
Interest	84,378	159,052
Revenue in Lieu of Taxes	480,697	483,800
Gifts and Donations	112,999	27,972
Miscellaneous	13,816	11,034
Proceeds from Sale of Capital Assets	3,389	2,000
Insurance Recoveries	13,263	28,143

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

Refund of Prior Year Expenditures	33,285	66,016
Total General Revenues	\$9,732,064	\$9,571,703
Total Revenues	\$11,630,765	\$11,397,028

Expenses:

Instruction	\$6,060,447	\$6,220,858
Support Services:		
Pupils	495,461	490,508
Instructional Staff	360,234	348,968
Board of Education	52,017	45,429
Administration	906,556	927,452
Fiscal	372,613	349,052
Operation and Maintenance of Plant	890,588	874,234
Pupil Transportation	630,076	733,502
Central	72,009	60,583
Non-Instructional	490,974	493,286
Extracurricular Activities	380,799	291,803
Capital Outlay	33,880	21,484
Principal	390,000	355,000
Interest and Fiscal Charges	225,588	242,867
Refund of Prior Year Receipts	15	2,142
Total Expenses	\$11,361,257	\$11,457,168
Transfers	515	
Increase (Decrease) in Net Assets	\$268,993	\$(60,140)

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

Governmental Activities

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

**Table 3
Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2009</u>	<u>2009</u>	<u>2008</u>	<u>2008</u>
Instruction	\$6,060,447	\$4,945,910	\$6,220,858	\$5,307,134
Support Services:				
Pupils	495,461	483,505	490,508	209,334
Instructional Staff	360,234	311,724	348,968	335,797
Board of Education	52,017	52,017	45,429	45,429
Administration	906,556	855,739	927,452	883,599
Fiscal	372,613	372,613	349,052	349,052
Operation and Maintenance of Plant	890,588	890,558	874,234	874,234
Pupil Transportation	630,076	617,579	733,502	731,460
Central	72,009	59,464	60,583	48,583
Non-Instructional	490,974	29,507	493,286	52,720
Extracurricular Activities	380,799	194,427	291,803	173,008
Capital Outlay	33,880	33,880	21,484	21,484
Principal	390,000	390,000	355,000	355,000
Interest and Fiscal Charges	225,588	225,588	242,867	242,867
Refund of Prior Year Receipts	15	15	2,142	2,142
Total Expenses	<u>\$11,361,257</u>	<u>\$9,462,556</u>	<u>\$11,457,168</u>	<u>\$9,631,843</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 81 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 83 percent. The remaining 17 percent is derived from tuition and fees, specific grants, and donations.

The District's Funds

The District's governmental funds are accounted for using the cash basis of accounting. The District's major governmental fund is the General Fund. Total governmental funds had revenues and other financing sources of \$11,709,046 and expenditures and other financing uses of \$11,440,053. The District's net positive change of \$268,993 was primarily due to a decrease in general fund expenditures as a result of changes in the health insurance program offered to employees and a premium moratorium in April 2009. A \$50,000 donation received from the Northeastern Local School Foundation and a \$20,000 donation received from the Tinora Athletic Boosters both of which were applied toward the field house lease also contributed to the positive change.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2009, the District amended its General Fund budget as needed.

Final estimated resources were less than original estimated resources by \$77,424 due to expected increases in intergovernmental revenues. Final revenues and other financing sources were budgeted at \$9,693,296 while actual revenues were \$9,749,161. The \$55,865 difference is primarily due to increased intergovernmental revenues.

Original expenditures and other financing uses were budgeted at \$11,431,525 and later amended to \$11,540,178 primarily due to the purchase of two buses. Final expenditures and other financing uses were budgeted at \$11,540,178 while actual expenditures and other financing uses were \$9,952,815. The \$1,587,363 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriated for regular instruction, administration, and operation and maintenance expenditures.

Debt Administration

Debt

At June 30, 2009, the District had \$640,330 in school improvement general obligation bonds for building improvements. The bonds were issued in 2000, with final maturity on December 2013. The bonds are being retired through the Bond Retirement Fund.

At June 30, 2009, the District had \$5,892,304 in school improvement general obligation bonds for refunding prior building improvement bonds. The bonds were issued for a twenty-one year period, with final maturity on December 1, 2026. The bonds are being retired through the Bond Retirement Fund.

At June 30, 2009, the District had outstanding HB 264 energy conservation bonds, in the amount of \$70,000. The final maturity is in fiscal year 2011. The bonds are being retired through the Bond Retirement Fund.

At June 30, 2009, the District had outstanding a \$220,000 capital lease agreement for the construction of an athletic field house. The lease agreement was issued for a period of five years, with final maturity December 1, 2010. The capital lease payments are being paid through the Permanent Improvement Fund.

At June 30, 2009, the District's overall legal debt margin was \$11,089,617, with an un-voted debt margin of \$189,863.

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

Current Issues

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

The District is currently operating in the first year of the state biennium budget. In 2009 sixty five percent of District revenue sources are from local funds, thirty percent from state funds and the remaining five percent was from federal funds. The total expenditure per pupil was calculated at \$7,497.

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

Contacting the District's Financial Management

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Net Assets - Cash Basis
June 30, 2009**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 2,520,499
Investments	1,340,987
Total Assets	<u>3,861,486</u>
 NET ASSETS:	
Restricted for Debt Service	236,340
Restricted for Capital Outlay	97,645
Restricted for Other Purposes	112,821
Unrestricted	3,414,680
Total Net Assets	<u>\$ 3,861,486</u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2009**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:					
Instruction:					
Regular	\$ 4,474,054	\$ 627,583	\$ 75,664	\$	(3,770,807)
Special	879,963		404,458		(475,505)
Vocational	116,497		6,832		(109,665)
Other	589,933				(589,933)
Support Services:					
Pupils	495,461		11,956		(483,505)
Instructional Staff	360,234		48,510		(311,724)
Board of Education	52,017				(52,017)
Administration	906,556	39,259	11,558		(855,739)
Fiscal	372,613				(372,613)
Operation and Maintenance of Plant	890,588				(890,588)
Pupil Transportation	630,076			12,497	(617,579)
Central	72,009		12,545		(59,464)
Operation of Non-Instructional Services	490,974	294,655	166,812		(29,507)
Extracurricular Activities	380,799	186,372			(194,427)
Capital Outlay	33,880				(33,880)
Principal	390,000				(390,000)
Interest and Fiscal Charges	225,588				(225,588)
Refund of Prior Year Receipts	15				(15)
Totals	<u>\$ 11,361,257</u>	<u>\$ 1,147,869</u>	<u>\$ 738,335</u>	<u>\$ 12,497</u>	<u>(9,462,556)</u>

General Revenues:

Taxes:	
Property Taxes, Levied for General Purposes	5,052,327
Property Taxes, Levies for Capital Outlay	66,052
Property Taxes, Levied for Debt Service	525,787
Payments in Lieu of Taxes	480,697
Grants and Entitlements not Restricted to Specific Programs	3,346,071
Gifts and Donations	112,999
Investment Earnings	84,378
Miscellaneous	13,816
Proceeds from Sale of Capital Assets	3,389
Insurance Recoveries	13,263
Refund of Prior Year Expenditures	33,285
Total General Revenues	<u>9,732,064</u>
Transfers	(515)
Total General Revenues and Transfers	<u>9,731,549</u>
Change in Net Assets	268,993
Net Assets Beginning of Year	3,592,493
Net Assets End of Year	<u>\$ 3,861,486</u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Balance Sheet - Cash Basis
Governmental Funds
June 30, 2009**

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 2,073,693	\$ 446,806	\$ 2,520,499
Investments	1,340,987		1,340,987
Total Assets	\$ 3,414,680	\$ 446,806	\$ 3,861,486
Fund Balances			
Reserved:			
Reserved for Encumbrances	\$ 327,526	\$ 20,607	\$ 348,133
Unreserved, Undesignated, Reported in:			
General Fund	3,087,154		3,087,154
Special Revenue Funds		92,214	92,214
Debt Service Funds		236,340	236,340
Capital Projects Funds		97,645	97,645
Total Liabilities and Fund Balances	\$ 3,414,680	\$ 446,806	\$ 3,861,486

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Receipts, Disbursements, and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2009**

	General Fund	All Other Governmental Funds	Total Governmental Funds
CASH RECEIPTS:			
Property and Other Local Taxes	\$ 5,052,327	\$ 591,839	\$ 5,644,166
Intergovernmental	3,421,536	675,367	4,096,903
Interest	84,378		84,378
Tuition and Fees	601,559	25,924	627,483
Rent	100		100
Extracurricular Activities		225,631	225,631
Gifts and Donations	42,699	70,300	112,999
Customer Sales and Services		294,655	294,655
Payments in Lieu of Taxes	480,697		480,697
Miscellaneous	11,428	2,388	13,816
Total Revenues	9,694,724	1,886,104	11,580,828
EXPENDITURES:			
Current:			
Instruction:			
Regular	4,371,252	102,802	4,474,054
Special	598,072	281,891	879,963
Vocational	116,497		116,497
Other	589,933		589,933
Support Services:			
Pupils	481,748	13,713	495,461
Instructional Staff	314,997	45,237	360,234
Board of Education	52,017		52,017
Administration	855,154	51,402	906,556
Fiscal	356,717	15,896	372,613
Operation and Maintenance of Plant	890,588		890,588
Pupil Transportation	630,076		630,076
Central	59,465	12,544	72,009
Operation of Non-Instructional Services	14,374	476,600	490,974
Extracurricular Activities	186,208	194,591	380,799
Capital Outlay	33,880		33,880
Debt Service:			
Principal		390,000	390,000
Interest		225,588	225,588
Total Expenditures	9,550,978	1,810,264	11,361,242
Excess of Revenues Over Expenditures	143,746	75,840	219,586
OTHER FINANCING SOURCES AND USES:			
Transfers In		71,823	71,823
Advances In	4,500	1,958	6,458
Proceeds from Sale of Capital Assets	3,389		3,389
Insurance Recoveries	13,263		13,263
Refund of Prior Year Expenditures	33,285		33,285
Transfers Out	(72,338)		(72,338)
Advances Out	(1,958)	(4,500)	(6,458)
Refund of Prior Year Receipts	(15)		(15)
Total Other Financing Sources and Uses	(19,874)	69,281	49,407
Net Change in Fund Balances	123,872	145,121	268,993
Fund Balance at Beginning of Year	3,290,808	301,685	3,592,493
Fund Balance at End of Year	\$ 3,414,680	\$ 446,806	\$ 3,861,486

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
GENERAL FUND
For the Fiscal Year Ended June 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
CASH RECEIPTS:				
Property and Other Local Taxes	\$ 5,075,550	\$ 5,043,550	\$ 5,052,327	\$ 8,777
Intergovernmental	3,337,845	3,381,346	3,421,536	40,190
Interest	150,000	78,600	84,378	5,778
Tuition and Fees	627,400	601,700	601,559	(141)
Rent			100	100
Gifts and Donations	25,000	42,500	42,699	199
Payments in Lieu of Taxes	482,475	482,475	480,697	(1,778)
Miscellaneous	2,950	8,800	11,428	2,628
Total Revenues	<u>9,701,220</u>	<u>9,638,971</u>	<u>9,694,724</u>	<u>55,753</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	4,899,121	4,878,871	4,380,308	498,563
Special	771,782	703,732	606,932	96,800
Vocational	89,697	129,197	116,827	12,370
Adult/Continuing	25	25	25	25
Other	565,450	602,450	591,933	10,517
Support Services:				
Pupils	389,498	514,748	483,156	31,592
Instructional Staff	381,526	393,476	326,007	67,469
Board of Education	84,325	84,325	53,967	30,358
Administration	1,301,761	1,200,461	879,530	320,931
Fiscal	351,270	381,920	362,752	19,168
Operation and Maintenance of Plant	1,173,601	1,183,601	977,806	205,795
Pupil Transportation	800,820	900,183	790,987	109,196
Central	59,475	63,365	59,465	3,900
Operation of Non-Instructional Services	27,050	27,050	14,374	12,676
Extracurricular Activities	199,240	199,240	186,582	12,658
Capital Outlay	110,384	125,384	47,878	77,506
Total Expenditures	<u>11,205,025</u>	<u>11,388,028</u>	<u>9,878,504</u>	<u>1,509,524</u>
Excess of Expenditures Over Revenues	<u>(1,503,805)</u>	<u>(1,749,057)</u>	<u>(183,780)</u>	<u>1,565,277</u>
Other Financing Sources and Uses:				
Advances In	4,500	4,500	4,500	
Proceeds from Sale of Capital Assets		3,300	3,389	89
Insurance Recoveries		13,250	13,263	13
Refund of Prior Year Expenditures	65,000	33,275	33,285	10
Transfers Out	(76,500)	(76,500)	(72,338)	4,162
Advances Out	(50,000)	(50,000)	(1,958)	48,042
Refund of Prior Year Receipts	(50,000)	(15,000)	(15)	14,985
Other Financing Uses	(50,000)	(10,650)		10,650
Total Other Financing Sources and Uses	<u>(157,000)</u>	<u>(97,825)</u>	<u>(19,874)</u>	<u>77,951</u>
Net Change in Fund Balances	<u>(1,660,805)</u>	<u>(1,846,882)</u>	<u>(203,654)</u>	<u>1,643,228</u>
Fund Balance at Beginning of Year	2,989,035	2,989,035	2,989,035	
Prior Year Encumbrances Appropriated	301,773	301,773	301,773	
Fund Balance at End of Year	<u>\$ 1,630,003</u>	<u>\$ 1,443,926</u>	<u>\$ 3,087,154</u>	<u>\$ 1,643,228</u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2009**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ <u>11,267</u>	\$ <u>28,688</u>
Total Assets	<u>11,267</u>	<u>28,688</u>
Liabilities		
Current Liabilities:		
Undistributed Monies	<u> </u>	<u>28,688</u>
Total Liabilities	<u> </u>	<u>\$ 28,688</u>
Net Assets		
Held in Trust for Scholarships	<u>11,267</u>	<u> </u>
Total Net Assets	<u>\$ 11,267</u>	<u> </u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Changes in Fiduciary Net Assets - Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2009**

	<u>Private Purpose Trust</u>
ADDITIONS:	
Donations and gifts	\$ <u>970</u>
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>1,850</u>
Change in Net Assets	(880)
Net Assets Beginning of Year	<u>12,147</u>
Net Assets End of Year	\$ <u><u>11,267</u></u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

1. DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

Northeastern Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Northeastern Local School District is a local school district as defined by §3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's three instructional/support facilities staffed by 56 non-certified and 81 certified full-time teaching personnel who provide services to 1,134 students and other community members.

The Reporting Entity

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

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

The District is associated with organizations, which are defined as jointly governed organizations and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Northern Buckeye Education Council's Employee Insurance Benefits Program, the Northern Buckeye Education Council Workers' Compensation Group Rating Plan, and the Schools of Ohio Risk Sharing Authority. These organizations are presented in Notes 14 and 15 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Government-Wide Financial Statements

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

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

2. Fund Financial Statements

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

B. Fund Accounting

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

1. Governmental Funds:

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

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fiduciary Funds

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

C. Basis of Accounting

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

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

D. Budgetary Process

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

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

E. Cash and Investments

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

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

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

During fiscal year 2009, investments were limited to STAR Ohio, certificate of deposits, a money market mutual fund, and federal agency securities. Investments are reported at cost, except for the money market mutual fund and STAR Ohio. The District's money market mutual fund investment is recorded at amount reported by Fifth Third Securities, Inc. at June 30, 2009.

The District had invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2009. 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, 2009.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2009 amounted to \$84,378, which includes \$8,832 assigned from other District funds.

F. Restricted Assets

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

G. Inventory and Prepaid Items

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets

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

I. Interfund Receivables/Payables

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

J. Accumulated Leave

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

K. Employer Contributions to Cost-Sharing Pension Plans

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

L. Long-term Obligations

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

M. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes.

The District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

There are no amounts restricted by enabling legislation.

N. Fund Balance Reserves

The District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Interfund Transactions

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

3. COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District has prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

4. BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis).

The encumbrances outstanding at year end (budgetary basis) amounted to:

General Fund	\$327,526
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5. DEPOSITS AND INVESTMENTS

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

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

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

5. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,389,595 of the District's bank balance of \$2,139,595 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

5. DEPOSITS AND INVESTMENTS (Continued)

District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2009, the District had the following investments:

<u>Investment Type</u>	<u>Cost Value</u>	<u>Investment Maturities</u>		
		<u>Less than One year</u>	<u>Two to Three Years</u>	<u>Three to Four Years</u>
Money Market Mutual Fund Account	\$429,972	\$429,972		
Federal Home Loan Mortgage Corporation Notes	501,400	101,400	\$400,000	
Federal National Mortgage Association Notes	255,212			\$255,212
Federal Home Loan Bank Notes	584,375		584,375	
STAR Ohio	170,817	170,817		
Total Investments	\$1,941,776	\$702,189	\$984,375	\$255,212

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

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

5. DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk - The District places no limit on the amount it may invest in any one issuer, however state statute limits investments in commercial paper and bankers' acceptances to 25 percent of the interim monies available for investment at any one time. The District's investment in the Federal Home Loan Mortgage Corporation Notes, Federal National Mortgage Association Notes, and the Federal Home Loan Bank Notes represent 26 percent, 13 percent, and 30 percent, respectively, of the District's total investments.

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2009 represent the collection of calendar year 2008 taxes. Real property taxes for 2009 were levied after April 1, 2008, on the assessed values as of January 1, 2008, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2009 were levied after April 1, 2008, on the assessed values as of December 31, 2007, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2009 (other than public utility property) represent the collection of calendar year 2009 taxes. Tangible personal property taxes for 2009 were levied after April 1, 2008, on the value as of December 31, 2007. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2009 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2009 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

6. PROPERTY TAXES (Continued)

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

	2008 Second- Half Collections		2009 First- Half Collections	
	Amount	Percent	Amount	Percent
Residential/Agricultural	\$106,635,680	57%	\$118,897,520	63%
Commercial/Industrial	45,205,360	24%	44,821,020	23%
Public Utility	27,290,040	15%	26,144,190	14%
Tangible Personal	7,256,065	4%		
Total Assessed Value	<u>\$186,387,145</u>	<u>100%</u>	<u>\$189,862,730</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$45.25		\$45.30	

7. RISK MANAGEMENT

A. Comprehensive

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

Property Insurance	\$35,168,788
Equipment Breakdown	25,000,000
Automobile Liability	11,000,000
Wrongful Acts	11,000,000
Crime Coverage	100,000
General Liability:	
Per Occurrence	11,000,000
Total Per Year	13,000,000

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

B. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities (see Note 15). 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.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

7. RISK MANAGEMENT (Continued)

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.

8. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2009, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers.

Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007, were \$112,030, \$102,437 and \$105,644 respectively; 49 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. State Teachers Retirement System

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

8. DEFINED PENSION BENEFIT PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2009, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2008, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008, and 2007, were \$568,041, \$565,213, and \$560,822 respectively; 86 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

C. Social Security System

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

9. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description – The District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

9. POSTEMPLOYMENT BENEFITS (Continued)

Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2009, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, this amount was \$16,865.

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

The District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$67,988, \$62,729, and \$51,047 respectively; 49 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2009, this actuarially required allocation was 0.66 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal year ended June 30, 2009 was \$8,072.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007, were \$43,695, \$43,478, and \$43,140 respectively; 86 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

10. COMPENSATED ABSENCES

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

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 57.50 days for certified employees and 55 days for non-certified employees.

11. LONG-TERM OBLIGATIONS

Changes in long-term obligations of the District during fiscal year 2009 were as follows:

	Balance at 06/30/08	Increase	Decrease	Balance at 06/30/09	Amount Due In one Year
Series 2000:					
Current interest bonds	\$460,000		\$135,000	\$325,000	\$155,000
Capital appreciation bonds	284,109	\$31,221		315,330	
Total Series 2000	<u>744,109</u>	<u>31,221</u>	<u>135,000</u>	<u>640,330</u>	<u>155,000</u>
Series 2005:					
Current interest bonds	4,575,000		110,000	4,465,000	115,000
Capital appreciation bonds	678,920	129,644		808,564	
Unamortized Bond Costs	653,378		34,638	618,740	34,638
Total Series 2005	<u>5,907,298</u>	<u>129,644</u>	<u>144,638</u>	<u>5,892,304</u>	<u>149,638</u>
Energy Conservation Improvement Bonds	105,000		35,000	70,000	35,000
Capital Lease	330,000		110,000	220,000	110,000
Total Long-Term Obligations	<u>\$7,086,407</u>	<u>\$160,865</u>	<u>\$424,638</u>	<u>\$6,822,634</u>	<u>\$449,638</u>

Total expenditures for interest for the above debt for the period ended June 30, 2009 was \$225,588.

The scheduled payments of principal and interest on debt outstanding at June 30, 2009 are as follows:

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

11. LONG-TERM OBLIGATIONS (Continued)

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$339,638	\$199,881	\$539,519
2011	359,638	185,180	544,818
2012	298,965	236,054	535,019
2013	246,885	310,941	557,826
2014	210,056	362,776	572,832
2015-2019	1,374,229	1,522,736	2,896,965
2018-2022	2,388,190	484,170	2,872,360
2023-2027	1,224,170	56,203	1,280,373
Total	<u>\$6,441,771</u>	<u>\$3,357,941</u>	<u>\$9,799,712</u>

General Obligation Bonds – Series 2000

The general obligation bonds were issued in March 2000 for the purpose of constructing, furnishing, and equipping a new elementary building, and for the purpose of improving the junior/senior high school building. These bonds were refinanced on May 11, 2005. The remaining bonds consist of \$325,000 in current interest bonds and \$425,000 in 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:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2009	155,000	5.20%
2010	170,000	5.25%

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

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

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

11. LONG-TERM OBLIGATIONS (Continued)

The value of the capital appreciation bonds at June 30, 2009 was \$315,330. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$280,909 has been included in the value. The bonds are being retired through the Bond Retirement Debt Service Fund.

General Obligation Bonds – Series 2005

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

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

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

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2009	115,000	3.50%
2010	120,000	3.50%
2011	125,000	3.50%
2017	375,000	4.25%
2018	390,000	4.25%
2019	405,000	4.00%
2020	425,000	4.10%
2021	445,000	4.15%
2022	460,000	4.20%
2023	480,000	4.25%
2024	500,000	4.30%
2025	525,000	4.37%
2026	100,000	4.40%

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

11. LONG-TERM OBLIGATIONS (Continued)

The value of the capital appreciation bonds at June 30, 2009 was \$808,564. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$518,574 has been included in the value. The bonds are being retired through the Bond Retirement Debt Service Fund.

Energy Conservation Improvements Bonds

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

12. CAPITALIZED LEASES - LESSEE DISCLOSURE

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

The terms of the agreement provides an option to purchase the athletic field house. The lease meets the criteria of a capital lease as defined by Statement No. 13 of the Financial Accounting Standards Board (FASB), "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Fund Types. These expenditures are reflected as program/function expenditures on a budgetary basis.

Principal payments in the 2009 fiscal year totaled \$110,000.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2009:

<u>General Long-Term Obligations</u>	
<u>Year Ending June 30,</u>	<u>Equipment</u>
2010	118,373
2011	110,000
Total Future Minimum Lease Payments	228,373
Amount Representing Interest	(8,373)
Present Value of Future Minimum Lease Payments	<u>\$220,000</u>

13. SET-ASIDE CALCULATIONS

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

13. SET-ASIDE CALCULATIONS (Continued)

	Textbooks	Capital Acquisition
Set-aside Cash Balance as of June 30, 2008	(\$631,264)	
Current Year Set-aside Requirement	174,304	\$174,304
Current Year Offsets		(78,831)
Qualifying Disbursements	(237,646)	(177,707)
Total	(\$694,606)	(\$82,234)
Balance Carried Forward to FY 2010	(\$694,606)	

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

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 \$57,266. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 209 Nolan Parkway, 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 during this fiscal year were \$250. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, at 209 Nolan Parkway, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center—one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. Total disbursements made by the District to the Four County Career Center during this fiscal year were \$28,940. To obtain financial information write to the Four County Career Center, Jennifer Bonner, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

14. JOINTLY GOVERNED ORGANIZATIONS (Continued)

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials and provide opportunities for training. The NOERC serves twenty-five county area of Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Total disbursements made by the District to NOERC during this fiscal year were \$175. 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 \$817,821. Financial information can be obtained from Northern Buckeye Education Council, Crystal Meyer, at 209 Nolan Parkway, Archbold, Ohio 43502.

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

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$1,132 to the WCGRP to cover the costs of administering the program.

C. Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code – Non-Profit Corporations and functioning under authority granted by Section 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool to assist member school districts in preventing and reducing losses and injuries to property and persons which might result in claims being made against members of SORSA, their employees or officers. The District paid \$61,529 for those services to SORSC during fiscal year 2009.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

15. GROUP PURCHASING POOLS (Continued)

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

16. INTERFUND TRANSFERS

The General Fund transferred \$40,241 to the Bond Retirement Fund to subsidize the retirement of the energy conservation improvement bonds, \$30,000 to the Food Service fund to subsidize operations, and \$2,097 to various funds to allocate interest earnings.

17. INTERFUND RECEIVABLES / PAYABLES

Interfund balances at June 30, 2009, consisted of the following individual fund receivables and payables:

Due to General Fund From:	
Title V Grant Fund	\$ 1,345
Title II-D Grant Fund	613
Total General Fund	<u>\$ 1,958</u>

The balance due to the General Fund includes loans made cover costs in grant funds where revenues were not received by June 30. All of these amounts are expected to be repaid within one year. These amounts are not included on the accompanying financial statements. All interfund balances outstanding at June 30, 2008 were repaid during 2009.

18. CONTINGENCIES

A. Grants

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

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2009.

B. Litigation

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



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Northeastern Local School District, Defiance County, (the District) as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 21, 2009, wherein we noted the District followed the cash accounting basis rather than generally accepted accounting principles, contrary to Ohio law. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might

be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted a certain matter that we reported to the District's management in a separate letter dated October 21, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2009-001.

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

We intend this report solely for the information and use of the management and Board of Education. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

October 21, 2009

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2009-001

Noncompliance Citation

Ohio Revised Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code §117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

Ohio Administrative Code §117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. For 2009, the District prepared its financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the cash basis of accounting. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between this accounting practice and GAAP that, while material, cannot be reasonably determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

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

Officials Response:

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Ohio Administrative Code §117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles.	No	Not Corrected. Reissued as finding 2009-001 in this report.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

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

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

1. We noted the Board adopted an anti-harassment policy at its meeting on December 13, 2007.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 1. A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 2. A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 3. A procedure for reporting prohibited incidents;
 4. A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 5. A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the

"Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C.1232q, as amended, have access to any written reports pertaining to the prohibited incident;

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

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

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



Mary Taylor, CPA
Auditor of State

October 21, 2009



Mary Taylor, CPA
Auditor of State

NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 12, 2009