



**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Northeastern Local School District, Defiance County, (the District) as of and for the year ended June 30, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Northeastern Local School District, Defiance County, as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund type and nonexpendable trust fund for the year then ended in conformity with generally accepted accounting principles.

As further described in Note 6 to the general-purpose financial statements, the District changed its capitalization policy for textbooks and library books.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2000, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Jim Petro
Auditor of State

December 19, 2000

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
ASSETS AND OTHER DEBITS:				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$2,076,740	\$92,031	\$57	\$159,650
Cash and Cash Equivalents:				
With Fiscal Agents		4,468		
Receivables:				
Taxes	3,838,431			
Accounts	5,922			50,921
Intergovernmental	18,834			
Accrued Interest	9,246			
Materials and Supplies Inventory	37,956			
Prepaid Items	10,610			
Fixed Assets (Net of Accumulated Depreciation, Where Applicable)				
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	26,070			
Other Debits:				
Provided from General Government Resources				
Total Assets and Other Debits	<u>\$6,023,809</u>	<u>\$96,499</u>	<u>\$57</u>	<u>\$210,571</u>
LIABILITIES, EQUITY, AND OTHER CREDITS:				
Liabilities:				
Accounts Payable	\$80,142	\$16,273		
Accrued Wages and Benefits	579,475	11,124		
Compensated Absences Payable	18,803			
Intergovernmental Payable	91,700	1,665		
Deferred Revenue	3,525,846			
Due to Students				
Energy Conservation Loan Payable				
Total Liabilities	<u>4,295,966</u>	<u>29,062</u>		
Equity and Other Credits:				
Investment in General Fixed Assets				
Retained Earnings:				
Unreserved				
Fund Balances:				
Reserved:				
Reserved for Encumbrances	134,117	19,837		\$21,905
Reserved for Inventory	37,956			
Reserved for Prepaid Items	10,610			
Reserved for Contributions				
Reserved for Property Taxes	263,738			
Reserved for Budget Stabilization	26,070			
Unreserved, Undesignated	1,255,352	47,600	\$57	188,666
Total Equity and Other Credits	<u>1,727,843</u>	<u>67,437</u>	<u>57</u>	<u>210,571</u>
Total Liabilities, Equity, and Other Credits	<u>\$6,023,809</u>	<u>\$96,499</u>	<u>\$57</u>	<u>\$210,571</u>

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

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
\$74,167	\$30,533			\$2,433,178
				4,468
				3,838,431
855				57,698
8,667				27,501
				9,246
10,160				48,116
				10,610
63,349		\$5,544,527		5,607,876
				26,070
			\$657,944	657,944
\$157,198	\$30,533	\$5,544,527	\$657,944	\$12,721,138
\$3,832	\$364			\$100,611
16,779				607,378
10,609			\$571,241	600,653
10,943			46,703	151,011
3,930				3,529,776
	17,551			17,551
			40,000	40,000
46,093	17,915		657,944	5,046,980
		\$5,544,527		5,544,527
111,105				111,105
				175,859
				37,956
				10,610
	10,600			10,600
				263,738
				26,070
	2,018			1,493,693
111,105	12,618	5,544,527		7,674,158
\$157,198	\$30,533	\$5,544,527	\$657,944	\$12,721,138

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
Revenues:		
Intergovernmental	\$2,581,698	\$264,060
Interest	141,515	
Tuition and Fees	33,072	
Rent	4,407	
Extracurricular Activities	4,730	174,449
Gifts and Donations	19,299	
Property and Other Local Taxes	3,901,875	
Miscellaneous	3,575	
Total Revenues	<u>6,690,171</u>	<u>438,509</u>
Expenditures:		
Current:		
Instruction:		
Regular	3,279,610	28,637
Special	483,525	137,516
Vocational	114,758	
Adult/Continuing	389	
Other	15,136	
Support Services:		
Pupils	304,749	44,630
Instructional Staff	215,379	22,989
Board of Education	23,286	
Administration	612,893	45,645
Fiscal	198,235	1,004
Operation and Maintenance of Plant	560,542	539
Pupil Transportation	437,240	
Central	8,863	3,268
Non-Instructional Services	2,694	1,935
Extracurricular activities	111,300	143,599
Capital Outlay	190,004	
Debt Service:		
Debt Service - Principal		
Debt Service - Interest		
Total Expenditures	<u>6,558,603</u>	<u>429,762</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	<u>131,568</u>	<u>8,747</u>
Other Financing Sources/(Uses)		
Operating Transfers In		3,900
Proceeds from Sale of Fixed Assets	585	
Other Financing Sources	1,819	
Other Financing Uses	(112,560)	
Operating Transfers Out	(16,417)	
Total Other Financing Sources/(Uses)	<u>(126,573)</u>	<u>3,900</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	4,995	12,647
Fund Balance at Beginning of Year	<u>1,722,848</u>	<u>54,790</u>
Fund Balance at End of Year	<u>\$1,727,843</u>	<u>\$67,437</u>

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

Governmental Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust	
			\$2,845,758
			141,515
			33,072
			4,407
			179,179
	\$50,921	\$203	70,423
			3,901,875
			3,575
	50,921	203	7,179,804
	7,431		3,315,678
			621,041
			114,758
			389
			15,136
			349,379
			238,368
			23,286
			658,538
			199,239
			561,081
			437,240
			12,131
			4,629
	11,700		254,899
			201,704
\$8,000			8,000
1,807			1,807
9,807	19,131		7,017,303
(9,807)	31,790	203	162,501
9,864		65	13,829
			585
			1,819
			(112,560)
			(16,417)
9,864		65	(112,744)
57	31,790	268	49,757
	178,781	1,120	1,957,539
\$57	\$210,571	\$1,388	\$2,007,296

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999**

	General		Variance: Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Intergovernmental	\$2,567,545	\$2,565,464	(\$2,081)
Interest	125,000	132,269	7,269
Tuition and Fees	32,300	32,475	175
Rent	4,350	4,407	57
Extracurricular Activities			
Gifts and Donations	4,750	19,299	14,549
Property and Other Local Taxes	3,763,384	3,785,683	22,299
Miscellaneous	3,415	3,575	160
Total Revenues	6,500,744	6,543,172	42,428
Expenditures:			
Instruction:			
Regular	3,498,024	3,264,419	233,605
Special	525,191	481,520	43,671
Vocational	127,163	114,084	13,079
Adult/Continuing	2,325	389	1,936
Other	20,000	15,136	4,864
Support Services:			
Pupils	317,617	304,754	12,863
Instructional Staff	239,822	217,031	22,791
Board of Education	40,538	24,741	15,797
Administration	693,723	642,264	51,459
Fiscal	214,971	198,752	16,219
Operation and Maintenance of Plant	737,084	597,375	139,709
Pupil Transportation	609,782	437,866	171,916
Central	9,325	8,863	462
Non-Instructional Services	3,618	1,469	2,149
Extracurricular Activities	126,200	110,923	15,277
Capital Outlay	281,883	265,531	16,352
Debt Service:			
Debt Service - Principal			
Debt Service - Interest			
Total Expenditures	7,447,266	6,685,117	762,149
Excess (Deficiency) of Revenues Over (Under) Expenditures	(946,522)	(141,945)	804,577
Other Financing Sources (Uses)			
Operating Transfers In			
Proceeds from Sale of Fixed Assets	550	585	35
Other Financing Sources	6,400	6,416	16
Advances In	20,000	20,000	
Other Financing Uses	(125,000)	(112,560)	12,440
Operating Transfers Out	(20,000)	(16,417)	3,583
Advances Out	(15,000)		15,000
Total Other Financing Sources (Uses)	(133,050)	(101,976)	31,074
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,079,572)	(243,921)	835,651
Fund Balances at Beginning of Year	1,748,732	1,748,732	
Prior Year Encumbrances Appropriated	381,730	381,730	
Fund Balances at End of Year	\$1,050,890	\$1,886,541	\$835,651

Special Revenue			Debt Service		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
\$167,451	\$167,451				
175,525	175,639	\$114			
500		(500)			
50		(50)			
<u>343,526</u>	<u>343,090</u>	<u>(436)</u>			
45,654	37,585	8,069			
103,038	100,792	2,246			
6,423	5,758	665			
53,896	46,030	7,866			
1,344	1,004	340			
5,315	4,199	1,116			
177,443	155,209	22,234			
			\$8,000	\$8,000	
			1,807	1,807	
<u>393,113</u>	<u>350,577</u>	<u>42,536</u>	<u>9,807</u>	<u>9,807</u>	
<u>(49,587)</u>	<u>(7,487)</u>	<u>42,100</u>	<u>(9,807)</u>	<u>(9,807)</u>	
4,060	3,900	(160)	9,864	9,864	
(20,000)	(20,000)				
<u>(15,940)</u>	<u>(16,100)</u>	<u>(160)</u>	<u>9,864</u>	<u>9,864</u>	
(65,527)	(23,587)	41,940	57	57	
53,870	53,870				
25,638	25,638				
<u>\$13,981</u>	<u>\$55,921</u>	<u>\$41,940</u>	<u>\$57</u>	<u>\$57</u>	

(Continued)

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

	Capital Projects		Variance: Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Intergovernmental			
Interest			
Tuition and Fees			
Rent			
Extracurricular Activities			
Gifts and Donations	\$50,921	\$50,921	
Property and Other Local Taxes			
Miscellaneous			
Total Revenues	50,921	50,921	
Expenditures:			
Instruction:			
Regular	11,784	7,431	\$4,353
Special			
Vocational			
Adult/Continuing			
Other			
Support Services:			
Pupils			
Instructional Staff			
Board of Education			
Administration			
Fiscal			
Operation and Maintenance of Plant			
Pupil Transportation			
Central			
Non-Instructional Services			
Extracurricular Activities			
Capital Outlay	33,605	33,605	
Debt Service:			
Debt Service - Principal			
Debt Service - Interest			
Total Expenditures	45,389	41,036	4,353
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,532	9,885	4,353
Other Financing Sources (Uses)			
Operating Transfers In			
Proceeds from Sale of Fixed Assets			
Other Financing Sources			
Advances In			
Other Financing Uses			
Operating Transfers Out			
Advances Out			
Total Other Financing Sources (Uses)			
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	5,532	9,885	4,353
Fund Balances at Beginning of Year	105,055	105,055	
Prior Year Encumbrances Appropriated	22,806	22,806	
Fund Balances at End of Year	\$133,393	\$137,746	\$4,353

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

Expendable Trust			Totals (Memorandum Only)		
Budget	Actual	Variance: Favorable (Unfavorable)	Budget	Actual	Variance: Favorable (Unfavorable)
			\$2,734,996	\$2,732,915	(\$2,081)
			125,000	132,269	7,269
			32,300	32,475	175
			4,350	4,407	57
			175,525	175,639	114
\$200	\$204	\$4	56,371	70,424	14,053
			3,763,384	3,785,683	22,299
			3,465	3,575	110
200	204	4	6,895,391	6,937,387	41,996
			3,555,462	3,309,435	246,027
			628,229	582,312	45,917
			127,163	114,084	13,079
500		500	2,825	389	2,436
			20,000	15,136	4,864
			317,617	304,754	12,863
			246,245	222,789	23,456
			40,538	24,741	15,797
			747,619	688,294	59,325
			216,315	199,756	16,559
			737,084	597,375	139,709
			609,782	437,866	171,916
			14,640	13,062	1,578
			3,618	1,469	2,149
			303,643	266,132	37,511
			315,488	299,136	16,352
			8,000	8,000	
			1,807	1,807	
500		500	7,896,075	7,086,537	809,538
(300)	204	504	(1,000,684)	(149,150)	851,534
49	64	15	13,973	13,828	(145)
			550	585	35
			6,400	6,416	16
			20,000	20,000	
			(125,000)	(112,560)	12,440
			(20,000)	(16,417)	3,583
			(35,000)	(20,000)	15,000
49	64	15	(139,077)	(108,148)	30,929
(251)	268	519	(1,139,761)	(257,298)	882,463
1,120	1,120		1,908,777	1,908,777	
			430,174	430,174	
\$869	\$1,388	\$519	\$1,199,190	\$2,081,653	\$882,463

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
Operating Revenues:			
Sales	\$263,432		\$263,432
Interest		\$622	622
Other Revenues	84		84
	<u>263,516</u>	<u>622</u>	<u>264,138</u>
Total Operating Revenues			
Operating Expenses:			
Salaries	113,606		113,606
Fringe Benefits	31,884		31,884
Purchased Services	1,487		1,487
Materials and Supplies	174,694		174,694
Depreciation	1,448		1,448
Other	295		295
	<u>323,414</u>	<u>622</u>	<u>323,414</u>
Total Operating Expenses			
Operating Income/(Loss)	<u>(59,898)</u>	<u>622</u>	<u>(59,276)</u>
Non-Operating Revenues:			
Federal Donated Commodities	22,341		22,341
Federal and State Subsidies	53,917		53,917
	<u>76,258</u>	<u>622</u>	<u>76,258</u>
Total Non-Operating Revenues			
Income Before Operating Transfers	16,360	622	16,982
Operating Transfers-In	<u>1,620</u>	<u>8</u>	<u>1,628</u>
Net Income	17,980	630	18,610
Fund Balance/Retained Earnings at Beginning of Year	<u>93,125</u>	<u>10,600</u>	<u>103,725</u>
Fund Balance/Retained Earnings at End of Year	<u>\$111,105</u>	<u>\$11,230</u>	<u>\$122,335</u>

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
DECREASE IN CASH AND CASH EQUIVALENTS			
Cash Flows from Operating Activities:			
Cash Received from Sales	\$263,108		\$263,108
Other Cash Receipts	84		84
Cash Payments to Suppliers for Goods and Services	(156,743)		(156,743)
Cash Payments for Contract Services	(1,487)	(\$587)	(2,074)
Cash Payments for Employee Services	(103,102)		(103,102)
Cash Payments for Employee Benefits	(40,221)		(40,221)
Other Cash Payments	(295)		(295)
	<u>(38,656)</u>	<u>(587)</u>	<u>(39,243)</u>
Net Cash Used for Operating Activities			
Cash Flows from Noncapital Financing Activities:			
Operating Grants Received	52,104		52,104
Operating Transfers-In	1,620	8	1,628
	<u>53,724</u>	<u>8</u>	<u>53,732</u>
Net Cash Provided by Noncapital Financing Activities			
Cash Flows from Capital and Related Financing Activities:			
Acquisition of Capital Assets	(2,611)		(2,611)
Cash Flows from Investing Activities:			
Interest on Investments		622	622
Net Increase in Cash and Cash Equivalents	12,457	43	12,500
Cash and Cash Equivalents at Beginning of Year	61,710	11,187	72,897
Cash and Cash Equivalents at End of Year	<u>\$74,167</u>	<u>\$11,230</u>	<u>\$85,397</u>

(Continued)

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999
(Continued)**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:			
Operating Income (Loss)	(\$59,898)	\$622	(59,276)
Adjustments to Reconcile Operating Loss To Net Cash Used for Operating Activities:			
Depreciation	1,448		1,448
Donated Commodities Used During the Year	22,341		22,341
Nonexpendable Trust Fund Interest		(622)	(622)
Adjustments to Capital Outlay	296		296
(Increase) Decrease in Assets:			
Accounts Receivable	(324)		(324)
Material and Supplies Inventory	(2,172)		(2,172)
Prepaid Items	92		92
Increase (Decrease) in Liabilities:			
Compensated Absences Payable	1,798		1,798
Intergovernmental Payable	419		419
Deferred Revenue	(1,094)		(1,094)
Accounts Payable	(1,512)	(587)	(2,099)
Accrued Wages and Benefits	(50)		(50)
Total Adjustments	<u>21,242</u>	<u>(1,209)</u>	<u>20,033</u>
Net Cash Used for Operating Activities	<u>(\$38,656)</u>	<u>(\$587)</u>	<u>(\$39,243)</u>

Reconciliation of Nonexpendable Trust Fund Cash to Balance Sheet

Total Trust and Agency Fund Cash per Balance Sheet	\$30,533
Less: Expendable Trust and Agency Funds	<u>(19,303)</u>

Nonexpendable Trust Fund Cash

\$11,230

The Food Service Fund consumed donated commodities with a value of \$22,341.
The use of these commodities is reflected as an operating expense.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The 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 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 four instructional/support facilities.

The Reporting Entity

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

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

The District is associated with organizations, which are defined as jointly governed organizations and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, Cisco Academy of Northwest Ohio, the Northern Buckeye Education Council's Employee Insurance Benefit Program, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. These organizations are presented in Notes 13 and 14 to the general-purpose financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The modified accrual basis of accounting is followed for governmental, expendable trust, and agency funds. The measurement focus is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income determination. Under this basis of accounting:

1. Only current assets and current liabilities are generally included on their balance sheets.
2. Operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.
3. Revenues are recognized when they become both measurable and available to finance expenditures for the current period, which for the District is 60 days after year end.
 - a. Revenue accrued at the end of the year included intergovernmental, interest, tuition and fees, extracurricular activities, and taxes.

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- b. Property taxes measurable but not available as of June 30, 1999, and delinquent property taxes, whose availability is indeterminate, have been recorded as deferred revenues.
- 4. Expenditures are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; the current costs of accumulated unpaid vacation and sick leave are reported in the period in which they will be liquidated with available financial resources, rather than in the period earned by employees.

The Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

The Proprietary and Nonexpendable Trust funds are accounted for on the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized in the period incurred. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to the proprietary funds provided they do not conflict with or contradict GASB pronouncements.

B. Fund Accounting

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

Governmental Funds

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

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

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

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

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

Fiduciary Funds

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

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

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

Proprietary Funds

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

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

Account Groups

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

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

C. Budgetary Accounting

Budgets are adopted on a cash basis.

The District is required by State statute to adopt an annual appropriation budget for all funds. The Title VI-B Flow Thru Grant, Eisenhower Math-Science Grant, Drug Free Grants, and Federal Preschool Grant special revenue funds are pass through grants in which the Northwest Ohio Educational Service Center is the primary recipient. Budgetary information for these funds are not included within the District's reporting entity for which the "appropriated budget" is adopted, and the District does not maintain separate budgetary records.

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

1. Prior to January 15, the Treasurer submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. A public hearing is publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board adopted budget is filed with the County Budget Commission for rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources, which states the projected revenue of each fund. The annual appropriation measure (the true operating budget) is then developed at the fund, function and object level of expenditures, which are the legal levels of budgetary control.
4. A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for a period July 1 to June 30. The appropriation measure may be amended or supplemental during the year as new information becomes available. Appropriations may not exceed estimated resources.
5. The District maintains budgetary control by not permitting expenditures to exceed appropriations within each fund, function and object without approval of the Board of Education. The Board permits management to make discretionary budgetary adjustments within each fund, which are approved by the Board on a monthly basis. Any adjustments that alter the total fund appropriation require specific action of the Board.
6. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

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

1. Revenues are recorded when received in cash for budget purposes as opposed to when susceptible to accrual for GAAP purposes.
2. Expenditures and expenses are recorded when paid in cash or encumbered for budget purposes as opposed to when the liability is incurred for GAAP purposes.

An analysis of the difference between GAAP and budgetary basis for all governmental fund types for the year ended June 30, 1999 follows:

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Excess/(Deficiency) of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses					
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
Budget Basis	(\$243,921)	(\$23,587)	\$57	\$9,885	\$268
Adjustments for:					
Revenue Accruals	146,999	95,419			
Expenditure Accruals	(89,756)	(115,295)			
Other Accruals	(24,596)	20,000			
Encumbrances	216,269	36,110		21,905	
GAAP Basis	\$4,995	\$12,647	\$57	\$31,790	\$268

D. Encumbrances

The District is required to use the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

E. Cash and Investments

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

During fiscal year 1999, investments were limited to STAR Ohio.

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

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 1999. 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, 1999.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 1999 amounted to \$141,515.

For purposes of the combined statement of cash flows and for preparation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three

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months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with initial maturity of more than three months are reported as investments.

F. Inventory

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

G. Property, Plant and Equipment

General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Contributed fixed assets are recorded at their fair market values as of the date donated. The District follows the policy of not capitalizing assets with a cost of less than \$300. This is based primarily on the uniqueness of these items to a school operation. No depreciation is recognized for asset in General Fixed Assets Account Group. Public Domain ("infrastructure") general fixed assets consisting of curbs gutters, sidewalks, drainage systems and lightning systems are not capitalized, as these assets are immovable and of value only to the government. The District does not have any infrastructure.

Proprietary Funds

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

H. Intergovernmental Revenues

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

Entitlements

General Fund

State Foundation Program
School Bus Purchase Reimbursement

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Non-Reimbursable Grants

Special Revenue Funds

Teacher Development Fund
Educational Management Information Systems
Title I
Title VI
Title VI-B (Through Northwest Ohio Educational Service Center)
Eisenhower Grant (Through Northwest Ohio Educational Service Center)
Drug Free Grant (Through Northwest Ohio Educational Service Center)
Federal Preschool Grant (Through Northwest Ohio Educational Service Center)
Textbook/Instructional Material Subsidy
Continuous Improvement Grant

Capital Projects Funds

SchoolNet Plus

Reimbursable Grants

General Fund

Driver Education Reimbursement
Vocational Education Equipment Fund

Enterprise Fund

National School Lunch Program
Food Distribution Program

I. Interfund Transactions

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

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

J. Compensated Absences

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

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

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

K. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets are amounts required by statute to be set-aside by the District to create a reserve for budget stabilization. See Note 16 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserve.

L. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures. The reserve for contributions signifies the legal restrictions on the use of principal.

M. Long-term Obligations

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

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N. Estimates

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

O. Total Columns on Financial Statements

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

NOTE 3 - ACCOUNTABILITY

At June 30, 1999, the Title I fund had a deficit fund balance of \$9,219, which was created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations issued by any federal government agency or instrumentality; including but not limited to, the Federal National Mortgage Association, Federal

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Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio,
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions; and
6. The Ohio State Treasurer's investment pool (STAR Ohio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

Investments in stripped principal or interest obligations, reverse 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. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand

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

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

Deposits

At the year end, the carrying amount of the District's deposits was \$971,473 and the bank balance was \$1,219,349. Of the bank balance:

1. \$200,000 was covered by Federal Depository Insurance; and
2. \$1,019,349 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

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Investments

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

The carrying amount and fair value of STAR Ohio was \$1,487,675 as of June 30, 1999. The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

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

	Cash and Cash Equivalents	Investments
GASB Statement 9	\$2,463,716	
Cash with Fiscal Agents	(4,468)	
Cash on Hand	(100)	
Investments:		
STAR Ohio	(1,487,675)	\$1,487,675
GASB Statement 3	\$971,473	\$1,487,675

NOTE 5 - PROPERTY TAXES

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

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

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

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

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

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

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

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

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

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

Taxes receivable represent current and delinquent real property, tangible personal property, and public utility property taxes, which are measurable at June 30, 1999. These taxes are intended to finance the next fiscal year's operations, and are therefore offset by a credit to deferred revenue, except for the portion, which is available to advance as of June 30, 1999.

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

	Amount
Residential/Agricultural	\$60,457,920
Commercial/Industrial	17,620,050
Public Utility Personal Property	27,087,170
General Personal Property	15,251,015
Total Valuation	\$120,416,155

NOTE 6 - FIXED ASSETS

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

Asset Category	Balance as originally stated at 6/30/98	Adjustments	Balance as restated at 7/1/98	Additions	Disposals	Balance at 6/30/99
Land/Improvements	\$141,500		\$141,500			\$141,500
Buildings/Improvements	2,564,604		2,564,604	\$74,320		2,638,924
Furniture/ Equipment	2,605,832	(\$112,598)	2,493,234	355,151	(\$84,282)	2,764,103
Textbooks/Library Books	484,122	(484,122)				
Totals	\$5,796,058	(\$596,720)	\$5,199,338	\$429,471	(\$84,282)	\$5,544,527

The adjustment to furniture and equipment represents fixed assets which were disposed of prior to June 30, 1999.

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The District changed its policy for capitalizing textbooks and library books during fiscal year 1999 and no longer includes them on its fixed asset listing.

A summary of Enterprise Fund fixed assets at June 30, 1999, follows:

	Balance 6/30/99
Furniture, fixtures, and equipment	\$152,452
Accumulated depreciation	<u>(89,103)</u>
Total	<u>\$63,349</u>

NOTE 7 - LONG-TERM OBLIGATIONS

During the year ended June 30, 1999, the following changes occurred in obligations reported in the General Long-Term Obligations Account Group:

	Balance at June 30, 1998	Additions	Reductions	Balance at June 30, 1999
Energy Conservation Loan Payable	\$48,000		\$8,000	\$40,000
Intergovernmental Payable	43,521	\$3,182		46,703
Compensated Absences Payable	533,154	38,087		571,241
Total	<u>\$624,675</u>	<u>\$41,269</u>	<u>\$8,000</u>	<u>\$657,944</u>

Debt outstanding at June 30, 1999, consisted of an Energy Conservation Note totaling \$40,000 (interest rate at June 30, 1999, was 4.4 percent). The note was issued in November 1993 and will mature in November 2003.

Total expenditures for interest for the above debt for the period ended June 30, 1999, were \$1,807.

The scheduled payments of principal and interest on debt outstanding at June 30, 1999, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2000	\$8,000	\$1,648	\$9,648
2001	8,000	1,404	9,404
2002	8,000	1,108	9,108
2003	8,000	736	8,736
2004	8,000	264	8,264
Total	<u>\$40,000</u>	<u>\$5,160</u>	<u>\$45,160</u>

NOTE 8 - 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

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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 53 days for certified employees and 50 days for non-certified employees.

At June 30, 1999, the current amount of unpaid compensated absences in all funds, except for the proprietary funds, and the balance of the liability in the General Long-Term Obligations Account Group were \$18,803 and \$571,241, respectively. The liability for compensated absences in the proprietary funds at June 30, 1999, was \$10,609.

NOTE 9 - PENSION AND RETIREMENT PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 1999, 9.79 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$132,758, \$126,573, and \$123,426, respectively; 59 percent has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. \$53,916 representing the unpaid contribution for fiscal year 1999 is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 E. Broad Street, Columbus, Ohio 43215-3771.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)**

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 10.5 percent was the portion used to fund pension obligations. Prior to July 1, 1997, the portion used to fund pension obligations was 12 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$495,187, \$519,531, and \$485,610, respectively; 84 percent has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. \$77,388 representing the unpaid contribution for fiscal year 1999 is recorded as a liability within the respective funds.

NOTE 10 - POST EMPLOYMENT BENEFITS

The State Teachers Retirement System (STRS) provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care costs in the form of a monthly premium.

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

The Retirement Board allocates employer contributions equal to 2 percent of covered payroll to the Health Care Reserve Fund from which health care benefits are paid. However, for the fiscal year ended June 30, 1999, the board allocated employer contributions equal to 8 percent of covered payroll to Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$2.783 million on June 30, 1999. The Health Care Reserve Fund allocation for the year ended June 30, 1999 will be 8 percent of covered payroll.

For the year ended June 30, 1999, net health care costs paid by STRS were \$249,929,000. There were 95,796 eligible benefit recipients.

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

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 1999, the allocation rate is 6.30 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 1999 were \$126,380,984 and the target level was \$189.6 million. At June 30, 1999, the Retirement System's net assets available for

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)**

payment of health care benefits were \$160.3 million. The number of participants currently receiving health care benefits is approximately 51,000.

The portion of District employer contributions that were used to fund postemployment benefits can be determined by multiplying actual employer contributions times .450, then adding the surcharge due as of June 30, 1999, as certified to the District by SERS.

For the District, the amount to fund health care benefits, including the surcharge equaled \$66,929 during the 1999 fiscal year.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

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

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

B. Employee Insurance Benefits Program

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

C. Worker's 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 14). 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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)**

its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

NOTE 12 - ENTERPRISE FUNDS SEGMENT INFORMATION

The District maintains two Enterprise Funds, which provide lunchroom/cafeteria and uniform school supply services. Segment information for the year ended June 30, 1999 was as follows:

	Lunchroom/ Cafeteria	Uniform School Supplies	Total Enterprise Funds
Operating Revenues	\$235,380	\$28,136	\$263,516
Depreciation Expense	1,448		1,448
Operating Income (Loss)	(74,560)	14,662	(59,898)
Donated Commodities	22,341		22,341
Grants	53,917		53,917
Operating Transfers-In	1,620		1,620
Net Income	3,318	14,662	17,980
Fixed Asset Additions	2,315		2,315
Net Working Capital	(1,150)	48,906	47,756
Total Assets	105,856	51,342	157,198
Total Liabilities	43,657	2,436	46,093
Total Equity	62,199	48,906	111,105

NOTE 13 - 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 \$35,616. Financial information can be obtained from Cindy Siler, who serves as treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC for GAAP conversion services during this fiscal year were \$2,750. To obtain financial information write to the Northern Buckeye Education Council, Cindy Siler, who serves as treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center - one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. To obtain financial information write to the Four County Career Center, Michele Zeedyk, who serves as treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

D. Cisco Academy of Northwest Ohio

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

NOTE 14 - 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 \$455,446. Financial information can be obtained from Northern Buckeye Education Council, Cindy Siler, who serves as treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

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

The District participates in a group rating plan for workers' compensation as established under § 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)**

Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$847 to the WCGRP to cover the costs of administering the program.

NOTE 15 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 1999, consisting of transfers between funds were as follows:

	Transfers In	Transfers Out
General Fund		16,417
Special Revenue	\$3,900	
Debt Service	9,864	
Expendable Trust	65	
Enterprise	1,620	
Nonexpendable Trust	8	
Agency	960	
Total All Funds	<u>\$16,417</u>	<u>\$16,417</u>

NOTE 16 - SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

	Textbooks	Capital Acquisition	Budget Stabilization	Totals
Set-aside Cash Balance as of June 30, 1998			\$26,070	\$26,070
Current Year Set-aside Requirement	\$103,541	\$103,541		207,082
Current Year Offsets	(17,639)			(17,639)
Qualifying Disbursements	(181,516)	(190,004)		(371,520)
Total	<u>(\$95,614)</u>	<u>(\$86,463)</u>	<u>\$26,070</u>	<u>(\$156,007)</u>
Cash Balance Carried Forward to FY 2000			<u>\$26,070</u>	<u>\$26,070</u>
Amount restricted for Budget Stabilization				26,070
Total Restricted Assets				<u>\$26,070</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)**

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amounts to below zero, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year.

NOTE 17 - STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the District. During the fiscal year ended June 30, 1999, the District received \$2,262,223 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found seven "...major areas warrant[ing] further attention, study, and development by the General Assembly...", including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

As of the date of these financial statements, the District is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

NOTE 18 - SUBSEQUENT EVENT

In March 2000, the District issued \$6,249,421 in school improvement bonds for the purpose of constructing, furnishing, and equipping a new elementary school to serve the entire District, and constructing, furnishing, and equipping additions to, and renovating, rehabilitating, and otherwise improving the junior/senior high school. Ground breaking for the new elementary building took place in October 2000.



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

One Government Center
Room 1420
Toledo, Ohio 43604-2246
Telephone 419-245-2811
800-443-9276
Facsimile 419-245-2484
www.auditor.state.oh.us

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

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

To the Board of Education:

We have audited the financial statements of Northeastern Local School District, Defiance County, (the District) as of and for the year ended June 30, 1999, and have issued our report thereon dated December 19, 2000, in which we noted that the District changed its capitalization policy for textbooks and library books. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated December 19, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 19, 2000.

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

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

Jim Petro
Auditor of State

December 19, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

NORTHEASTERN LOCAL SCHOOL DISTRICT

DEFIANCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 18, 2001**