



**Auditor of State
Betty Montgomery**

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Local School District, Clark County, (the District), as of and for the year ended June 30, 2003, 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 *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Local School District, Clark County, Ohio, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

January 14, 2004

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The discussion and analysis of Northeastern Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

In total, net assets decreased \$44,554, which represents a .39 percent decrease from 2002.

General revenues accounted for \$22,184,152 in revenue or 88.79 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$2,800,332 or 11.21 percent of total revenues of \$24,984,484.

Total assets of governmental activities increased by \$722,388 as cash and cash equivalents increased by \$193,567, receivables increased by \$95,500 and capital assets increased by \$455,210.

The governmental activities of the School District had \$25,029,038 in expenses; only \$2,800,322 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$22,184,152 were adequate to provide for these programs.

Among major funds, the General Fund had \$20,831,858 in revenues and \$22,516,326 in expenditures. The General Fund's balance decreased \$1,659,795 over 2002. This decrease was not anticipated by the Board of Education. The School District attributes this decrease to a reduction in state revenue. Also, a devaluation of personal property and real property by International Harvester caused a reduction in revenue. In addition, a golf course in the district devalued approximately \$1,000,000 in real property. Also, Emanuel Christian Academy declared tax exempt status. All of these factors had a negative impact on revenue.

Using this Generally Accepted Accounting Principles Report (GAAP)

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 14. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Permanent Improvement Capital Projects Fund.

Governmental Funds

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Proprietary Fund

Proprietary funds use the same basis of accounting as business-type activities. The internal service fund is used to report activities that provide services to the School District's other funds and departments.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2003 compared to 2002.

Table 1
Net Assets

	2002	2003
Assets		
Current and Other Assets	\$16,704,662	\$16,971,840
Capital Assets	<u>17,048,676</u>	<u>17,503,886</u>
Total Assets	<u>33,753,338</u>	<u>34,475,726</u>
Liabilities		
Long-Term Liabilities	8,788,310	8,824,184
Other Liabilities	<u>13,680,318</u>	<u>14,341,504</u>
Total Liabilities	<u>22,468,628</u>	<u>23,165,688</u>
Net Assets		
Invested in Capital Assets, Net of Debt	9,653,676	10,343,886
Restricted	1,357,045	2,670,562
Unrestricted	<u>273,989</u>	<u>(1,704,410)</u>
Total Net Assets	<u>\$11,284,710</u>	<u>\$11,310,038</u>

Total assets increased \$722,388. Cash and cash equivalents increased by \$193,567, receivables increased by \$95,500 and capital assets increased by \$455,210. Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, of the School District decreased by \$2,453,399 due to the loss of tax revenue, decrease in state revenue, and the conclusion of the second year of the negotiated agreements. Also, the revenue from the HB 264 bonds was recognized in 2002. In 2003, only the liability related to the balance of the HB 264 projects remained.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the third year the School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons are available. Therefore, a comparative analysis of district-wide data is being presented, as follows:

Table 2
Changes in Net Assets

	2002	2003
Revenues		
Program Revenues:		
Charges for Services	\$1,475,884	\$1,617,553
Operating Grants and Contributions	905,422	1,127,564
Capital Grants and Contributions	38,059	55,215
General Revenues		
Property Taxes	11,242,164	10,649,577
Grants and Entitlements	11,205,245	11,451,628
Other	123,556	82,947
Total Revenues	24,990,330	24,984,484
Program Expenses		
Instruction	12,184,651	13,324,337
Support Services:		
Pupils and Instructional Staff	2,505,762	2,573,935
Board of Education, Administration, and Fiscal	2,719,612	2,834,726
Operation and Maintenance of Plant	2,102,220	2,508,396
Pupil Transportation	1,321,360	1,491,578
Central	0	500
Operation of Non-Instructional Services	1,347,970	1,246,162
Extracurricular Activities	702,956	659,460
Interest and Fiscal Charges	327,221	389,944
Total Expenses	23,211,752	25,029,038
Increase/(Decrease) in Net Assets	\$1,778,578	(\$44,554)

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District operations. Property taxes made up 43 percent of revenues for governmental activities for the Northeastern Local School District for fiscal year 2003.

The School District voters passed a four-year permanent improvement levy in March of 2000 for collection 2001 through 2004. This levy at 4.0 mills generates approximately \$1,436,000 in property tax revenue per year. The roof replacements at Northeastern High School, Northridge Elementary/Middle School, and South Vienna Elementary/Middle School have been completed. A number of safety concerns in the district have been addressed, including the purchase of AED's for each building, ordering 6 new school busses, and bidding for new safety doors for all of the buildings. The Board is in the process of prioritizing expenditure of remaining permanent improvement dollars. Their first priorities will be further safety concerns in the district. Following that, expenditures will be based on the greatest need. The \$2,700,000 HB 264 Energy Conservation projects were almost completed at the close of fiscal year 2003. Only a few minor items remained to be completed. The Kenton Ridge electric to gas conversion was completed. Lighting district-wide was updated and boiler replacements were completed in all buildings.

Due to the erosion of the local tax base and the negative changes eminent in state funding, the Board of Education has decided to put a 4.0 mill operating levy on the ballot rather than replacing or renewing the 4.0 mill permanent improvement levy.

Instruction comprises 53 percent of district expenses. Support services expenses make up 38 percent of the expenses.

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

Table 3

	Total Cost of Services 2003	Net Cost of Services 2003
Instruction	\$13,324,337	\$12,291,660
Support Services:		
Pupils and Instructional Staff	2,573,935	2,428,860
Board of Education, Administration, and Fiscal	2,834,726	2,740,432
Operation and Maintenance of Plant	2,508,396	2,498,969
Pupil Transportation	1,491,578	1,440,090
Central	500	(28)
Operation of Non-Instructional Services	1,246,162	31,084
Extracurricular Activities	659,460	487,515
Interest and Fiscal Charges	389,944	310,124
Total Expenses	<u>\$25,029,038</u>	<u>\$22,228,706</u>

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

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

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

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

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

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

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

The dependence upon tax revenues is apparent. Almost 100 percent of instruction activities are supported through taxes and other general revenues; for all activities general revenue support is 89 percent. The community, as a whole, is the primary support for the Northeastern Local School District.

The School District's Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$25,013,390 and expenditures of \$25,769,016. The net change in fund balance for the year was most significant in the General Fund, a decrease of \$1,659,795. This decrease was not anticipated by the Board of Education. The School District attributes this decrease to decreased tax revenue based on varying devaluations across the district. The district was not informed of these devaluations until the values were received from the County Auditor's Office in late December of 2002. Additionally, state funding to the district was reduced unexpectedly due to a revenue shortfall statewide. Another area that has impacted the district's finances is the double-digit inflation in the health insurance rates. Additionally, the winter was unusually cold, making the utility bills quite high.

General Fund Budgeting Highlights

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

During the course of the 2003 fiscal year, the School District amended its General Fund budget several times, which resulted in appropriations increasing \$103,964. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. Prior to year-end, the School District requested an amended certificate of estimated resources that reflected actual revenue for the fiscal year.

Salary costs proved to be slightly lower than anticipated in the original budget. This could possibly be due to additional federal monies being available for employment of additional handicapped aides. Often when student numbers necessitate adding aides, there is no option other than using general fund monies.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

For the General Fund, budget basis revenue and other financing sources was \$21,427,962, \$103,177 above the original budgeted estimates of \$21,324,785. This difference was due primarily to higher federal grant revenue than anticipated.

Capital Assets

At the end of the 2003 fiscal year, the School District had \$17,503,886 invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal 2003 balances compared to 2002.

Capital Assets (Net of Depreciation) at June 30,		
	2002	2003
Land	\$268,349	\$268,349
Land Improvement	172,532	168,187
Buildings and Improvements	13,426,085	14,790,491
Furniture and Equipment	1,450,075	1,536,098
Vehicles	722,993	740,761
Construction in Progress	1,008,642	0
Total Capital Assets	\$17,048,676	\$17,503,886

Overall capital assets increased \$455,210 from fiscal year 2002 to fiscal year 2003. Increases in capital assets (primarily buildings and improvements, equipment and vehicles) were offset by depreciation expense for the year.

Debt Administration

At June 30, 2003, the School District had a bond issue of \$4,680,000 outstanding. It was originally passed in 1995 for \$5,300,000 for 23 years. Also outstanding at June 30, 2003 was \$2,480,000 in Energy Conservation Bonds.

Table 5
Outstanding Debt at June 30,

	2002	2003
1996 Building Issue	\$4,815,000	\$4,680,000
2001 Energy Conservation Bonds	2,700,000	2,480,000
Total Debt	\$7,515,000	\$7,160,000

At June 30, 2003, the School District's overall legal debt margin was \$32,724,548.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Current Financial Issues and Concerns

The fund balance in the general fund decreased this year by over \$1,600,000. Based on historical trends, tax revenues were anticipated to increase significantly. Instead, due to devaluations, tax revenue actually decreased. This was a major blow to the district's budget. Also, \$172,000 in state funds were taken away due to a statewide revenue shortfall. Compounding the balance decrease were increased benefit and utility costs.

We are currently overcrowded in the majority of our buildings. The board and administration continued to recommend and request passage of a bond issue to build two new middle schools. The issue was first placed on the ballot in November, 2000. It failed at that time. It has been placed on the ballot four times since and has failed all four times. The board and administration feel that this is not an indication of voter disapproval, but more a barometer of the economy and the fact that the voters just passed the 4-mill Permanent Improvement levy in March of 2001. Another concern is voter discontent with the continuing issue of how the State of Ohio funds education. In an effort to attain voter approval, the bond issue was placed on the November ballot with a no new millage approach. The board promised the voters that the Permanent Improvement levy would be discontinued upon passage of the bond issue. The millage for each are almost identical, therefore allowing for the "no new millage" approach. However, this issue failed again. The Board has decided to keep the issue off of the ballot until the retiring superintendent is replaced with a new superintendent in the district and is able to make a decision that is best for the district. Part of this decision will be based on the opinions of district residents. The Board did a superintendent search through the Ohio School Boards Association starting in January of 2003. The search was completed and a superintendent was hired effective July 1, but did not take over the role of superintendent until August 1, 2003, when the retiring superintendent's contract ended. This was beginning the 2004 fiscal year.

Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional system of school funding, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. The legislators and government officials have somewhat abandoned the DeRolph case. With the current financial concerns the State is facing, they feel they have done as much as they can for K-12 education at the current time. However, they have appointed a blue ribbon task force comprised of legislators and school officials to study school funding. It is their hope that the task force will be able to make a viable recommendation to aide school funding in the future.

In comparison to other school districts in the state, the Northeastern Local School District would not be considered a School District suffering with low wealth. Therefore, the Northeastern Local School District has not anticipated any meaningful growth in State revenue other than from increased enrollment. There is a concern that, to meet the requirements of the court, the State may require a redistribution of commercial and industrial property tax. Approximately 10 percent of the School District's wealth is generated from business and industry.

Therefore, redistribution of this 10 percent to other districts could have a significant negative impact on the School District's residential taxpayers. The Ohio Supreme Court has already stated that there is an over-reliance on property taxes in the State of Ohio.

Yet another pitfall of not being considered a low wealth district is the distribution of a lower percentage of funds from the Ohio School Facilities' Commission (OSFC). Our neighboring city district will be receiving approximately 88 percent of the cost of replacing almost all their school buildings from the State merely by raising the other 12 percent locally. The Northeastern Local School District only qualifies for State funding of 35 percent while having to raise the remaining 65 percent of the master plan locally to qualify for state OSFC funding. This is another aspect of state funding that is confusing to the district voters and contributes to complicating the efforts of passing a bond issue.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

The Northeastern Local School District has worked with the OSFC. The construction of two new middle schools, among other possibilities, falls within the confines of the OSFC's master plan.

Other items of importance that occurred during the 2003 fiscal year are as follows:

- An Energy Conservation HB 264 proposal for 2.7 million dollars was almost completed. A large percentage of the project was the conversion from electric to gas at Kenton Ridge. The district is striving to make improvements that will not cost the taxpayers additional money.
- A Best Practices grant was awarded to the district for a Principal's Leadership Academy and expansion to a Teacher's Leadership Academy.
- The 2003 fiscal year saw the middle of a three-year master contract that was negotiated in fiscal year 2001 and is in effect through 2004.
- The board continued the establishment of a virtual school on and off-campus. This was done to reach some students who otherwise may drop out of school and/or just need a few credits to graduate. Some of these students prefer not to attend school full-time and prefer less structure than a classroom environment.
- The Northeastern Boosters completed construction of 6 tennis courts.
- Interactive Video Distance Learning Classes continued in the district.
- A one-half to full-time itinerant teaching position was continued to accommodate the increasing number of pre-school students needing assistance.

The Board members of the district continue to be extremely concerned about the school funding issues. A legislative liaison committee comprised of Board Members, Superintendents, and Treasurers meet on a monthly basis. They continually work toward goals to raise awareness regarding the school funding crisis in the State of Ohio.

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Denise D. Schneider, Chief Fiscal Officer at Northeastern Local School District, 1414 Bowman Road, Springfield, Ohio 45502 or email at ne_tres@mveca.org.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2003**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$4,643,430
Cash and Cash Equivalents In Segregated Accounts	4,000
Cash and Cash Equivalents With Fiscal Agents	11,763
Accounts Receivable	9,167
Intergovernmental Receivable	260,335
Prepaid Items	24,723
Materials and Supplies Inventory	96,542
Taxes Receivable	11,671,703
Receivable for Payments in Lieu of Taxes	5,000
Long-Term Receivable	245,177
Nondepreciable Capital Assets	268,349
Depreciable Capital Assets, net	<u>17,235,537</u>
 Total Assets	 <u>34,475,726</u>
 Liabilities and Fund Balances	
Liabilities:	
Accounts Payable	80,737
Accrued Wages	2,079,543
Intergovernmental Payable	741,238
Matured Compensated Absences Payable	93,210
Matured Special Termination Benefit Payable	225,947
Judgments Payable	116,000
Deferred Revenue	10,962,547
Matured Bonds Payable	10,000
Matured Interest Payable	1,763
Accrued Interest Payable	30,519
Long-Term Liabilities:	
Due Within One Year	587,223
Due In More Than One Year	<u>8,236,961</u>
 Total Liabilities	 <u>23,165,688</u>
 Net Assets:	
Invested in Capital Assets, Net of Related Debt	10,343,886
Restricted for:	
Capital Projects	1,581,415
Debt Service	748,599
Other Purposes	340,548
Unrestricted (Deficit)	<u>(1,704,410)</u>
 Total Net Assets	 <u>\$11,310,038</u>

See accompanying notes to the basic financial statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$10,612,395	\$566,491	\$82,604	\$50,056	(\$9,913,244)
Special	2,161,921	2	333,524		(1,828,395)
Vocational	540,079				(540,079)
Other	9,942				(9,942)
Support Services:					
Pupil	1,257,771		20,005		(1,237,766)
Instructional Staff	1,316,164	1	119,910	5,159	(1,191,094)
Board of Education	51,420				(51,420)
Administration	2,199,933		88,707		(2,111,226)
Fiscal	583,373		5,587		(577,786)
Operation and Maintenance of Plant	2,508,396	153	9,274		(2,498,969)
Pupil Transportation	1,491,578	66	51,422		(1,440,090)
Central	500		528		28
Operation of Non-Instructional Services	1,246,162	876,369	338,709		(31,084)
Extracurricular Activities	659,460	166,108	5,837		(487,515)
Interest and Fiscal Charges	389,944	8,363	71,457		(310,124)
Total Governmental Activities	\$25,029,038	\$1,617,553	\$1,127,564	\$55,215	(22,228,706)

General Revenues

Property Taxes Levied for:	
General Purposes	8,919,672
Debt Service	492,815
Capital Outlay	1,237,090
Grants and Entitlements not Restricted to Specific Programs	11,451,628
Revenue in Lieu of Taxes	5,000
Investment Earnings	29,669
Miscellaneous	48,278
Total General Revenues	22,184,152
Change in Net Assets	(44,554)
Net Assets Beginning of Year	11,354,592
Net Assets End of Year	\$11,310,038

See accompanying notes to the basic financial statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003**

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$1,980,713	\$1,497,985	\$1,164,732	\$4,643,430
Cash and Cash Equivalents:				
In Segregated Accounts			4,000	4,000
With Fiscal Agents			11,763	11,763
Receivables:				
Taxes	9,830,610	1,358,290	482,803	11,671,703
Accounts	9,167		245,177	254,344
Intergovernmental	94,971		165,364	260,335
Interfund Receivable	45,322			45,322
Prepaid Items	24,723			24,723
Materials and Supplies Inventory	74,791		13,272	88,063
Receivable for Payments in Lieu of Taxes	5,000			5,000
Total Assets	<u>12,065,297</u>	<u>2,856,275</u>	<u>2,087,111</u>	<u>17,008,683</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	40,515	24,394	15,828	80,737
Accrued Wages	1,952,156		127,387	2,079,543
Matured Compensated Absences Payable	93,210			93,210
Matured Special Termination Benefit Payable	225,947			225,947
Interfund Payable			45,322	45,322
Intergovernmental Payable	518,646		28,704	547,350
Deferred Revenue	9,288,276	1,324,867	721,627	11,334,770
Matured Bonds Payable			10,000	10,000
Matured Interest Payable			1,763	1,763
Judgments Payable	116,000			116,000
Total Liabilities	<u>12,234,750</u>	<u>1,349,261</u>	<u>950,631</u>	<u>14,534,642</u>
Fund Balances				
Reserved for Encumbrances	382,033	487,341	114,664	984,038
Reserved for Material and Supplies Inventory	74,791		13,272	88,063
Reserved for Property Taxes	573,287	33,423	33,320	640,030
Unreserved:				
Designated for:				
Capital Acquisitions	133,806			133,806
Undesignated, Reported in:				
General Fund (Deficit)	(1,333,370)			(1,333,370)
Special Revenue Funds			266,182	266,182
Debt Service Fund			705,667	705,667
Capital Projects Funds		986,250	3,375	989,625
Total Fund Balances	<u>(169,453)</u>	<u>1,507,014</u>	<u>1,136,480</u>	<u>2,474,041</u>
Total Liabilities and Fund Balances	<u>\$12,065,297</u>	<u>\$2,856,275</u>	<u>\$2,087,111</u>	<u>\$17,008,683</u>

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003**

Total Governmental Fund Balances		\$2,474,041
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p>		
Land	268,349	
Depreciable capital assets	30,814,060	
Accumulated depreciation	<u>(13,578,523)</u>	
Total capital assets		17,503,886
<p>Other long-term assets are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds:</p>		
Property Taxes	336,089	
Grants	26,967	
Accounts Receivable	<u>9,167</u>	
		372,223
<p>Federal donated commodities are not reported in the funds.</p>		
		8,479
<p>Intergovernmental Payable includes contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.</p>		
		(193,888)
<p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.</p>		
		(30,519)
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>		
Bonds and notes payable	(7,160,000)	
Compensated absences	(1,419,007)	
Capital leases	<u>(245,177)</u>	
Total liabilities		(8,824,184)
		\$11,310,038
Net Assets of Governmental Activities		\$11,310,038

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property Taxes	\$8,957,407	\$1,240,844	\$495,721	\$10,693,972
Intergovernmental	11,292,227	151,366	1,093,077	12,536,670
Interest	29,973	241	1,217	31,431
Tuition and Fees	488,973			488,973
Extracurricular Activities			195,991	195,991
Payment in Lieu of Taxes	15,000			15,000
Charges for Services			707,252	707,252
Contributions and Donations			72,792	72,792
Miscellaneous	48,278		223,031	271,309
Total Revenues	<u>20,831,858</u>	<u>1,392,451</u>	<u>2,789,081</u>	<u>25,013,390</u>
Expenditures:				
Current:				
Instruction:				
Regular	10,192,615	38,018	264,766	10,495,399
Special	1,808,656		309,005	2,117,661
Vocational	535,014			535,014
Other	9,942			9,942
Support Services:				
Pupil	1,224,603		22,207	1,246,810
Instructional Staff	1,114,386		139,852	1,254,238
Board of Education	48,914			48,914
Administration	2,084,129	77	87,799	2,172,005
Fiscal	555,458	22,189	13,674	591,321
Operation and Maintenance of Plant	2,340,791	129,049	20,707	2,490,547
Pupil Transportation	1,432,783	11,842	298	1,444,923
Central			500	500
Operation of Non-Instructional Services	90		1,211,872	1,211,962
Extracurricular Activities	483,631		177,398	661,029
Capital Outlay	346,174	18,089	311,574	675,837
Debt Service:				
Principal Retirement	220,000		201,397	421,397
Interest and Fiscal Charges	119,140		272,377	391,517
Total Expenditures	<u>22,516,326</u>	<u>219,264</u>	<u>3,033,426</u>	<u>25,769,016</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,684,468)</u>	<u>1,173,187</u>	<u>(244,345)</u>	<u>(755,626)</u>
Other Financing Sources				
Transfer-In	24,673		549	25,222
Inception of Capital Lease			311,574	311,574
Total Other Financing Sources	<u>24,673</u>		<u>312,123</u>	<u>336,796</u>
Net Change in Fund Balance	(1,659,795)	1,173,187	67,778	(418,830)
Fund Balances Beginning of Year	1,505,674	333,827	1,069,304	2,908,805
Decrease in Reserve for Inventory	(15,332)		(602)	(15,934)
Fund Balances at End of Year	<u>(\$169,453)</u>	<u>\$1,507,014</u>	<u>\$1,136,480</u>	<u>\$2,474,041</u>

See accompanying notes to the basic financial statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Net Change in Fund Balances - Total Governmental Funds (\$418,830)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Fixed Asset Additions	2,238,187	
Current Year Depreciation	(702,152)	
Fixed Asset Deletions	<u>(1,080,825)</u>	
		455,210

In the statement of activities the loss on the disposal of fixed assets is reported.

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property Taxes	(44,395)	
Receivable in Lieu of Taxes	(10,000)	
Grants	14,387	
Tuition and Fees	2,306	
Interest Revenue	<u>(545)</u>	
		(38,247)

Some capital additions were financed through capital leases.

In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.

(311,574)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consisted of:

Bond principal retirement	355,000	
Capital lease payments	<u>66,397</u>	
Total long-term debt repayment		421,397

In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.

1,574

Donated commodities received (\$42,385) and used (\$45,118) are not recognized in the funds.

(2,733)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Compensated Absences	(145,697)	
Intergovernmental Payable	35,502	
Change in Inventory	<u>(15,934)</u>	
Total additional expenditures		(126,129)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities.

During fiscal year 2003, the fund was eliminated and all monies were returned to the originating governmental funds. The transfer out of the internal service fund is not reported in the governmental funds.

(25,222)

Change in Net Assets of Governmental Activities (\$44,554)

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Property Taxes	\$9,306,136	\$9,354,673	\$9,354,673	
Intergovernmental	11,223,234	11,283,625	11,283,625	
Interest	31,987	32,436	32,436	
Tuition and Fees	499,000	501,798	501,798	
Payment in Lieu of Taxes	10,662	10,000	10,000	
Rent		400	400	
Miscellaneous	47,832	38,116	38,116	
Total Revenues	<u>21,118,851</u>	<u>21,221,048</u>	<u>21,221,048</u>	
Expenditures:				
Current:				
Instruction:				
Regular	9,626,316	10,374,116	10,317,762	56,354
Special	1,670,784	1,814,471	1,813,421	1,050
Vocational	527,183	553,594	546,703	6,891
Other	99,198	57,444	35,312	22,132
Support Services:				
Pupils	1,139,330	1,239,283	1,232,269	7,014
Instructional Staff	963,301	1,098,630	1,097,379	1,251
Board of Education	69,305	67,369	56,172	11,197
Administration	1,921,265	1,993,412	1,987,052	6,360
Fiscal	553,816	595,587	587,554	8,033
Operation and Maintenance of Plant	1,815,901	2,365,334	2,287,265	78,069
Pupil Transportation	1,214,978	1,447,716	1,426,403	21,313
Operation of Non-Instructional Services	1,012	90	90	
Extracurricular Activities	436,510	482,399	482,086	313
Capital Outlay	3,577,148	1,585,244	794,148	791,096
Debt Service:				
Principal Retirement	220,000	220,000	220,000	
Interest and Fiscal Charges	119,140	119,140	119,140	
Total Expenditures	<u>23,955,187</u>	<u>24,013,829</u>	<u>23,002,756</u>	<u>1,011,073</u>
Excess of Revenues Under Expenditures	<u>(2,836,336)</u>	<u>(2,792,781)</u>	<u>(1,781,708)</u>	<u>1,011,073</u>
Other Financing Sources (Uses):				
Proceeds from the Sale of Fixed Assets		405	405	
Operating Transfers - In	24,673	24,673	24,673	
Advances Out		(45,322)	(45,322)	
Refund of Prior Year Expenditure	181,261	181,836	181,836	
Total Other Financing Sources (Uses)	<u>205,934</u>	<u>161,592</u>	<u>161,592</u>	
Excess of Revenues and Other Financing Sources Under Expenditures And Other Financing Uses	<u>(2,630,402)</u>	<u>(2,631,189)</u>	<u>(1,620,116)</u>	<u>1,011,073</u>
Fund Balances at Beginning of Year	2,130,607	2,130,607	2,130,607	
Prior Year Encumbrances Appropriated	1,011,073	1,011,073	1,011,073	
Fund Balances at End of Year	<u>\$511,278</u>	<u>\$510,491</u>	<u>\$1,521,564</u>	<u>\$1,011,073</u>

See accompanying notes to the basic financial statements

NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
JUNE 30, 2003

	Governmental Activities: Internal Service Fund
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$0</u>
Net Assets:	
Unrestricted	<u><u>\$0</u></u>

See accompanying notes to the basic financial statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Activities: Internal Service Fund
	<hr/>
Net Assets Beginning of Year	\$25,222
Transfer Out	<hr/> (25,222)
Net Assets End of Year	<hr/> <hr/> \$0

See accompanying notes to the basic financial statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Activities: Internal Service Fund
Increase (Decrease) in Cash and Cash Equivalents	
Cash and Cash Equivalents Beginning of Year	\$25,222
Transfer Out	<u>(25,222)</u>
Cash and Cash Equivalents End of Year	<u><u>0</u></u>
 Reconciliation of Operating Income to Net Cash Used for Operating Activities	
Operating Income	<u>0</u>
Net Cash Used for Operating Activities	<u><u>\$0</u></u>

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003**

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$4,410	\$98,762
Investments		
In Segregated Accounts	10,000	
Receivables:		
Accrued Interest	11	
<i>Total Assets</i>	14,421	98,762
Liabilities		
Due to Students		\$98,762
Net Assets		
Held in Trust for Scholarships	\$14,421	

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Private Purpose Trust
	Scholarship
Additions	
Contributions	\$1,000
Interest	236
	1,236
Total Additions	1,236
Deductions	
Other	1,390
	(154)
Change in Net Assets	(154)
Net Assets Beginning of Year	14,575
Net Assets End of Year	\$14,421

See accompanying notes to the basic financial statements.

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

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

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

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

The School District participates in the Miami Valley Educational Computer Association (MVECA), Springfield/Clark County Joint Vocational School, and the Southwestern Ohio Educational Purchasing Council (SOEPC) which are defined as jointly governed organizations, and the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), which is defined as an insurance purchasing pool. These organizations are presented in Note 16 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is also eliminated to avoid "doubling up" revenues and expenses.

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

2. Fund Financial Statements:

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

B. Fund Accounting

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

1. Governmental Funds:

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

2. Proprietary Fund:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

Internal Service Fund - The internal service fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The only internal service fund of the School District accounts for its self-insured prescription drug plan.

3. Fiduciary Fund Types:

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

C. Measurement Focus

1. Government-wide Financial Statements:

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

2. Fund Financial Statements:

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Like the government-wide statements, the proprietary fund type is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

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

D. Basis of Accounting

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

1. Revenues - Exchange and Non-exchange Transactions:

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

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

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

2. Deferred Revenue:

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

3. Expenses/Expenditures:

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

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

E. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The Treasurer is authorized to further allocate appropriations to the function and object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate that was in effect at the time the final appropriations were passed by the Board of Education. Prior to fiscal year-end, the School District requested an amended certificate of estimated resources that reflects actual revenue for the fiscal year.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

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

During fiscal year 2003, investments were limited to certificates of deposit, which are reported at cost.

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 2003 amounted to \$29,973, which includes \$12,112 assigned from other School District funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

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

I. Capital Assets

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

J. Compensated Absences

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

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

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

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

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables from the proprietary fund are reported on the proprietary fund financial statements.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net Assets

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

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for the self insurance program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

N. Fund Balance Reserves

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

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

O. Fund Designations

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

P. Interfund Activity

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2003.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Estimates

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

3 FUND DEFICITS

The preschool special revenue fund had a deficit fund balance at June 30, 2003, of \$2,907. The general fund is liable for deficits in these funds and will provide operating transfers when cash is required, not when accruals occur.

4. BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance

GAAP Basis	(\$1,659,795)
Net Adjustment for Revenue Accruals	571,407
Net Adjustment for Expenditure Accruals	(24,072)
Unrecorded Cash	24
Advances	(45,322)
Prepays	(3,222)
Adjustment for Encumbrances	(459,136)
Budget Basis	<u><u>(\$1,620,116)</u></u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

5. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

Cash on Hand:

At year end, the School District had \$3,426 in undeposited cash on hand which is included on the financial statements of the School District as part of "Equity in Pooled Cash and Cash Equivalents."

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

Deposits:

At year-end, the carrying amount of the School District's deposits was \$4,768,939 and the bank balance was \$5,512,800. \$111,763 of the bank balance was covered by federal depository insurance and \$5,401,037 considered uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

The School District did not have any investments at June 30, 2003.

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$4,762,365	\$10,000
Cash on Hand	(3,426)	0
Investments:		
Certificates of Deposit	10,000	(10,000)
GASB Statement 3	\$4,768,939	\$0

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2003 for real and public utility property taxes represents collections of calendar 2002 taxes. Property tax payments received during calendar 2003 for tangible personal property (other than public utility property) are for calendar 2003 taxes.

2003 real property taxes are levied after April 1, 2003, on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2003 public utility property taxes became a lien December 31, 2002, are levied after April 1, 2003, and are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after April 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second - Half Collections		2003 First - Half Collections	
Agricultural/Residential and Other Real Estate	\$341,749,530	83.71%	\$346,022,150	84.94%
Public Utility Personal	14,816,160	3.63	15,660,340	3.84
Tangible Personal Property	51,703,340	12.66	45,712,632	11.22
Total	<u>\$408,269,030</u>	<u>100.00%</u>	<u>\$407,395,122</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$45.64		\$45.44	

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

6. PROPERTY TAXES (Continued)

The School District receives property taxes from Clark County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The School District voters passed a four-year permanent improvement levy in March of 2001 for collection 2002 through 2005. This levy at 4.0 mills generates approximately \$1,436,000 in property tax revenue per year.

Accrued property taxes receivable represent delinquent taxes outstanding, and real property, personal property and public utility taxes which are measurable as of June 30, 2003, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue. At June 30, 2003, \$573,287 was available as an advance to the general fund, \$33,423 in the permanent improvement fund and \$33,320 in the non-major governmental funds.

7. RECEIVABLES

Receivables at June 30, 2003, consisted of property taxes, accounts (tuition and student fees), intergovernmental grants and interest. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

Governmental Activities:	
Transportation and Tuition Costs	\$86,369
Undivided Flood Control Settlement	8,923
Eisenhower Grant	1,181
Title VI-B	83,628
Title I Grant	37,885
Title VI Grant	17,673
Drug Free Grant	4,005
Preschool Grant	2,577
Improving Teacher Quality Grant	18,094
Total Intergovernmental Receivables	\$260,335

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

8. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance 6/30/02	Additions	Deductions	Balance 6/30/03
Governmental Activities				
Capital Asset, not being depreciated:				
Land	\$268,349	\$0	\$0	\$268,349
Construction in Progress	1,008,642	0	(1,008,642)	0
<i>Total Capital Assets, not being depreciated</i>	1,276,991	0	(1,008,642)	268,349
Capital Assets, being depreciated:				
Land Improvements	543,760	0	0	543,760
Buildings and Improvements	23,914,505	1,792,220	0	25,706,725
Furniture and Equipment	2,869,988	337,359	(148,931)	3,058,416
Vehicles	<u>1,472,776</u>	<u>108,608</u>	<u>(76,225)</u>	<u>1,505,159</u>
<i>Total Capital Assets, being depreciated</i>	28,801,029	2,238,187	(225,156)	30,814,060
Less Accumulated Depreciation:				
Land Improvements	(371,228)	(4,345)	0	(375,573)
Buildings and Improvements	(10,488,420)	(427,814)	0	(10,916,234)
Furniture and Equipment	(1,419,913)	(196,160)	93,755	(1,522,318)
Vehicles	<u>(749,783)</u>	<u>(73,833)</u>	<u>59,218</u>	<u>(764,398)</u>
Total Accumulated Depreciation	<u>(13,029,344)</u>	<u>(702,152)</u>	<u>152,973</u>	<u>(13,578,523)</u>
Total Capital Assets being depreciated, net	<u>15,771,685</u>	<u>1,536,035</u>	<u>(72,183)</u>	<u>17,235,537</u>
Governmental Activities Capital Assets, Net	<u>\$17,048,676</u>	<u>\$1,536,035</u>	<u>(\$1,080,825)</u>	<u>\$17,503,886</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$347,471
Special	39,983
Vocational	22,119
Support Services:	
Pupil	26,394
Instructional Staff	59,895
Administration	46,799
Fiscal	4,045
Operation and Maintenance of Plant	11,250
Pupil Transportation	76,588
Operation of Non-Instructional Services	35,460
Extracurricular Activities	<u>32,148</u>
Total Depreciation Expense	\$702,152

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

9. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft or, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted with Nationwide, Utica, and Ohio School Plan for property and fleet insurance, liability insurance, crime, violence, and automobile coverage. Coverage provided by these insurance companies is as follows:

Building and Contents-replacement cost; including Boiler and Machinery	\$54,321,270
Crime Insurance	10,000
Ohio School Plan Violence Coverage	1,000,000
Automobile Liability (\$0 deductible)	2,000,000
Uninsured Motorists (\$0 deductible)	50,000
General Liability	
Per Occurrence	1,000,000
Total Per Year	3,000,000

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

B. Self Insurance

The School District has established a self-funded prescription drug plan. The activity of this plan is recorded in an internal service fund to account for and finance its uninsured risks of loss in this plan. The School District covers all costs associated with claims, including an administrative fee to the third party administrator. The third party administrator, Ameriscript, reviews all claims which the School District then pays.

The School District pays into the prescription drug internal service fund a premium for each employee based upon single or family coverage. The claims liability of \$0 reported in the fund at June 30, 2003, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claims costs be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and that the amount of the loss can be reasonably estimated. There were no claims after the balance sheet date.

In October 2001, the School District was no longer self insured. They now provide prescription drug coverage for their employees under their new health insurance plan. During fiscal year 2003, per Board Resolution, any cash remaining in the internal service fund was transferred back to the funds that originally contributed the money.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

9. RISK MANAGEMENT

C. Workers' Compensation

For fiscal year 2003, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Incorporated provides administrative, cost control, and actuarial services to the GRP.

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (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 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 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Northeastern Local School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to cover health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS's Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$377,426, \$220,050, and \$120,577, respectively; 55.03 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$169,721 represents the unpaid contribution for fiscal year 2002.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 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. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members are required to contribute 9.3 percent of their annual covered salaries. Northeastern Local School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,602,019, \$1,071,935, and \$1,064,412, respectively; 84.05 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$255,457 representing the unpaid contribution for fiscal year 2003.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

11. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefits recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS board currently allocates employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$123,232 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,011 billion at June 30, 2002 (the latest information available). For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal 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 basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including surcharge, during the 2003 fiscal year equaled \$329,467.

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. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 225 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, unused sick leave up to the maximum of 225 days. Administrators retiring in fiscal year 2003 were eligible to receive payment of 40 percent of accrued, unused sick leave up to the maximum of 225 days.

B. Insurance Benefits

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

C. Special Termination Benefit

The School District offered a special termination benefit plan during fiscal year 2003. To participate in the plan, an employee must opt for this program the first time they are eligible to retire with 30 years of experience, or the first year eligible according to STRS. The special termination benefit amount is \$20,000, payable over the next three years after retirement in three equal payments beginning on June 1, 2004, and ending June 1, 2006. For the School District, the liability as of June 30, 2003 is \$225,947.

13. CAPITAL LEASES - LESSEE DISCLOSURE

The School District has entered into a capital lease for fitness equipment for the two high schools. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the basic financial statements for governmental funds. The equipment acquired by the lessee is included in governmental activities general capital assets in the amount of \$173,130. This amount is not equal to the present value of the future minimum lease payments at the time of acquisition due to certain items in the lease not meeting the capitalization threshold. A corresponding liability is included in governmental activities general long term debt. Principal payments in fiscal year 2003 totaled \$66,397. Future minimum lease payments are as follows:

Year	Amount
2004	\$109,188
2005	109,188
2006	36,396
Total	254,772
Less: Amount Representing Interest	(9,595)
Present Value of Net Minimum Lease Payments	\$245,177

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

14. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Amount Outstanding June 30, 2002	Additions	Deductions	Amount Outstanding June 30, 2003	Amounts Due Within One Year
Governmental Activities:					
General Obligation Bonds:					
1996 Building Issue					
5.125 to 6%	\$4,815,000	\$0	\$135,000	\$4,680,000	\$150,000
Energy Conservation Bonds:					
4.6% 10 years	2,700,000	0	220,000	2,480,000	230,000
Capital Lease	0	311,574	66,397	245,177	102,841
Compensated Absences	<u>1,273,310</u>	<u>402,110</u>	<u>256,413</u>	<u>1,419,007</u>	<u>104,382</u>
Total Governmental Activities					
Long-Term Liabilities	\$8,788,310	\$713,684	\$677,810	\$8,824,184	\$587,223

1996 General Obligation Bonds - On March 1, 1996, Northeastern Local School District issued \$5,300,000 in voted general obligation bonds for the purpose of an addition and improvement to the District's buildings. The bonds were issued for a twenty-two year period with final maturity at December 1, 2018. The bonds will be retired from the debt service fund.

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

The capital lease obligation will be paid from a special revenue fund which also receives the grant monies.

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

The School District's overall legal debt margin was \$32,724,548, with an unvoted debt margin of \$407,395, and an energy conservation debt margin of (\$2,150,010) at June 30, 2003.

Principal and interest requirements to retire general obligation and energy conservation debt outstanding at June 30, 2003, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Totals
2004	\$380,000	\$366,223	\$746,223
2005	405,000	345,963	750,963
2006	430,000	324,343	754,343
2007	460,000	301,213	761,213
2008	495,000	277,270	772,270
2009-2013	2,640,000	976,747	3,616,747
2014-2018	1,940,000	389,610	2,329,610
2019	410,000	11,378	421,378
Total	<u>\$7,160,000</u>	<u>\$2,992,747</u>	<u>\$10,152,747</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

15. INTERFUND ASSETS/LIABILITIES AND TRANSFERS

The general fund had an interfund receivable at June 30, 2003, of \$45,322, while all other nonmajor funds had interfund payables of \$45,322. General fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Restricted monies are used to reimburse the general fund for advancing monies to other funds due to timing differences in the receiving of grant monies. When the monies are finally received, the grant fund reimburses the general fund for the initial advance.

The prescription drug self insurance internal service fund had transfers out to the general fund and nonmajor funds in the amounts of \$24,673 and \$549, respectively.

16. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

A. Jointly Governed Organizations

Miami Valley Educational Computer Association - The School District is a participant in the Miami Valley Educational Computer System (MVECA) which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene and Highland Counties and Cities of Springfield, Wilmington, Washington Court House, Xenia and Hillsboro. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The School District paid MVECA \$113,100 for services provided during the year. Financial information can be obtained from Norma Stuart, Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

Springfield/Clark County Joint Vocational School - The Springfield/Clark County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected boards, which possess its own budgeting and taxing authority. One member is appointed from the following: Clark-Shawnee Local School District, Mad River-Green Local School District, Northeastern Local School District, Northwestern Local School District, Southeastern Local School District, Tecumseh Local School District, and the Clark County Educational Service Center. Two members are appointed from the Springfield City School District. The School District did not have any financial transactions with this organization for fiscal year 2003. To obtain financial information, write to the Springfield/Clark County Joint Vocational School, Pamela Ashbaugh, who serves as Treasurer, 1901 Selma Road, Springfield, Ohio 45505-4239.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL (Continued)

Payments to SOEPC are made from the general fund. During fiscal year 2003, the School District paid \$6,748 to the SOEPC for membership and enrollment fees. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

B. Insurance Purchasing Pool

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

17. SET-ASIDE CALCULATIONS

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

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

	Textbooks	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2002	(\$129,142)	\$0
Current Year Set-aside Requirement	473,377	473,377
Additional Money Set-aside	0	133,806
Current Year Offsets	0	(1,304,090)
Qualifying Disbursements	(477,538)	(2,672,740)
Totals	(\$133,303)	(\$3,369,647)

The School District set aside additional money in excess of statutory requirements for capital acquisitions. This amount is presented on the balance sheet as a designation of fund balance rather than as a reserve, and is not included in restricted assets. The \$133,806 represents the previous balance of the budget stabilization set-aside. This is kept in a separate account and may only be expended by Board resolution for acquisition, replacement, enhancement, maintenance, and repair of permanent improvements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

18. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

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

19. SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

20. SUBSEQUENT EVENT

On October 15, 2003, in a special Board of Education meeting, the Superintendent resigned. The ordinance specified that he was to be paid \$130,000 in installments as follows: \$30,000 to be paid within 10 business days, \$80,000 shall be paid on January 15, 2004 and \$20,000 shall be paid on January 15, 2005.

21. CHANGE IN ACCOUNTING PRINCIPLE

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparisons for the general fund and each major special revenue fund. For fiscal year ending 2003, the District was not affected by this change.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR YEAR ENDED JUNE 30, 2003**

Federal Grantor/Pass Through Grantor/Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
(Passed through State Department of Education)						
Nutrition Cluster:						
Food Donation	N/A	10.550		\$70,881		\$70,881
National School Lunch Program	LLP1-00 LLP4-02 LLP1-01 LLP4-03	10.555	\$13,550		\$13,550	
Total National School Lunch Program			<u>85,511</u> 99,061		<u>85,511</u> 99,061	
Total US Department of Agriculture - Nutrition Cluster			<u>99,061</u>	70,881	<u>99,061</u>	70,881
U.S. DEPARTMENT OF EDUCATION						
(Passed through Ohio Department of Education)						
Title I - Grants to Local Educational Agencies	C1S103	84.010	72,352		87,113	
Special Education Cluster:						
Special Education - Grants to State	6BSD02 6BSF01 6BSF02	84.027	6,000 23,731 212,949		1,668 50,282 230,272	
Total Special Ed - Grants to State			<u>242,680</u>		<u>282,222</u>	
Special Education - Preschool Grants	PGS102	84.173	12,526		14,416	
Total Special Education Cluster			<u>255,206</u>		<u>296,638</u>	
Safe & Drug Free Schools & Communities State Grants	DRS100 DRS101 DRS102 DRS103	84.186	(890)		1,467	
Total Safe & Drug Free Schools			<u>3,188</u>		<u>5,545</u>	
Eisenhower Professional Development State Grants	MSS100 MSS101 MSS102	84.281	(501)		947	
Total Eisenhower Prof. Dev.			<u>(6,305)</u>		<u>1,334</u> 2,281	
Innovative Education Program Strategies	C2S101 C2S102 C2S103	84.298	3,575		4,554 4,608 9,636	
Total Innovative Educ. Prog. Strategies			<u>14,429</u>		<u>18,798</u>	
Education Technology State Grants	TJS103	84.318	3,016		3,016	
Baldrige Deployment Grant	N/A	84.276			14,947	
Improving Teacher Quality State Grants	TRS103	84.367	38,003		38,283	
Class Size Reduction	CRS102	84.340			1,686	
Total Improving Teacher Quality			<u>38,003</u>		<u>39,969</u>	
Total US Department of Education			<u>379,889</u>		<u>468,307</u>	
INSTITUTE OF MUSEUM AND LIBRARY SERVICES						
(Passed through State Library of Ohio)						
State Library Program	N/A	45.310	48,563		45,457	
BUREAU OF LAND MANAGEMENT						
(Passed through Clark County Auditor)						
Payment in Lieu of Taxes	PL97-258	15.226			8,923	
Total Federal Assistance			<u>\$527,513</u>	<u>\$70,881</u>	<u>\$621,748</u>	<u>\$70,881</u>

The accompanying notes to this schedule are an integral part of this schedule.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR YEAR ENDED JUNE 30, 2003**

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B -- NUTRITION CLUSTER

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the District had no significant food commodities in inventory.

NOTE C -- MATCHING REQUIREMENTS

Certain federal programs require that the District contribute non-federal funds (matching funds) to support the federally-funded programs. The expenditure of non-federal funds is not included on the Schedule.

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Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of Northeastern Local School District, Clark County, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated January 14, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated January 14, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District' 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 a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 14, 2004.

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

This report is intended for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

January 14, 2004



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Northeastern Local School District, Clark County, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Northeastern Local School District, Clark County, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

January 14, 2004

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster – CFDA #'s 84.027, 84.173
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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NORTHEASTERN LOCAL SCHOOL DISTRICT

CLARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 6, 2004**