



**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State
Betty Montgomery**

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Local School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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, Defiance County, Ohio, as of June 30, 2005, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

March 1, 2006

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of the Northeastern Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2005 are as follows:

- In total, net assets decreased \$305,541.
- General revenues accounted for \$8,780,845 or 85 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$1,582,752 or 15 percent of total revenues of \$10,363,597.
- The District's major funds included the General Fund, the Bond Retirement Fund, and the Permanent Improvement Fund. The General Fund had \$8,579,042 in revenues and \$8,793,961 in expenditures and other financing uses. The General Fund's balance decreased \$214,919 from the prior fiscal year. The Bond Retirement Fund had \$6,749,866 in revenues and other financing sources and \$6,611,145 in expenditures and other financing uses. The Bond Retirement Fund revenues included \$5,254,990 of proceeds from refunding bonds issued. The Bond Retirement Fund increased \$138,721 from the prior fiscal year. The Permanent Improvement Fund had \$412,021 in revenues and other financing sources and \$273,683 in expenditures. The Permanent Improvement Fund's balance increased \$138,338 from the prior fiscal year.
- The revenue generated from the Bond Retirement Fund is used to pay for the current portion of bonded debt.

Using the Basic Financial Statements

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

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

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

For the District, the General Fund is by far the most significant fund. The General Fund, the Bond Retirement Fund, and the Permanent Improvement Fund are the only major funds.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

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

In the statement of net assets and the statement of activities, the District discloses a single type of activity:

Governmental Activities - All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax revenues and from intergovernmental revenues, including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to help make this comparison between governmental funds and governmental activities.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2005.

**Table 1
Net Assets
Governmental Activities**

	2005	2004
<u>Assets:</u>		
Current and Other Assets	\$11,177,840	\$10,262,389
Capital Assets, Net	8,869,097	9,102,856
Total Assets	<u>20,046,937</u>	<u>19,365,245</u>
<u>Liabilities:</u>		
Current and Other Liabilities	7,255,775	6,963,037
Long-Term Liabilities	7,822,995	7,128,500
Total Liabilities	<u>15,078,770</u>	<u>14,091,537</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	1,091,100	1,738,591
Restricted	438,508	307,426
Unrestricted	3,438,559	3,227,691
Total	<u>\$4,968,167</u>	<u>\$5,273,708</u>

The District's current liabilities increase was attributed to the increase in accrued wages and pension obligations. The Long-Term Liabilities and Assets increased due to the unamortized cost of refinancing the debt in order to obtain a lower interest rate.

Table 2 reflects the changes in net assets for fiscal year 2005.

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

	2005	2004
<u>Revenues:</u>		
Program Revenues:		
Charges for Services and Sales	\$966,591	\$972,820
Operating Grants, Contributions and Interest	606,606	379,438
Operating Grants, Contributions and Interest	9,555	
Total Program Revenues	<u>1,582,752</u>	<u>1,352,258</u>
General Revenues:		
Property Taxes	5,404,172	5,447,351
Grants and Entitlements	2,643,268	2,881,720
Interest	100,115	46,657
Revenue in Lieu of Taxes	553,708	497,328
Gifts and Donations	18,507	8,950
Miscellaneous	61,075	220,591
Total General Revenues	<u>8,780,845</u>	<u>9,102,597</u>
Total Revenues	<u>10,363,597</u>	<u>10,454,855</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Expenses:

Instruction	6,095,929	5,478,991
Support Services:		
Pupils	425,385	419,208
Instructional Staff	252,396	299,186
Board of Education	44,946	38,107
Administration	808,565	814,543
Fiscal	315,370	295,930
Operation and Maintenance of Plant	827,020	833,072
Pupil Transportation	523,453	431,169
Central	52,882	19,580
Non-Instructional	452,442	434,497
Extracurricular Activities	386,620	303,870
Capital Outlay	192,408	276,618
Interest and Fiscal Charges	291,722	408,862
Total Expenses	<u>10,669,138</u>	<u>10,053,633</u>
Increase in Net Assets	<u>(\$305,541)</u>	<u>\$401,222</u>

The District had increases in wages, retirement, and interest charges from the prior fiscal year.

Governmental Activities

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

**Table 3
Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>
Instruction	\$6,095,929	\$5,316,078	\$5,478,991	\$4,599,203
Support Services:				
Pupils	425,385	297,457	419,208	419,208
Instructional Staff	252,396	191,023	299,186	289,348
Board of Education	44,946	44,946	38,107	38,107
Administration	808,565	762,556	814,543	814,543
Fiscal	315,370	315,370	295,930	295,930
Operation and Maintenance of Plant	827,020	827,020	833,072	833,072
Pupil Transportation	523,453	523,453	431,169	431,169
Central	52,882	40,882	19,580	19,580
Non-Instructional	452,442	39,435	434,497	156,842
Extracurricular Activities	386,620	244,036	303,870	118,893
Capital Outlay	192,408	192,408	276,618	276,618
Interest and Fiscal Charges	291,722	291,722	408,862	408,862
Total Expenses	<u>\$10,669,138</u>	<u>\$9,086,386</u>	<u>\$10,053,633</u>	<u>\$8,701,375</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 84 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 85 percent. The remaining 15 percent is derived from tuition and fees, specific grants, and donations.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental funds are the General Fund, the Bond Retirement Fund, and the Permanent Improvement Fund. Total governmental funds had revenues and other financing sources of \$16,869,900 and expenditures and other financing uses of \$16,888,900. The General Fund's net negative change of \$214,919 was primarily due to expenses increasing slightly more than property taxes increased. The Bond Retirement Fund's net positive change of \$138,721 and the Permanent Improvement Fund's net positive change of \$138,338 were primarily attributed to an increase in property tax and intergovernmental revenues while expenditures remained approximately the same.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2005, the District amended its General Fund budget as needed.

Final expenditures and other financing uses were budgeted at \$10,279,746 while actual expenditures and other financing uses were \$9,094,658. The \$1,185,088 difference is primarily due to a conservative "worst case scenario" approach. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$8,869,097 invested in capital assets (net of accumulated depreciation) for governmental activities.

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

Debt

At June 30, 2005, the District had \$940,136 in school improvement general obligation bonds for building improvements. The bonds were issued in 2000, with final maturity in December 2013. The bonds are being retired through the Bond Retirement Fund.

At June 30, 2005, the District had \$6,012,282 in school improvement general obligation bonds for refunding prior building improvement bonds. The bonds were issued for a twenty-one year period, with final maturity on December 1, 2026. The bonds are being retired through the Bond Retirement Fund.

At June 30, 2005, the District had outstanding HB 264 energy conservation notes, in the amount of \$210,000. The final maturity is in fiscal year 2011. The bonds are being retired through the Bond Retirement Fund.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

At June 30, 2005, the District had an outstanding bond anticipatory note, in the amount of \$650,000. During the year, the District paid off the bond anticipatory note of \$885,000. The note matures yearly and is renewed by the District. The notes are being retired through the Permanent Improvement Fund.

At June 30, 2005, the District's overall legal debt margin was \$9,185,009, with an un-voted debt margin of \$174,271.

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

Current Issues

The Northeastern Local School District encompasses approximately 117 square miles in the northeastern corner of Defiance County. In addition to the agricultural base, the District has some industrial and commercial businesses that have contributed to the financial stability of the District.

The District is currently operating in the second year of the state biennium budget. Eighty-one percent of District revenue sources are from local funds, 17% from state funds and the remaining 2% is from federal funds. The total expenditure per pupil was calculated at \$7,823.

The District has enjoyed steady growth in its tax base. Several new businesses have located in the District allowing it to continue to provide the educational opportunities to which the residents are accustomed. However, like all school districts in Ohio, the Northeastern Local School District will be faced with financial challenges such as changes to state funding, the long-term effects of public utility deregulation, and the reduction of personal property taxes on business inventory. A 9.9 mil-operating levy will be up for renewal in November 2006. This levy generates approximately \$1,356,000 annually.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Sue Garmyn, Treasurer, Northeastern Local School District, 05921 Domersville Road, Defiance, Ohio 43512-6703.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Net Assets
June 30, 2005**

		Governmental Activities
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$	3,350,033
Investments		1,397,663
Materials and Supplies Inventory		51,551
Accrued Interest Receivable		17,174
Accounts Receivable		2,308
Intergovernmental Receivable		59,740
Prepaid Items		3,346
Taxes Receivable		5,538,733
Unamortized Bond Costs		757,292
Non-Depreciable Capital Assets		159,717
Depreciable Capital Assets, net		8,709,380
Total Assets		<u>20,046,937</u>
LIABILITIES:		
Accounts Payable		335,429
Contracts Payable		102,755
Accrued Wages and Benefits		800,817
Intergovernmental Payable		187,653
Accrued Interest Payable		21,039
Matured Compensated Absences Payable		30,849
Deferred Revenue		5,127,233
Notes Payable		650,000
Long-Term Liabilities:		
Due Within One Year		344,333
Due in More Than One Year		7,478,662
Total Liabilities		<u>15,078,770</u>
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		1,091,100
Restricted for Debt Service		313,551
Restricted for Other Purposes		124,957
Unrestricted		3,438,559
Total Net Assets	\$	<u>4,968,167</u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2005**

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
				<u>Governmental Activities</u>
Governmental Activities:				
Instruction:				
Regular	\$ 4,616,895	504,160	44,471	\$ 9,555
Special	968,502		221,665	(4,058,709)
Vocational	153,430			(746,837)
Other	357,102			(153,430)
Support Services:				
Pupils	425,385		127,928	(357,102)
Instructional Staff	252,396		61,373	(297,457)
Board of Education	44,946			(191,023)
Administration	808,565	46,009		(44,946)
Fiscal	315,370			(762,556)
Operation and Maintenance of Plant	827,020			(315,370)
Pupil Transportation	523,453			(827,020)
Central	52,882		12,000	(523,453)
Operation of Non-Instructional Services	452,442	273,838	139,169	(40,882)
Extracurricular Activities	386,620	142,584		(39,435)
Capital Outlay	192,408			(244,036)
Debt Service:				
Interest and Fiscal Charges	291,722			(192,408)
Totals	<u>\$ 10,669,138</u>	<u>\$ 966,591</u>	<u>\$ 606,606</u>	<u>\$ 9,555</u>

General Revenues:

Property Taxes, Levied for General Purposes	4,765,265
Property Taxes, Levied for Capital Outlay	69,714
Property Taxes, Levied for Debt Service	569,193
Grants and Entitlements not Restricted to Specific Programs	2,643,268
Gifts and Donations	18,507
Revenue in Lieu of Taxes	553,708
Investment Earnings	100,115
Miscellaneous	61,075
Total General Revenues	<u>8,780,845</u>
Change in Net Assets	(305,541)
Net Assets Beginning of Year	5,273,708
Net Assets End of Year	<u>\$ 4,968,167</u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2005**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Permanent Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 2,577,787	\$ 198,292	\$ 470,125	\$ 103,829	\$ 3,350,033
Investments	1,397,663				1,397,663
Materials and Supplies Inventory	39,429			12,122	51,551
Accrued Interest Receivable	17,174				17,174
Accounts Receivable	1,354			954	2,308
Intergovernmental Receivable				59,740	59,740
Prepaid Items	3,346				3,346
Taxes Receivable	4,906,933	564,609	67,191		5,538,733
Total Assets	<u>\$ 8,943,686</u>	<u>\$ 762,901</u>	<u>\$ 537,316</u>	<u>\$ 176,645</u>	<u>\$ 10,420,548</u>
Liabilities					
Accounts Payable	\$ 205,322		\$ 129,473	\$ 634	\$ 335,429
Contracts Payable			102,755		102,755
Accrued Wages and Benefits	754,293			46,524	800,817
Intergovernmental Payable	116,132			4,033	120,165
Matured Compensated Absences Payable	30,352			497	30,849
Deferred Revenue	4,596,933	\$ 522,609	62,691	45,456	5,227,689
Notes Payable			650,000		650,000
Total Liabilities	<u>5,703,032</u>	<u>522,609</u>	<u>944,919</u>	<u>97,144</u>	<u>7,267,704</u>
Fund Balances					
Reserved:					
Reserved for Encumbrances	331,480		239,922	12,534	583,936
Reserved for Inventory	39,429			12,122	51,551
Reserved for Prepaid Items	3,346				3,346
Reserved for Property Taxes	310,000	42,000	4,500		356,500
Unreserved, Undesignated, Reported in:					
General Fund	2,556,399				2,556,399
Special Revenue Funds				54,845	54,845
Debt Service Funds		198,292			198,292
Capital Projects Funds			(652,025)		(652,025)
Total Fund Balances	<u>3,240,654</u>	<u>240,292</u>	<u>(407,603)</u>	<u>79,501</u>	<u>3,152,844</u>
Total Liabilities and Fund Balances	<u>\$ 8,943,686</u>	<u>\$ 762,901</u>	<u>\$ 537,316</u>	<u>\$ 176,645</u>	<u>\$ 10,420,548</u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2005**

Total Governmental Fund Balances	\$	3,152,844
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		8,869,097
Taxes Receivable that do not provide financial resources are not reported as revenues in governmental fund.		100,456
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(67,488)
Unamortized Bond Costs not reported in funds		757,292
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
Accrued Interest Payable	(21,039)	
General Obligation Bonds Payable	(7,162,418)	
Compensated Absences Payable	(660,577)	
	(7,844,034)	
Net Assets of Governmental Activities	\$	4,968,167

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Permanent Improvement Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:					
Property and Other Local Taxes	\$ 4,855,765	\$ 569,193	\$ 69,714		\$ 5,494,672
Intergovernmental	2,603,278	50,019	5,767	\$ 600,176	3,259,240
Interest	100,115				100,115
Tuition and Fees	476,638			27,197	503,835
Rent	325				325
Extracurricular Activities				188,593	188,593
Gifts and Donations	10,150			8,357	18,507
Customer Sales and Services				273,838	273,838
Payments in Lieu of Taxes	475,114		78,594		553,708
Miscellaneous	57,657			3,418	61,075
Total Revenues	<u>8,579,042</u>	<u>619,212</u>	<u>154,075</u>	<u>1,101,579</u>	<u>10,453,908</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	4,146,113			65,096	4,211,209
Special	684,612			266,496	951,108
Vocational	147,687				147,687
Other	357,102				357,102
Support Services:					
Pupils	315,406			134,788	450,194
Instructional Staff	216,210			26,922	243,132
Board of Education	44,946				44,946
Administration	741,298			51,156	792,454
Fiscal	297,000	14,296	1,618	530	313,444
Operation and Maintenance of Plant	820,341				820,341
Pupil Transportation	513,842				513,842
Central	27,308			25,574	52,882
Operation of Non-Instructional Services	529			448,621	449,150
Extracurricular Activities	161,524			190,928	352,452
Capital Outlay	179,024		249,119		428,143
Debt Service:					
Principal		105,350			105,350
Interest		216,526	22,946		239,472
Total Expenditures	<u>8,652,942</u>	<u>336,172</u>	<u>273,683</u>	<u>1,210,111</u>	<u>10,472,908</u>
Excess of Revenues Over (Under) Expenditures	<u>(73,900)</u>	<u>283,040</u>	<u>(119,608)</u>	<u>(108,532)</u>	<u>(19,000)</u>
OTHER FINANCING SOURCES AND USES:					
Transfers In		113,627	257,946	27,392	398,965
Transfers Out	(141,019)	(257,946)			(398,965)
Payment to Bond Escrow Agent		(5,904,147)			(5,904,147)
Refunding Bonds Issuance Cost		(112,880)			(112,880)
Refunding Bonds Issued		5,254,990			5,254,990
Premium on Refunding Bonds Issued		762,037			762,037
Total Other Financing Sources and Uses	<u>(141,019)</u>	<u>(144,319)</u>	<u>257,946</u>	<u>27,392</u>	<u>(19,000)</u>
Net Change in Fund Balances	(214,919)	138,721	138,338	(81,140)	(19,000)
Fund Balance (Deficit) at Beginning of Year	3,455,573	101,571	(545,941)	160,641	3,171,844
Fund Balance (Deficit) at End of Year	<u>\$ 3,240,654</u>	<u>\$ 240,292</u>	<u>\$ (407,603)</u>	<u>\$ 79,501</u>	<u>\$ 3,152,844</u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement Activities
For the Fiscal Year Ended June 30, 2005**

Net Change in Fund Balances - Total Governmental Funds \$ (19,000)

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

Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year.

Capital Outlay - Depreciable Capital Assets	128,912	
Depreciation	<u>(362,671)</u>	
		(233,759)

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

Intergovernmental	189	
Delinquent Property Taxes	<u>(90,500)</u>	
		(90,311)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.

105,350

Interest charges reported on the statement of activities, that do not require the use of current financial resources, are not reported as expenditures in governmental funds.

(52,250)

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(4,229)	
Compensated Absences Payable	<u>(11,342)</u>	
		(15,571)

Change in Net Assets of Governmental Activities		\$ <u><u>(305,541)</u></u>
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See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual Comparison
GENERAL FUND**

For the Fiscal Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over/(Under)</u>
Revenues				
Property and Other Local Taxes	\$ 4,948,800	\$ 4,896,650	\$ 4,896,765	\$ 115
Intergovernmental	2,429,100	2,603,269	2,603,278	9
Interest	45,000	70,000	82,941	12,941
Tuition and Fees	526,500	476,650	476,737	87
Rent	500	325	325	
Gifts and Donations	500	10,150	10,150	
Payments in Lieu of Taxes	500,000	500,000	475,114	(24,886)
Miscellaneous	11,500	15,900	16,233	333
Total Revenues	<u>8,461,900</u>	<u>8,572,944</u>	<u>8,561,543</u>	<u>(11,401)</u>
Expenditures				
Current:				
Instruction:				
Regular	4,472,188	4,476,663	4,157,671	318,992
Special	686,089	687,289	676,967	10,322
Vocational	161,812	161,812	148,754	13,058
Adult/Continuing	1,175	1,175	1,175	1,175
Other	371,700	371,700	362,930	8,770
Support Services:				
Pupils	394,911	396,561	310,596	85,965
Instructional Staff	286,840	281,890	221,984	59,906
Board of Education	49,440	49,440	45,962	3,478
Administration	1,043,646	1,035,271	759,314	275,957
Fiscal	326,608	326,608	300,978	25,630
Business				
Operation and Maintenance of Plant	947,607	947,607	876,436	71,171
Pupil Transportation	602,776	664,270	626,598	37,672
Central	41,400	51,400	27,308	24,092
Operation of Non-Instructional Services	15,760	13,760	978	12,782
Extracurricular Activities	162,884	165,884	162,314	3,570
Capital Outlay	175,916	323,416	260,016	63,400
Total Expenditures	<u>9,740,752</u>	<u>9,954,746</u>	<u>8,938,806</u>	<u>1,015,940</u>
Excess of Expenditures Over Revenues	<u>(1,278,852)</u>	<u>(1,381,802)</u>	<u>(377,263)</u>	<u>1,004,539</u>
Other Financing Sources and Uses:				
Proceeds from Sale of Capital Assets	25,000			
Refund of Prior Year Expenditures		41,275	41,290	15
Transfers Out	(50,000)	(200,000)	(141,019)	58,981
Refund of Prior Year Receipts	(50,000)	(50,000)	(14,833)	35,167
Advances Out	(25,000)	(25,000)		25,000
Other Financing Uses	(50,000)	(50,000)		50,000
Total Other Financing Sources and Uses	<u>(150,000)</u>	<u>(283,725)</u>	<u>(114,562)</u>	<u>169,163</u>
Net Change in Fund Balance	<u>(1,428,852)</u>	<u>(1,665,527)</u>	<u>(491,825)</u>	<u>1,173,702</u>
Fund Balance at Beginning of Year	3,777,516	3,777,516	3,777,516	
Prior Year Encumbrances Appropriated	224,727	224,727	224,727	
Fund Balance at End of Year	<u>\$ 2,573,391</u>	<u>\$ 2,336,716</u>	<u>\$ 3,510,418</u>	<u>\$ 1,173,702</u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ <u>12,865</u>	\$ <u>27,103</u>
Total Assets	<u>12,865</u>	<u>27,103</u>
Liabilities		
Current Liabilities:		
Undistributed Monies	<u> </u>	<u>27,103</u>
Total Liabilities	<u> </u>	<u>27,103</u>
Net Assets		
Held in Trust for Scholarships	<u>12,865</u>	<u> </u>
Total Net Assets	<u>\$ <u>12,865</u></u>	<u>\$ <u> </u></u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2005**

	<u>Private Purpose Trust</u>
ADDITIONS:	
Interest	741
Donations and gifts	\$ <u>243</u>
Total Additions	<u>984</u>
Change in Net Assets	984
Net Assets Beginning of Year	<u>11,881</u>
Net Assets End of Year	\$ <u><u>12,865</u></u>

See Accompanying Notes to the Basic Financial Statements

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Northeastern Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Northeastern Local School District is a local school district as defined by §3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's three instructional/support facilities staffed by 54 non-certified and 83 certified full-time teaching personnel who provide services to 1,127 students and other community members.

The Reporting Entity

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The 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
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Government-Wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function program of the 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 and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

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

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus 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 General Fund, Permanent Improvement Fund, and the Bond Retirement Fund are the District's major governmental funds:

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

Permanent Improvement Fund – The Permanent Improvement Fund is used to account for the revenues and expenditures related to school construction projects.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Bond Retirement Fund - The Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

The other governmental funds of the District account for grants and other resources, and capital projects of the District whose uses are restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary funds of the District consist of a private-purpose trust fund and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. The District's private purpose trust funds account for programs that provide college scholarships to students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the Statement of Net Assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) of total net assets.

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.

The private purpose trust fund is accounted for using a flow of 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. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements 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 District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the 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, grants, investment earnings, tuition, and student fees.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 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 been reported as deferred revenue.

Expenditures/Expenses

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.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E. Budgetary Process

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

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

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

F. Cash and Investments

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

During fiscal year 2005, investments were limited to STAR Ohio, certificate of deposits, and federal agency securities. Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts, such as non-negotiable certificates of deposits, are valued at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$100,115, which includes \$16,369 from other District funds.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

G. Inventory

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

H. Capital Assets

General capital assets are those assets not specifically related to activities. These assets generally 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 on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District's capitalization threshold is two thousand dollars. The 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 capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Land Improvements	15 - 30 years
Buildings and Building Improvements	30 - 50 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

I. 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 District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned, for all employees with more than one year of service.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that once incurred are paid in a timely manner and in full from current financial resources and are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits 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 year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

K. 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 District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

L. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which the services are consumed.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

M. Fund Balance Reserves

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

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

N. Estimates

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

O. Pass-Through Grants

The Handicapped Preschool special revenue fund is a pass-through grant in which the Northwest Ohio Educational Service Center is the primary recipient. In accordance with GASB Statement 24, "Accounting and Financial Reporting or Certain Grants and Other Financial Assistance," the secondary recipients should report monies spent on their behalf by the primary recipient as revenue and operating expenses.

P. 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 District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2005.

3. BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances 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 Balance – Budget (Non-GAAP Budgetary Basis) and Actual Comparison 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 fund financial statements are the following:

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

3. BUDGETARY BASIS OF ACCOUNTING – (Continued)

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 Major Governmental Fund	
GAAP Basis	(\$214,919)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2004, Received In Cash FY 2005	352,319
Accrued FY 2005, Not Yet Received in Cash	(384,651)
Expenditure Accruals:	
Accrued FY 2004, Paid in Cash FY 2005	(899,000)
Accrued FY 2005, Not Yet Paid in Cash	1,119,447
Encumbrances Outstanding at Year End (Budget Basis)	(465,021)
Budget Basis	(\$491,825)

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. DEPOSITS AND INVESTMENTS – (Continued)

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

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

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$2,364,128 of the District's bank balance of \$2,591,954 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. DEPOSITS AND INVESTMENTS – (Continued)

Investments

As of June 30, 2005, the District had the following investments:

Investment Type	Fair Value	Maturing in Less than One Year	Maturing in One to Two Years
Money Market Mutual Fund Account	\$130,741	\$130,741	
Federal National Mortgage Association Notes	995,819	995,819	
Federal Home Loan Mortgage Corporation Notes	300,750		\$300,750
Federal Home Loan Bank Notes	101,094	101,094	
STAR Ohio	733,376	733,376	
Total Investments	\$2,261,780	\$1,961,030	\$300,750

Interest Rate Risk - The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2% and be marked to market daily.

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

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

Concentration of Credit Risk - The District places no limit on the amount it may invest in any one issuer, however state statute limits investments in commercial paper and bankers' acceptances to 25% of the interim monies available for investment at any one time. The District's investments in Federal National Mortgage Association Notes and the Federal Home Loan Mortgage Corporation represent 44% and 13%, respectively, of the District's total investments.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes for 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2005 were levied after April 1, 2004, on the assessed values as of December 31, 2003, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes for 2005 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Defiance County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2005 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2005, was \$310,000 in the General Fund, \$42,000 in the Debt Service Fund, and \$4,500 in the Capital Projects Fund. The amount available as an advance at June 30, 2004, was \$351,000 in the General Fund, \$43,900 in the Debt Service Fund, and \$5,200 in the Capital Projects Fund.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

5. PROPERTY TAXES – (Continued)

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second- Half Collections		2005 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$85,990,160	51%	\$88,128,640	50%
Industrial/Commercial	33,423,930	20%	34,397,760	20%
Public Utility	21,951,168	13%	29,586,030	17%
Tangible Personal	28,042,990	16%	22,159,047	13%
Total Assessed Value	<u>\$169,408,248</u>	<u>100%</u>	<u>\$174,271,477</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$48.84		\$48.25	

6. RECEIVABLES

Receivables at June 30, 2005, consisted of property, accounts (rent and student fees), intergovernmental, and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Food Service	\$14,284
Title VI	1,433
Drug Free Schools	1,818
Title II-A	39,544
Miscellaneous Federal	2,661
Total Intergovernmental Receivables	<u>\$59,740</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

Governmental Activities	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Nondepreciable Capital Assets				
Land	\$159,717			\$159,717
Total Nondepreciable Capital Assets	159,717			159,717
Depreciable Capital Assets				
Land Improvements	474,604	\$21,632		496,236
Buildings and Building Improvements	10,351,219	24,780		10,375,999
Furniture, Fixtures, and Equipment	778,014	25,190	(\$4,790)	798,414
Vehicles	1,048,610	57,310	(38,639)	1,067,281
Infrastructure	24,907			24,907
Total Depreciable Capital Assets	12,677,354	128,912	(43,429)	12,762,837
Less Accumulated Depreciation				
Land Improvements	(51,698)	(24,842)		(76,540)
Buildings and Building Improvements	(2,496,730)	(239,890)		(2,736,620)
Furniture, Fixtures, and Equipment	(451,194)	(26,197)	4,790	(472,601)
Vehicles	(732,780)	(71,119)	38,639	(765,260)
Infrastructure	(1,813)	(623)		(2,436)
Total Accumulated Depreciation	(3,734,215)	(362,671)	43,429	(4,053,457)
Depreciable Capital Assets, Net	8,943,139	(233,759)		8,709,380
Governmental Activities Capital Assets, Net	\$9,102,856	(\$233,759)		\$8,869,097

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$149,578
Special	12,978
Vocational	3,051
Support Services:	
Pupil	9,327
Instructional Staff	11,770
Administration	12,348
Fiscal	1,422
Operation and Maintenance of Plant	15,178
Pupil Transportation	66,206
Non-Instructional Services	405
Extracurricular	51,386
Capital Outlay	29,022
Total Depreciation Expense	\$362,671

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

8. RISK MANAGEMENT

A. Comprehensive

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

Property Insurance	\$26,454,173
Automobile Liability	4,000,000
Error and Omissions	4,000,000
Crime Coverage	50,000
General Liability:	
Per Occurrence	4,000,000
Total Per Year	6,000,000

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

B. Employee Insurance Benefits Program

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

C. Workers' Compensation Group Program

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. DEFINED PENSION BENEFIT PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System 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 SERS, 45 North Fourth Street, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org under forms and publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$129,040, \$106,022, and \$96,741, respectively; 59 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is \$70,344.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-377, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

9. DEFINED PENSION BENEFIT PLANS – (Continued)

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 Defined Benefit 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, 2005, plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$623,607, \$630,018, and \$561,575, respectively; 86 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. The unpaid contribution for fiscal year 2005 is \$96,716.

10. POSTEMPLOYMENT BENEFITS

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

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2005, the board allocated employer contributions equal to 1% of covered payroll to Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.3 billion on June 30, 2005.

For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000. There were 115,395 eligible benefit recipients.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

10. POSTEMPLOYMENT BENEFITS – (Continued)

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2005, the allocation rate is 3.43%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2005, the minimum pay has been established as \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 were \$178,221,113. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs.

The number of participants currently receiving health care benefits is approximately 58,123.

For the District, the amount to fund health care benefits, including surcharge equaled \$62,466 during the 2005 fiscal year.

11. COMPENSATED ABSENCES

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

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 53 days for certified employees and 55 days for non-certified employees.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

12. NOTES PAYABLE

During the fiscal year ended June 30, 2005, the following changes occurred in notes payable:

	<u>Balance at 06/30/04</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 06/30/05</u>
Bond Anticipatory Notes - 2004 2.60% Due June 23, 2005	\$885,000		(\$885,000)	
Bond Anticipatory Notes - 2005 3.90% Due June 23, 2006		\$650,000		\$650,000
Total Long-Term Obligations	<u>\$885,000</u>	<u>\$650,000</u>	<u>(\$885,000)</u>	<u>\$650,000</u>

13. LONG-TERM OBLIGATIONS

During the year ended June 30, 2005, the following changes occurred in obligations reported in the Government - Wide Financial Statements:

	<u>Balance at 06/30/04</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 06/30/05</u>	<u>Amount Due In one Year</u>
Series 2000:					
Current interest bonds	\$6,075,000		(\$5,325,000)	\$750,000	\$80,000
Capital appreciation bonds	159,265	\$30,871		190,136	
Total Series 2000	<u>6,234,265</u>	<u>30,871</u>	<u>(5,325,000)</u>	<u>940,136</u>	<u>80,000</u>
Series 2005:					
Current interest bonds		4,965,000		4,965,000	190,000
Capital appreciation bonds		289,990		289,990	
Unamortized Bond Costs		762,037	(4,745)	757,292	34,638
Total Series 2005		<u>6,017,027</u>	<u>(4,745)</u>	<u>6,012,282</u>	<u>224,638</u>
Energy Conservation Improvement Bonds	245,000		(35,000)	210,000	35,000
Compensated Absences	649,235	11,342		660,577	4,695
Total Long-Term Obligations	<u>\$7,128,500</u>	<u>\$6,059,580</u>	<u>(\$5,365,085)</u>	<u>\$7,822,995</u>	<u>\$344,333</u>

Total expenditures for interest for the above debt for the period ended June 30, 2005, was \$216,526.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

13. LONG-TERM OBLIGATIONS – (Continued)

The scheduled payments of principal and interest on debt outstanding at June 30, 2005, are as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$339,638	\$247,622	\$587,260
2007	269,638	236,401	506,039
2008	279,638	225,474	505,112
2009	314,638	213,421	528,059
2010	339,638	199,881	539,519
2011-2015	996,672	1,796,660	2,793,332
2016-2020	1,450,174	1,436,179	2,886,353
2021-2025	2,483,190	389,708	2,872,898
2026-2027	689,532	18,084	707,616
Total	<u>\$7,162,758</u>	<u>\$4,763,430</u>	<u>\$11,926,188</u>

General Obligation Bonds – Series 2000

The general obligation bonds were issued in March 2000, for the purpose of constructing, furnishing, and equipping a new elementary building, and for the purpose of improving the junior/senior high school building. These bonds were refinanced on May 11, 2005. The remaining bonds consist of \$750,000 in current interest bonds and \$34,421 capital appreciation bonds. The serial bonds shall bear interest at the rates per year and will mature in the principal amounts and on the following dates:

Maturity Date	Principal Amount	Interest Rate
2005	80,000	5.00%
2006	100,000	5.05%
2007	110,000	5.10%
2008	135,000	5.15%
2009	155,000	5.20%
2010	170,000	5.25%

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

13. LONG-TERM OBLIGATIONS – (Continued)

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

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

The value of the capital appreciation bonds reported in the Statement of Activities at June 30, 2005, was \$190,136. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$155,715 has been included in the value. The bonds are being retired through the Bond Retirement Fund.

General Obligation Bonds – Series 2005

The general obligation bonds were issued in May 11, 2005, for the purpose of school improvement refunding bond. The bonds consist of \$4,965,000 in current interest bonds and \$289,990 capital appreciation bonds. The bonds are dated as of May 11, 2005. The interest rate at June 30, 2005, was 3 percent to 4.4 percent for the general obligation bonds.

On May 11, 2005, the District issued general obligation bonds (Series 2005) to currently refund a portion of the General Obligation Bonds (principal \$5,255,000). The refunded debt is considered defeased and accordingly; has been removed from the statement of net assets.

This current refunding was undertaken to reduce total debt service payments over the next 22 year by \$618,707 and resulted in an economic gain of \$288,248.

The refunding bonds outstanding are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to these liabilities are recorded as expenditures in the debt service fund. The source of payment is derived from a current tax levy.

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

13. LONG-TERM OBLIGATIONS – (Continued)

The \$4,965,000 of current interest serial bonds will mature in principal amounts on the principal payment due dates and will bear interest at the rates per year as follows:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2005	\$190,000	3.00%
2006	100,000	3.50%
2007	100,000	3.50%
2008	110,000	3.50%
2009	115,000	3.50%
2010	120,000	3.50%
2011	125,000	3.50%
2017	375,000	4.25%
2018	390,000	4.25%
2019	405,000	4.00%
2020	425,000	4.10%
2021	445,000	4.15%
2022	460,000	4.20%
2023	480,000	4.25%
2024	500,000	4.30%
2025	525,000	4.37%
2026	100,000	4.40%

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

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

The value of the capital appreciation bonds reported in the Statement of Activities at June 30, 2005 was \$289,990. The annual accretion of interest is based on the straight-line method. The bonds are being retired through the Bond Retirement Fund.

Energy Conservation Improvement Bonds

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

13. LONG-TERM OBLIGATIONS – (Continued)

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

14. SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

	Textbooks	Capital Acquisition
Set-aside Cash Balance as of June 30, 2004	(\$211,697)	
Current Year Set-aside Requirement	159,825	\$159,825
Current Year Offsets		
Qualifying Disbursements	(220,890)	(227,434)
Total	(\$272,762)	(\$67,609)
Balance Carried Forward to FY 2006	(\$272,762)	

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

15. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NWOCA during this fiscal year were \$58,846. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

15. JOINTLY GOVERNED ORGANIZATIONS – (Continued)

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC for GAAP conversion services during this fiscal year were \$3,750. To obtain financial information write to the Northern Buckeye Education Council, Crystal Meyer, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

C. Four County Career Center

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

D. Cisco Academy of Northwest Ohio

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

E. Northwestern Ohio Educational Research Council, Inc.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

16. GROUP PURCHASING POOLS

A. Northern Buckeye Education Council Employee Insurance Benefits Program

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NBEC for employee insurance benefits during this fiscal year were \$941,340. Financial information can be obtained from Northern Buckeye Education Council, Crystal Meyer, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

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

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$983 to the WCGRP to cover the costs of administering the program.

C. Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code – Non-Profit Corporations and functioning under authority granted by Section 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool to assist member school districts in preventing and reducing losses and injuries to property and persons which might result in claims being made against members of SORSA, their employees or officers. The District paid \$74,405 for those services to SORSC during fiscal year 2005.

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

17. SCHOOL FUNDING DECISION

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

18. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers from general fund to:	<u>Amount</u>
Nonmajor governmental funds	\$ 27,392
Bond Retirement Fund	113,627
Transfers from Bond Retirement Fund to:	
Permanent Improvement Fund	<u>257,946</u>
Total	<u>\$ 398,965</u>

19. CHANGE IN ACCOUNTING PRINCIPLE

The District has elected to implement Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures, which amends GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements. Implementation of GASB 40 has no impact on the District's financial position or results of operations.

20. COMPLIANCE AND ACCOUNTABILITY

- A.** Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in thirteen of the District's funds at June 30, 2005.
- B.** ***Fund Deficits*** - The fund deficits at June 30, 2005, of \$407,603 in the Permanent Improvement Fund resulted from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. The General Fund provides operating transfers when cash is required, not when accruals occur.

21. CONTINGENCIES

A. Grants

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

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

B. Litigation

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



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Local School District, Defiance County (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 1, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standard* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the District's management dated March 1, 2006, we reported another matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and the Board of Education. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

March 1, 2006

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005**

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

FINDING NUMBER 2005-001

Ohio Revised Code § 5705.41 (B) prohibits a subdivision from making an expenditure unless it has been properly appropriated.

The following funds were found to have expenditures significantly in excess of appropriations at June 30, 2005:

Fund	Total Appropriations	Total Disbursements	Variance
Special Revenue Funds:			
Food Service Fund	\$ 390,622	\$ 406,209	\$ (15,587)
Public School Support Fund	42,431	51,484	(9,053)
District Managed Activity Fund	200,885	202,528	(1,643)
Management Information System Fund	5,751	10,751	(5,000)
Entry Year Programs Fund	0	2,394	(2,394)
SchoolNet Professional Development Fund	0	1,892	(1,892)
Ohio Reads Grant Fund	11,839	13,839	(2,000)
Safe School/Agricul Ed 5th Qtr Grant Fund	0	1,234	(1,234)
Title VI-B Flow Through Fund	0	243,391	(243,391)
Title IV Fund	4,837	6,199	(1,362)
Title EHA Preschool Grants Fund	0	7,519	(7,519)
Debt Service Fund:			
Bond Retirement Fund	1,385,125	6,353,199	(4,968,074)
Capital Projects Funds:			
Permanent Improvement Fund	205,000	1,297,025	(1,092,025)

The Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Treasurer may request the Board to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.



**Auditor of State
Betty Montgomery**

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NORTHEASTERN LOCAL SCHOOL DISTRICT

DEFIANCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 21, 2006**