



**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, 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, 2006, 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, 2006, 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 February 23, 2007, 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

February 23, 2007

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006
Unaudited**

The discussion and analysis of the financial performance of Northeastern Local School District (the District) provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. 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 2006 are as follows:

- In total, net assets increased \$859,328.
- General revenues accounted for \$9,664,012 or 83 percent of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$1,936,409 or 17 percent of total revenues of \$11,600,421.
- The District's major funds included the General Fund and the Bond Retirement Fund. The General Fund had \$9,173,139 in revenues and \$9,385,428 in expenditures and other financing uses. The General Fund's balance decreased \$212,289 from the prior fiscal year. The Bond Retirement Fund had \$727,501 in revenues and other financing sources and \$841,451 in expenditures and other financing uses. The Bond Retirement Fund's balance decreased \$113,950 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 and the Bond Retirement 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 2006. 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 year's 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, 2006
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 and the Bond Retirement 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, 2006
Unaudited
(Continued)**

The District as a Whole

Table 1 provides a summary of the District's net assets for fiscal year 2006.

**Table 1
Net Assets
Governmental Activities**

	<u>2006</u>	<u>2005 (Restated)</u>
<u>Assets:</u>		
Current and Other Assets	\$11,070,169	\$11,177,840
Capital Assets, Net	<u>10,197,598</u>	<u>8,951,103</u>
Total Assets	<u>21,267,767</u>	<u>20,128,943</u>
<u>Liabilities:</u>		
Current and Other Liabilities	7,088,763	7,255,775
Long-Term Liabilities	<u>8,269,503</u>	<u>7,822,995</u>
Total Liabilities	<u>15,358,266</u>	<u>15,078,770</u>
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	2,424,479	1,173,106
Restricted	281,394	438,508
Unrestricted	<u>3,203,628</u>	<u>3,438,559</u>
Total	<u>\$ 5,909,501</u>	<u>\$ 5,050,173</u>

The District's capital assets, net increase was attributed to the purchase of capital assets and a capital lease. The increase in long-term liabilities was attributed to the District's capital lease agreement.

Table 2 reflects the changes in net assets for fiscal year 2006.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006
Unaudited
(Continued)**

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

	<u>2006</u>	<u>2005 (Restated)</u>
<u>Revenues:</u>		
Program Revenues:		
Charges for Services and Sales	\$890,657	\$966,591
Operating Grants, Contributions and Interest	1,045,752	606,606
Capital Grants and Contributions		9,555
Total Program Revenues	<u>1,936,409</u>	<u>1,582,752</u>
General Revenues:		
Property Taxes	6,123,422	5,404,172
Grants and Entitlements	2,796,259	2,643,268
Interest	152,995	100,115
Revenue in Lieu of Taxes	478,437	553,708
Gifts and Donations	43,167	18,507
Miscellaneous	69,732	61,075
Total General Revenues	<u>9,664,012</u>	<u>8,780,845</u>
Total Revenues	<u>11,600,421</u>	<u>10,363,597</u>
<u>Expenses:</u>		
Instruction	5,936,207	6,095,929
Support Services:		
Pupils	508,782	427,880
Instructional Staff	297,526	252,396
Board of Education	51,320	44,946
Administration	868,267	809,896
Fiscal	345,247	315,370
Operation and Maintenance of Plant	797,624	829,044
Pupil Transportation	553,272	529,109
Central	38,339	52,882
Non-Instructional	531,932	485,652
Extracurricular Activities	379,820	387,590
Capital Outlay		64,716
Interest and Fiscal Charges	432,757	291,722
Total Expenses	<u>10,741,093</u>	<u>10,587,132</u>
Increase/(Decrease) in Net Assets	<u>\$859,328</u>	<u>(\$223,535)</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006
Unaudited
(Continued)**

The District had increases in wages, retirement, and interest charges from the prior fiscal year. Revenues increased in fiscal year 2006 due to an increase in property taxes and due to an increase in operating grants, contributions and interest since donations were received for the track project. Revenue in lieu of taxes decreased in fiscal year 2006 due to a timing difference of when the enterprise zone agreements were paid in fiscal year 2005 and 2006.

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>2006</u>	<u>Net Cost of Services</u> <u>2006</u>	<u>Total Cost of Services</u> <u>2005</u> <u>(Restated)</u>	<u>Net Cost of Services</u> <u>2005</u> <u>(Restated)</u>
Instruction	\$5,936,207	\$5,330,062	\$6,095,929	\$5,316,078
Support Services:				
Pupils	508,782	237,428	427,880	299,952
Instructional Staff	297,526	270,930	252,396	191,023
Board of Education	51,320	51,320	44,946	44,946
Administration	868,267	831,343	809,896	763,887
Fiscal	345,247	345,247	315,370	315,370
Operation and Maintenance of Plant	797,624	797,624	829,044	829,044
Pupil Transportation	553,272	553,272	529,109	529,109
Central	38,339	26,339	52,882	40,882
Non-Instructional	531,932	96,991	485,652	72,645
Extracurricular Activities	379,820	(168,629)	387,590	245,006
Capital Outlay			64,716	64,716
Interest and Fiscal Charges	432,757	432,757	291,722	291,722
Total Expenses	<u>\$10,741,093</u>	<u>\$8,804,684</u>	<u>\$10,587,132</u>	<u>\$9,004,380</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 90 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 83 percent. The remaining 17 percent is derived from tuition and fees, specific grants, and donations.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. The District's major governmental funds are the General Fund and the Bond Retirement Fund. Total governmental funds had revenues and other financing sources of \$12,231,959 and expenditures and other financing used of \$12,341,198. The General Fund's net negative change of \$212,289 was primarily due to expenses increasing slightly more than the property taxes increased. The Bond Retirement Fund's net negative change of \$113,950 was primarily due to an increase in principal and interest payments while revenues remained approximately the same.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006
Unaudited
(Continued)**

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2006, the District amended its General Fund budget as needed.

Final expenditures and other financing uses were budgeted at \$11,124,315 while actual expenditures and other financing uses were \$9,772,541. The \$1,351,774 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 2006, the District had \$10,197,598 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, 2006, the District had \$891,687 in school improvement general obligation bonds for building improvements. The bonds were issued in 2000, with final maturity on December 2013. The bonds are being retired through the Bond Retirement Fund.

At June 30, 2006, the District had \$5,917,287 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, 2006, the District had outstanding HB 264 energy conservation notes, in the amount of \$175,000. The final maturity is in fiscal year 2011. The bonds are being retired through the Bond Retirement Fund.

At June 30, 2006, the District had an outstanding bond anticipatory note, in the amount of \$400,000. During the year, the District paid off the bond anticipatory note of \$650,000. The note matures yearly and is renewed by the District. The notes are being retired through the Permanent Improvement Fund.

During fiscal year 2006, the District entered into a \$550,000 capital lease agreement for the construction of an athletic field house. The lease agreement was issued for a period of five years, with final maturity December 1, 2010. The capital lease payments are being paid through the Permanent Improvement Fund.

At June 30, 2006, the District's overall legal debt margin was \$8,458,797, with an un-voted debt margin of \$169,641.

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

Current Issues

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006
Unaudited
(Continued)**

The District is currently operating in the first year of the state biennium budget. 73% of District revenue sources are from local funds, 23% from state funds and the remaining 4% is from federal funds. The total expenditure per pupil was calculated at \$10,740.

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 replacement levy was passed in November 2006. The replacement levy will generate approximately \$1,850,000 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, 2006**

		Governmental Activities
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$	2,913,015
Investments		1,413,046
Materials and Supplies Inventory		48,741
Accrued Interest Receivable		9,740
Accounts Receivable		3,759
Intergovernmental Receivable		54,189
Prepaid Items		4,413
Taxes Receivable		5,900,612
Unamortized Bond Issuance Costs		722,654
Non-Depreciable Capital Assets		779,167
Depreciable Capital Assets, net		9,418,431
Total Assets		<u>21,267,767</u>
 LIABILITIES:		
Accounts Payable		39,099
Accrued Wages and Benefits		822,230
Intergovernmental Payable		191,016
Accrued Interest Payable		19,700
Contracts Payable		236,035
Matured Compensated Absences Payable		72,071
Deferred Revenue		5,308,612
Notes Payable		400,000
Long-Term Liabilities:		
Due Within One Year		379,638
Due in More Than One Year		7,889,865
Total Liabilities		<u>15,358,266</u>
 NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		2,424,479
Restricted for Debt Service		200,940
Restricted for Other Purposes		80,454
Unrestricted		3,203,628
Total Net Assets	\$	<u>5,909,501</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, 2006**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$ 4,512,720	\$ 453,189	\$ 25,844	\$ (4,033,687)
Special	889,864		127,112	(762,752)
Vocational	154,180			(154,180)
Other	379,443			(379,443)
Support Services:				
Pupils	508,782		271,354	(237,428)
Instructional Staff	297,526		26,596	(270,930)
Board of Education	51,320			(51,320)
Administration	868,267	36,924		(831,343)
Fiscal	345,247			(345,247)
Operation and Maintenance of Plant	797,624			(797,624)
Pupil Transportation	553,272			(553,272)
Central	38,339		12,000	(26,339)
Operation of Non-Instructional Services	531,932	280,680	154,261	(96,991)
Extracurricular Activities	379,820	119,864	428,585	168,629
Debt Service:				
Interest and Fiscal Charges	432,757			(432,757)
Totals	<u>\$ 10,741,093</u>	<u>\$ 890,657</u>	<u>\$ 1,045,752</u>	<u>\$ (8,804,684)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				5,414,790
Property Taxes, Levied for Capital Outlay				74,919
Property Taxes, Levied for Debt Service				633,713
Grants and Entitlements not Restricted to Specific Programs				2,796,259
Gifts and Donations				43,167
Revenue in Lieu of Taxes				478,437
Investment Earnings				152,995
Miscellaneous				69,732
Total General Revenues				<u>9,664,012</u>
Change in Net Assets				859,328
Net Assets Beginning of Year				5,050,173
Net Assets End of Year				<u>\$ 5,909,501</u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2006**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 2,297,945	\$ 78,342	\$ 536,728	\$ 2,913,015
Investments	1,413,046			1,413,046
Materials and Supplies Inventory	36,515		12,226	48,741
Accrued Interest Receivable	9,740			9,740
Accounts Receivable	2,136		1,623	3,759
Interfund Receivable	1,162			1,162
Intergovernmental Receivable			54,189	54,189
Prepaid Items	4,413			4,413
Taxes Receivable	5,225,283	605,883	69,446	5,900,612
Total Assets	<u>8,990,240</u>	<u>684,225</u>	<u>674,212</u>	<u>10,348,677</u>
Liabilities				
Current Liabilities:				
Accounts Payable	38,713		386	39,099
Accrued Wages and Benefits	773,663		48,567	822,230
Interfund Payable			1,162	1,162
Intergovernmental Payable	173,406		17,610	191,016
Contracts Payable			236,035	236,035
Matured Compensated Absences Payable	70,810		1,261	72,071
Deferred Revenue	4,905,283	557,883	80,293	5,543,459
Notes Payable			400,000	400,000
Total Liabilities	<u>5,961,875</u>	<u>557,883</u>	<u>785,314</u>	<u>7,305,072</u>
Fund Balances				
Reserved:				
Reserved for Encumbrances	304,389		46,387	350,776
Reserved for Inventory	36,515		12,226	48,741
Reserved for Prepaid Items	4,413			4,413
Reserved for Property Taxes	320,000	48,000	5,000	373,000
Unreserved, Undesignated, Reported in:				
General Fund	2,363,048			2,363,048
Special Revenue Funds			35,146	35,146
Debt Service Funds		78,342		78,342
Capital Projects Funds			(209,861)	(209,861)
Total Fund Balances	<u>3,028,365</u>	<u>126,342</u>	<u>(111,102)</u>	<u>3,043,605</u>
Total Liabilities and Fund Balances	<u>\$ 8,990,240</u>	<u>\$ 684,225</u>	<u>\$ 674,212</u>	<u>\$ 10,348,677</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, 2006**

Total Governmental Fund Balances	\$	3,043,605
<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.		10,197,598
Taxes Receivable that do not provide financial resources are not reported as revenues in governmental fund.		234,847
Unamortized Bond Issuance Costs		722,654
<p>Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:</p>		
Accrued Interest Payable	\$ (19,700)	
General Obligation Bonds Payable	(6,983,974)	
Capital Leases Payable	(550,000)	
Compensated Absences Payable	<u>(735,529)</u>	
		<u>(8,289,203)</u>
Net Assets of Governmental Activities	\$	<u><u>5,909,501</u></u>

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, 2006**

	General Fund	Bond Retirement Fund	All Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property and Other Local Taxes	\$ 5,250,790	\$ 633,713	\$ 74,919	\$ 5,959,422
Intergovernmental	2,762,207	47,257	633,571	3,443,035
Interest	152,995			152,995
Tuition and Fees	423,066		29,873	452,939
Rent	250			250
Extracurricular Activities			156,788	156,788
Gifts and Donations	42,980		187	43,167
Customer Sales and Services			280,680	280,680
Payments in Lieu of Taxes	478,437			478,437
Miscellaneous	62,414		7,318	69,732
Total Revenues	9,173,139	680,970	1,183,336	11,037,445
EXPENDITURES:				
Current:				
Instruction:				
Regular	4,284,350		36,028	4,320,378
Special	636,382		214,556	850,938
Vocational	151,801			151,801
Other	379,443			379,443
Support Services:				
Pupils	328,274		173,380	501,654
Instructional Staff	238,014		51,843	289,857
Board of Education	51,554			51,554
Administration	857,320		52,606	909,926
Fiscal	330,589	13,549	1,777	345,915
Operation and Maintenance of Plant	820,113			820,113
Pupil Transportation	621,485			621,485
Central	25,796		12,543	38,339
Operation of Non-Instructional Services	8,813		491,038	499,851
Extracurricular Activities	164,621		124,093	288,714
Capital Outlay	92,359		956,455	1,048,814
Debt Service:				
Principal		305,000		305,000
Interest		272,902		272,902
Total Expenditures	8,990,914	591,451	2,114,319	11,696,684
Excess of Revenues Over (Under) Expenditures	<u>182,225</u>	<u>89,519</u>	<u>(930,983)</u>	<u>(659,239)</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In		46,531	597,983	644,514
Inception of Capital Lease			550,000	550,000
Transfers Out	(394,514)	(250,000)		(644,514)
Total Other Financing Sources and Uses	(394,514)	(203,469)	1,147,983	550,000
Net Change in Fund Balances	(212,289)	(113,950)	217,000	(109,239)
Fund Balance (Deficit) at Beginning of Year	3,240,654	240,292	(328,102)	3,152,844
Fund Balance (Deficit) at End of Year	\$ 3,028,365	\$ 126,342	\$ (111,102)	\$ 3,043,605

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006**

Net Change in Fund Balances - Total Governmental Funds	\$	(109,239)
<p>Amounts reported for governmental activities on the statement of activities are different because of the following:</p> <p>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.</p>		
Capital Outlay - Capital Assets	\$ 1,664,293	
Depreciation	<u>(417,798)</u>	1,246,495
<p>Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:</p>		
Intergovernmental	(29,609)	
Delinquent Property Taxes	<u>164,000</u>	134,391
<p>Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.</p>		
		305,000
<p>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.</p>		
		(161,194)
<p>Inception of Capital Lease</p>		
		(550,000)
<p>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:</p>		
Intergovernmental Payable	67,488	
Accrued Interest Payable	1,339	
Compensated Absences Payable	<u>(74,952)</u>	(6,125)
Change in Net Assets of Governmental Activities	\$	<u><u>859,328</u></u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual Comparison (Non-GAAP Budgetary Basis)
GENERAL FUND
For the Fiscal Year Ended June 30, 2006**

	<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	\$ 5,006,400	\$ 5,240,300	\$ 5,240,790	\$ 490
Intergovernmental	2,459,046	2,752,449	2,762,207	9,758
Interest	75,000	110,000	160,429	50,429
Tuition and Fees	479,700	422,166	422,090	(76)
Rent	500	250	250	
Gifts and Donations	500	42,975	42,980	5
Payments in Lieu of Taxes	500,000	500,000	478,437	(21,563)
Miscellaneous	8,150	14,925	15,689	764
Total Revenues	<u>8,529,296</u>	<u>9,083,065</u>	<u>9,122,872</u>	<u>39,807</u>
Expenditures				
Current:				
Instruction:				
Regular	4,617,011	4,698,721	4,383,156	315,565
Special	768,658	768,658	667,821	100,837
Vocational	161,590	161,590	153,375	8,215
Adult/Continuing	1,175	1,175		1,175
Other	410,300	410,300	386,583	23,717
Support Services:				
Pupils	411,986	411,986	304,982	107,004
Instructional Staff	245,330	260,580	234,721	25,859
Board of Education	61,750	63,450	50,757	12,693
Administration	1,085,228	1,135,228	882,542	252,686
Fiscal	350,702	350,702	324,992	25,710
Business				
Operation and Maintenance of Plant	1,085,103	1,085,103	883,614	201,489
Pupil Transportation	711,518	713,902	682,015	31,887
Central	55,500	55,500	25,936	29,564
Operation of Non-Instructional Services	13,230	18,930	11,617	7,313
Extracurricular Activities	181,300	181,550	166,963	14,587
Capital Outlay	301,940	311,940	217,791	94,149
Total Expenditures	<u>10,462,321</u>	<u>10,629,315</u>	<u>9,376,865</u>	<u>1,252,450</u>
Excess of Expenditures Over Revenues	<u>(1,933,025)</u>	<u>(1,546,250)</u>	<u>(253,993)</u>	<u>1,292,257</u>
Other Financing Sources and Uses:				
Proceeds from Sale of Capital Assets				
Refund of Prior Year Expenditures	20,000	20,000	46,919	26,919
Transfers Out	(150,000)	(400,000)	(394,514)	5,486
Refund of Prior Year Receipts	(50,000)	(50,000)		50,000
Advances Out	(25,000)	(25,000)	(1,162)	23,838
Other Financing Uses	(50,000)	(20,000)		20,000
Total Other Financing Sources and Uses	<u>(255,000)</u>	<u>(475,000)</u>	<u>(348,757)</u>	<u>126,243</u>
Net Change in Fund Balances	<u>(2,188,025)</u>	<u>(2,021,250)</u>	<u>(602,750)</u>	<u>1,418,500</u>
Fund Balance at Beginning of Year	3,510,418	3,510,418	3,510,418	
Prior Year Encumbrances Appropriated	465,021	465,021	465,021	
Fund Balance at End of Year	<u>\$ 1,787,414</u>	<u>\$ 1,954,189</u>	<u>\$ 3,372,689</u>	<u>\$ 1,418,500</u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
Assets		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ <u>12,625</u>	\$ <u>23,433</u>
Total Assets	<u>12,625</u>	<u>23,433</u>
Liabilities		
Current Liabilities:		
Undistributed Monies	<u> </u>	<u>23,433</u>
Total Liabilities	<u> </u>	<u>23,433</u>
Net Assets		
Held in Trust for Scholarships	<u>12,625</u>	<u> </u>
Total Net Assets	<u>\$ <u>12,625</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, 2006**

	<u>Private Purpose Trust</u>
ADDITIONS:	
Interest	\$ 35
Donations and gifts	<u>1,075</u>
Total Additions	<u>1,110</u>
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>1,350</u>
Total Deductions	<u>1,350</u>
Change in Net Assets	(240)
Net Assets Beginning of Year	<u>12,865</u>
Net Assets End of Year	<u>\$ 12,625</u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 53 non-certified and 83 certified full-time teaching personnel who provide services to 1,149 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 17 and 18 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, 2006
(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 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.

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.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 fund accounts 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, 2006
(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, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On the 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, 2006
(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 2006, 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 certificate of deposits, are valued at cost.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2006. 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, 2006.

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 2006 amounted to \$152,995, which includes \$8,227 from other District funds.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(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:

<u>Description</u>	<u>Estimated Lives</u>
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. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the 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.

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 the 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.

K. 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.

L. Net Assets

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

M. 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 as the time of purchase and the expenditure/expense is reported in the year in which services are consumed.

N. 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.

O. 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.

P. Pass-Through Grants

The Title VI-B Special Education and Handicapped Preschool special revenue funds are pass-through grants in which the Northwest Ohio Educational Service Center is the primary recipient. In accordance with GASB Statement 24, "Accounting and Financial Reporting of 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.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" and GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation"

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE – (Continued)

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

The implementation of GASB Statement No. 42 and GASB Statement No. 46 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Restatement of Net Assets

The change in net assets due to the restatement of the capital asset depreciation and construction in progress in the governmental activities is presented as follows:

	<u>Governmental Activities</u>
Net Assets, June 30, 2005	\$ 4,968,167
Restatement of Depreciation	(45,686)
Restatement of Construction in progress	127,692
Restated Net Assets, June 30, 2005	<u>\$ 5,050,173</u>

C. Deficit Fund Balance

The Permanent Improvement Fund had a deficit balance of \$233,621. This fund complied with Ohio state law, which does not permit a cash basis deficit at year-end. The deficit fund balance resulted from reporting notes payable as a fund liability. This deficit will be alleviated when sufficient revenues are received to retire the notes.

4. 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 and Actual Comparison (Non-GAAP Budgetary Basis) 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:

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING – (Continued)

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).

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	(\$212,289)
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2005, Received In Cash FY 2006	328,528
Accrued FY 2006, Not Yet Received in Cash	(378,795)
Expenditure Accruals:	
Accrued FY 2005, Paid in Cash FY 2006	(1,063,324)
Accrued FY 2006, Not Yet Paid in Cash	1,015,664
Net Accrued for Other Sources and Uses	45,757
Encumbrances Outstanding at Year End (Budget Basis)	(338,291)
Budget Basis	(\$602,750)

5. DEPOSITS AND INVESTMENTS

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

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

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the agreement be at least two percent and to be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio 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 through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if trading requirements have been met.

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

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,943,660 of the District's bank balance of \$2,169,964 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.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

5. DEPOSITS AND INVESTMENTS – (Continued)

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.

Investments

As of June 30, 2006, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturing in Less than One Year</u>	<u>Maturing in One to Two Years</u>
Money Market Mutual Fund Account	\$157,829	\$157,829	
Federal National Mortgage Association Notes	117,759		\$117,759
Federal Home Loan Mortgage Corporation Notes	599,897	300,750	299,147
Federal Home Loan Bank Notes	695,390	97,129	598,261
STAR Ohio	763,465	763,465	
Total Investments	<u>\$2,334,340</u>	<u>\$1,319,173</u>	<u>\$1,015,167</u>

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 AAAM 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.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

5. DEPOSITS AND INVESTMENTS – (Continued)

Concentration of Credit Risk - The District places no limit on the amount it may invest in any one issuer, however state statute limits investments in commercial paper and bankers' acceptances to 25% of the interim monies available for investment at any one time. The District's investment in Federal National Mortgage Association Notes, the Federal Home Loan Mortgage Corporation Notes, and the Federal Home Loan Bank Notes represent 5%, 25% and 29%, respectively, of the District's total investments.

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2006 represent the collection of calendar year 2005 taxes. Real property taxes for 2006 were levied after April 1, 2005, on the assessed values as of January 1, 2005, 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 2006 were levied after April 1, 2005, on the assessed values as of December 31, 2004, 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 2006 (other than public utility property) represent the collection of calendar year 2006 taxes. Tangible personal property taxes for 2006 were levied after April 1, 2005, on the value as of December 31, 2004. 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, 2006, are available to finance fiscal year 2006 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, 2006 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 2006 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

6. PROPERTY TAXES – (Continued)

The amount available as an advance at June 30, 2006, was \$320,000 in the General Fund, \$48,000 in the Debt Service Fund, and \$5,000 in the Capital Projects Fund. 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 assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$88,128,640	50%	\$100,212,120	54%
Industrial/Commercial	34,397,760	20%	39,897,540	22%
Public Utility	29,586,030	17%	28,299,840	15%
Tangible Personal	22,159,047	13%	16,502,715	9%
Total Assessed Value	\$174,271,477	100%	\$184,912,215	100%
Tax rate per \$1,000 of assessed valuation	\$48.25		\$48.25	

7. RECEIVABLES

Receivables at June 30, 2006, 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	
Food Service	\$14,371
Title VI	15,912
Drug Free Schools	1,499
Title II-A	22,407
Intergovernmental	\$54,189

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

8. CAPITAL ASSETS

A. The capital asset balances of the governmental activities have been restated due to a prior period adjustment. See Note 3.B. for detail:

	<u>Audited Balance at 6/30/05</u>	<u>Adjustments</u>	<u>Restated Balance at 6/30/06</u>
Governmental Activities			
Nondepreciable Capital Assets			
Land	\$159,717		\$159,717
Construction in Progress		\$127,692	127,692
Total Nondepreciable Capital Assets	<u>159,717</u>	<u>127,692</u>	<u>287,409</u>
Depreciable Capital Assets			
Land Improvements	496,236		496,236
Buildings and Building Improvements	10,375,999		10,375,999
Furniture, Fixtures, and Equipment	798,414		798,414
Vehicles	1,067,281		1,067,281
Infrastructure	<u>24,907</u>		<u>24,907</u>
Total Depreciable Capital Assets	<u>12,762,837</u>		<u>12,762,837</u>
Less Accumulated Depreciation			
Land Improvements	(76,540)	2	(76,538)
Buildings and Building Improvements	(2,736,620)	(23,650)	(2,760,270)
Furniture, Fixtures, and Equipment	(472,601)	(13,835)	(486,436)
Vehicles	(765,260)	(8,203)	(773,463)
Infrastructure	<u>(2,436)</u>		<u>(2,436)</u>
Total Accumulated Depreciation	<u>(4,053,457)</u>	<u>(45,686)</u>	<u>(4,099,143)</u>
Depreciable Capital Assets, Net	<u>8,709,380</u>	<u>(45,686)</u>	<u>8,663,694</u>
Governmental Activities Capital Assets, Net	<u>\$8,869,097</u>	<u>\$82,006</u>	<u>\$8,951,103</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

8. CAPITAL ASSETS – (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Restated Balance at 6/30/2005	Additions	Reductions	Balance at 6/30/06
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$159,717			\$159,717
Construction in Progress	127,692	\$619,450	(\$127,692)	619,450
Total Nondepreciable Capital Assets	287,409	619,450	(127,692)	779,167
Depreciable Capital Assets				
Land Improvements	496,236	624,347		1,120,583
Buildings and Building Improvements	10,375,999	412,729		10,788,728
Furniture, Fixtures, and Equipment	798,414	14,967		813,381
Vehicles	1,067,281	120,492	(72,096)	1,115,677
Infrastructure	24,907			24,907
Total Depreciable Capital Assets	12,762,837	1,172,535	(72,096)	13,863,276
Less Accumulated Depreciation				
Land Improvements	(76,538)	(52,509)		(129,047)
Buildings and Building Improvements	(2,760,270)	(254,200)		(3,014,470)
Furniture, Fixtures, and Equipment	(486,436)	(35,921)		(522,357)
Vehicles	(773,463)	(74,545)	72,096	(775,912)
Infrastructure	(2,436)	(623)		(3,059)
Total Accumulated Depreciation	(4,099,143)	(417,798)	72,096	(4,444,845)
Depreciable Capital Assets, Net	8,663,694	754,737		9,418,431
Governmental Activities Capital Assets, Net	\$8,951,103	\$1,374,187	(\$127,692)	\$10,197,598

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$167,685
Special	10,519
Vocational	763
Support Services:	
Pupil	9,900
Instructional Staff	9,508
Administration	10,559
Fiscal	1,362
Operation and Maintenance of Plant	15,132
Pupil Transportation	69,631
Non-Instructional Services	30,642
Extracurricular	92,097
Total Depreciation Expense	\$417,798

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

9. 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	\$33,243,891
Automobile Liability	6,000,000
Error and Omissions	6,000,000
Crime Coverage	50,000
General Liability:	
Per Occurrence	6,000,000
Total Per Year	8,000,000

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

B. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities (see Note 18). 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 18). 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
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

10. 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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853, or by visiting the SERS website at www.ohsers.org.

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 2006, 10.58 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, 2006, 2005, and 2004 were \$148,891, \$129,040, and \$106,022, respectively; 61 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. The unpaid contribution for fiscal year 2006 is \$76,596.

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 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio website 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, 2006
(Continued)**

10. 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, 2006, 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 2005, 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, 2006, 2005, and 2004, were \$598,828, \$623,607, and \$630,018, respectively; 85 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. The unpaid contribution for fiscal year 2006 is \$93,208.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2006, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

11. POSTEMPLOYMENT BENEFITS

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

11. POSTEMPLOYMENT BENEFITS – (Continued)

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$45,371 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. 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 basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$42,936.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

12. 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 54.5 days for certified employees and 55 days for non-certified employees.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

13. NOTES PAYABLE

During the fiscal year ended June 30, 2006, the following changes occurred in notes payable reported in the Capital Projects fund type:

	<u>Balance at 6/30/05</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 6/30/06</u>
Bond Anticipatory Notes - 2005 3.90% Due June 23, 2006	\$650,000		\$650,000	
Bond Anticipatory Notes - 2006 5.10% Due June 21, 2007		\$400,000		\$400,000
Total Notes Payable	<u>\$650,000</u>	<u>\$400,000</u>	<u>\$650,000</u>	<u>\$400,000</u>

14. LONG-TERM OBLIGATIONS

During the year ended June 30, 2006, the following changes occurred in obligations reported in the Government - Wide Financial Statements:

	<u>Balance at 6/30/05</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 6/30/06</u>	<u>Amount Due In One Year</u>
Series 2000:					
Current interest bonds	\$750,000		\$80,000	\$670,000	\$100,000
Capital appreciation bonds	190,136	\$31,551		221,687	
Total Series 2000	<u>940,136</u>	<u>31,551</u>	<u>80,000</u>	<u>891,687</u>	<u>100,000</u>
Series 2005:					
Current interest bonds	4,965,000		190,000	4,775,000	100,000
Capital appreciation bonds	289,990	129,643		419,633	
Unamortized Bond Costs	<u>757,292</u>		<u>34,638</u>	<u>722,654</u>	<u>34,638</u>
Total Series 2005	<u>6,012,282</u>	<u>129,643</u>	<u>224,638</u>	<u>5,917,287</u>	<u>134,638</u>
Energy Conservation					
Improvement Bonds	210,000		35,000	175,000	35,000
Capital Lease		550,000		550,000	110,000
Compensated Absences	<u>660,577</u>	<u>74,952</u>		<u>735,529</u>	
Total Long-Term Obligations	<u>\$7,822,995</u>	<u>\$786,146</u>	<u>\$339,638</u>	<u>\$8,269,503</u>	<u>\$379,638</u>

Total expenditures for interest for the above debt for the period ended June 30, 2006, was \$272,902.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

14. LONG-TERM OBLIGATIONS – (Continued)

The scheduled payments of principal and interest on debt outstanding at June 30, 2006, are as follows:

Year Ending June 30,	Principal	Interest	Total
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	359,638	185,180	544,818
2012-2016	863,542	1,967,801	2,831,343
2017-2021	1,844,158	1,034,770	2,878,928
2022-2026	2,583,190	289,823	2,873,013
2027-2028	129,894	2,200	132,094
Total	<u>\$6,983,974</u>	<u>\$4,354,951</u>	<u>\$11,338,925</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
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, 2006
(Continued)**

14. 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:

Maturity Date	Original Principal Amount	Accreted Value At Maturity
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, 2006 was \$221,687. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$187,266 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 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.

The \$4,965,000 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:

Maturity Date	Principal Amount	Interest Rate
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%

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

14. LONG-TERM OBLIGATIONS – (Continued)

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, 2006 was \$419,633. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$129,643 has been included in the value. The bonds are being retired through the Bond Retirement Fund.

Energy Conservation Improvements 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.

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.

15. CAPITALIZED LEASES - LESSEE DISCLOSURE

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

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

Capital assets acquired by the leases have been capitalized in an amount equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded. Principal payments in the 2006 fiscal year totaled \$0.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

15. CAPITALIZED LEASES - LESSEE DISCLOSURE – (Continued)

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2006:

<u>Year Ending June 30,</u>	<u>Capital Lease</u>
2007	\$130,316
2008	127,206
2009	122,269
2010	118,373
2011	<u>110,000</u>
Total Future Minimum Lease Payments	608,164
Less: Amount Representing Interest	<u>(58,164)</u>
Present Value of Future Minimum Lease Payments	<u><u>\$550,000</u></u>

16. SET-ASIDE CALCULATIONS AND FUND RESERVES

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

The 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.

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Cash Balance as of June 30, 2005	(\$272,762)	
Current Year Set-aside Requirement	162,403	\$162,403
Current Year Offsets		(624,419)
Qualifying Disbursements	<u>(205,458)</u>	<u>(330,254)</u>
Total	<u>(\$315,817)</u>	<u>(\$792,270)</u>
Balance Carried Forward to FY 2007	<u><u>(\$315,817)</u></u>	<u><u></u></u>

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

17. 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 \$59,818. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, 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, Jennifer Bonner, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

D. Cisco Academy of Northwest Ohio

The Cisco Academy of Northwest Ohio (the Academy) was established July 1, 1998 to foster cooperation toward joint training and other joint activities of mutual interest among certain educational entities located in Northwest Ohio. The Academy is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by representatives of the member educational entities. The Academy is governed by a management council consisting of a representative appointed from each participating member educational entity. The Board of Education of the Four County Career Center has been designated fiscal agent for the Academy. Financial information can be obtained from the 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, 2006
(Continued)**

17. JOINTLY GOVERNED ORGANIZATIONS – (Continued)

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.

18. 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 \$1,124,272. Financial information can be obtained from Northern Buckeye Education Council, Robin Pfund, 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 \$1,022 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 \$70,604 for those services to SORSC during fiscal year 2006.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

18. GROUP PURCHASING POOLS – (Continued)

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

19. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers from the General Fund to:	Amount
Nonmajor Governmental Funds	\$347,983
Bond Retirement Fund	46,531
Transfers from the Bond Retirement Fund to:	
Nonmajor Governmental Funds	<u>250,000</u>
Total	<u><u>\$644,514</u></u>

20. INTERFUND ASSETS/LIABILITIES

Interfund balances consisted of the following at June 30, 2006, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Fund	\$1,162

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006, are reported on the statement of net assets.

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, 2006.

B. Litigation

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

22. CONTRACTUAL COMMITMENTS

As of June 30, 2006, the District had the following contractual purchase commitments:

<u>Company</u>	<u>Amount Remaining</u>
MidWest Contracting	\$205,539
Stark's Inc.	12,000
Jim Speiser and Sons	18,496
	<u>\$236,035</u>

23. SUBSEQUENT EVENTS

A 9.9 mil replacement levy was passed in November 2006. The replacement levy will generate approximately \$1,850,000 annually.

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Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, 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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 23, 2007. 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 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 February 23, 2007, 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated February 23, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

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

Mary Taylor, CPA
Auditor of State

February 23, 2007

NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Ohio Revised Code § 5705.41(B), disbursements exceeded appropriations.	Yes	



Mary Taylor, CPA
Auditor of State

NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 22, 2007