



Dave Yost • Auditor of State

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information of Northeastern Local School District, Clark County, Ohio (the District), as of and for the year ended June 30, 2012, 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, the aggregate remaining fund information of Northeastern Local School District, Clark County, Ohio, as of and for the year ended June 30, 2012, 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 14, 2013, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

February 14, 2013

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

The discussion and analysis of Northeastern Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- In total, net assets decreased \$2,499,014, which represents an 11.20 percent decrease from 2011.
- General revenues accounted for \$25,406,501 in revenue or 82.07 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$5,549,162 or 17.93 percent of total revenues of \$30,955,663.
- Total assets of governmental activities decreased as cash and cash equivalents decreased by \$1,414,565, receivables increased by \$607,831 and capital assets decreased by \$372,480.
- The governmental activities of the School District had \$33,454,677 in expenses; only \$5,549,162 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$25,406,501 were adequate to provide for these programs.

Among major funds, the General Fund had \$27,082,445 in revenues and \$29,355,704 in expenditures. The General Fund's balance decreased \$2,281,484 over 2011. Once again, State revenue decreased based on a guaranteed percent of the previous year. In FY 12, the administration of Governor John Kasich proposed a new formula for fund distribution to school districts. Since this new formula wasn't available in time to be implemented for the FY 12-13 biennium, a "bridge" formula was used instead. The Bridge formula attempts to simplify fund distribution based on FY 11 per pupil amounts. This did not affect the special education weighted amounts, which continued at 90%. In calendar year 2012, due to the state of the economy there was very minimal new construction in Residential/Agricultural and Commercial Industrial real property. In 2011 (2012 collection) the minimal change in reduction factors continued to level off the real estate tax collections. Actual real estate tax revenue decreased slightly since there was not much new construction. For the third year, interest earnings continued to decline. Interest rates of return have continued to decrease as of late. Health insurance cost increases from year to year continue to increase at a decreasing rate due to the make up of the two tiered health insurance plan.

Using this General Accepted Accounting Principles Report (GAAP)

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(Continued)**

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 15. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Permanent Improvement Capital Projects Fund.

Governmental Funds

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(Continued)**

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2012 compared to 2011.

**Table 1
Net Assets**

	2011	2012
Assets:		
Current and Other Assets	\$20,243,461	\$19,419,477
Capital Assets	18,206,979	17,834,499
Total Assets	38,450,440	37,253,946
Liabilities:		
Long-Term Liabilities	5,373,482	4,831,613
Other Liabilities	10,952,063	12,616,452
Total Liabilities	16,325,545	17,448,065
Net Assets:		
Invested in Capital Assets, Net of Debt	14,608,049	14,934,698
Restricted	1,914,402	1,728,565
Unrestricted	5,782,444	3,142,618
Total Net Assets	\$22,304,895	\$19,805,881

Total net assets decreased \$2,499,014. Cash and cash equivalents decreased by \$1,414,565, receivables increased by \$607,831 and capital assets decreased by \$372,480. Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, of the School District decreased by \$2,639,826 primarily due to the decrease in state funding.

Table 2 shows the changes in net assets for fiscal year 2012. Since this is the sixth year the School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons are available. Therefore, a comparative analysis of district-wide data is being presented, as follows:

**Table 2
Changes in Net Assets**

	2011	2012
Revenues:		
Program Revenues:		
Charges for Services	\$3,056,166	\$3,120,507
Operating Grants and Contributions	3,687,521	2,428,655
General Revenues:		
Property Taxes	11,337,817	10,574,816
Grants and Entitlements	14,954,386	14,648,538
Other	163,850	183,147
Total Revenues	33,190,740	30,955,663

(Continued)

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(Continued)**

**Table 2
Changes in Net Assets
(Continued)**

	2011	2012
Program Expenses:		
Instruction	19,026,069	18,732,879
Support Services:		
Pupils and Instructional Staff	3,483,725	3,519,721
Board of Education, Administration, and Fiscal	3,626,364	3,643,751
Operation and Maintenance of Plant	2,785,345	2,770,352
Pupil Transportation	2,016,768	2,053,987
Central	53,268	65,466
Operation of Non-Instructional Services	1,728,386	1,484,498
Extracurricular Activities	1,030,873	1,027,415
Interest and Fiscal Charges	187,255	156,608
Total Expenses	33,938,053	33,454,677
Increase in Net Assets	(\$ 747,313)	(\$2,499,014)

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District operations. Property taxes made up 34 percent of revenues for governmental activities for the Northeastern Local School District for fiscal year 2012.

Due to the fact that permanent improvement needs never end; the board decided to place a 1 mill continuous permanent improvement levy on the ballot in November, 2006. This levy attempt failed. The board voted to place the permanent improvement levy back on the ballot in May, 2007. However, upon learning that May was considered a Special election and the cost to the District could be \$33,000 or more to place the issue on the ballot, the board voted to remove the issue in May and place it on the ballot in November, 2007. November, 2007 is not a special election and collection would still begin in January, 2008. However, the levy was again defeated in November, 2007. Additionally, the levy failed in March, 2008 and August, 2008. The board voted to place it back on the ballot again in November, 2008. After a long hard battle, the board was able to get voter approval for the 1 mill continuous permanent improvement levy. This also set the stage for the District to qualify for approval of a project to be co-funded by the Ohio School Facilities Commission. On August 24, 2009, the district was informed that their OSFC number had arrived and the district had one year to pass its local funding for a building project. The district put on a combination ¼% income tax and 7.572 mill bond issue on each of the November of 2009 and February of 2011 elections. The issues failed both times. Then the district regrouped, got more community input, changed its plan to better suit the desires of the community. Upon doing so, the district came back to the voters on the August 3, 2011 ballot with a 7.876 mill bond issue shortened to 28 years rather than 37 and no income tax. The issue still failed, which caused the district to become a lapsed district with no guarantee of OSFC co-funding in the future.

Instruction comprises 56 percent of district expenses. Support services expenses make up 36 percent of the expenses.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(Continued)**

Table 3

	Total Cost of Services 2011	Net Cost of Services 2012
Instruction	\$15,310,517	\$15,482,541
Support Services:		
Pupils and Instructional Staff	3,055,283	3,147,677
Board of Education, Administration, and Fiscal	3,550,628	3,562,097
Operation and Maintenance of Plant	2,166,735	2,768,891
Pupil Transportation	1,883,036	2,053,987
Central	48,434	58,786
Operation of Non-Instructional Services	221,339	(152,104)
Extracurricular Activities	780,139	827,032
Interest and Fiscal Charges	187,255	156,608
Total Expenses	\$27,203,366	\$27,905,515

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

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

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

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

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

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

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

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

The dependence upon tax revenues is apparent. Almost 83 percent of instruction activities are supported through taxes and other general revenues; for all activities general revenue support is 83 percent. The community, as a whole, is the primary support for the Northeastern Local School District.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(Continued)**

The School District's Funds

Information about the School District's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$31,178,156 and expenditures of \$33,611,192. The net change in fund balance for the year was most significant in the General Fund, a decrease of \$2,281,484. This decrease was in part due to a decrease in property and other local taxes. State funding decreases also had a negative impact. Currently, continued phasing out of personal property taxes is being offset by the hold harmless revenue being contributed by the state. Our bottom line is also only being assisted currently by the passage of the permanent improvement levy in November of 2008. Some expenditures which previously had to be absorbed by the General Fund are now being paid from the Permanent Improvement Fund. However, due to using the Permanent Improvement fund more, we are now seeing its fund balance begin to decline more rapidly than before.

General Fund Budgeting Highlights

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

During the course of the 2012 fiscal year, the School District amended its General Fund budget several times, which resulted in appropriations increasing \$1,275,890. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. Prior to year-end, the School District requested an amended certificate of estimated resources that reflected actual revenue for the fiscal year and passed appropriations to match expenditures plus encumbrances.

For the General Fund, budget basis revenue and other financing sources was \$28,085,854; \$1,161,545 below the original budgeted estimates of \$29,247,399. This difference was mainly caused by a decrease in projected state funding and a decrease in property tax revenue due to foreclosures and negative economic factors.

Capital Assets

At the end of the 2012 fiscal year, the School District had \$17,834,499 invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal 2012 balances compared to 2011.

Capital Assets (Net of Depreciation) at June 30,		
	2011	2012
Land	\$ 268,349	\$ 268,349
Land Improvement	302,683	302,683
Buildings and Improvements	14,639,684	14,125,742
Furniture and Equipment	1,949,720	2,079,629
Vehicles	1,046,543	1,058,096
Total Assets	\$18,206,979	\$17,834,499

Overall capital assets decreased \$372,480 from fiscal year 2011 to fiscal year 2012. This is the result of the increase in accumulated depreciation exceeding the investment in new assets.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(Continued)**

Debt Administration

On September 15, 2005, the Northeastern Local School District issued \$3,765,000 of General Obligation refunding bonds to provide resources to purchase United States Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$3,765,000 of General Obligation bonds. The School District used the new bonds, previously funded debt service payments, plus \$339,813, to defease the outstanding liability. The refunded portion of the 1996 bonds were called at the first call date of December 1, 2007. As a result, the in-substance defeasance is considered to be defeased and the liability has been removed from the statement of net assets.

In September 2005, the School District entered into an Escrow Trust Agreement with the Bank of New York. The agreement required that the School District deposit \$4,023,579 into an irrevocable trust with the bank for the payment to final maturity from the 1996 General Obligation Bonds. The funds deposited, per the agreement, purchased U.S. Government Securities in substitution of the general obligations of the School District. The funds deposited, together with interest earned thereon, shall be sufficient to pay semi-annual principal and interest payments, thus providing an in-substance defeasance. The (in-substance) defeasance has occurred for the following General Obligation bonds:

<u>Original Amount</u>	<u>Amount Defeased</u>	<u>Outstanding Amount at 6/30/12</u>
\$5,300,000	\$3,765,000	\$0

Current Financial Issues and Concerns

The cash fund balance in the general fund decreased this year by \$1,312,637. This was due in large part to a decrease in federal and state funding, combined with the increase in overall district expenditures.

We are currently overcrowded in the majority of our buildings. The board and administration have worked very hard to ascertain the consensus of our constituents prior to again placing a bond issue for construction on the November, 2008 ballot. An issue to build two new middle schools was first placed on the ballot in November, 2000. It failed at that time. It has been placed on the ballot four times since and has failed all four times. The board and administration feel that this is not an indication of voter disapproval toward construction, but more a barometer of the economy. In an effort to ascertain the mind set of our constituents, the board and administration made a commitment to work with the community at various community meetings held across the District. In addition to exploring public opinion as to what type of building(s) should be constructed, major concerns were raised as to whether the general public understands how schools are funded in the state of Ohio. Also, whether the public understands the fact that the administration is doing its best to get the greatest student education using the least amount of public resources. With this in mind, the board and administration made a commitment to a series of "public school engagement dialogue" meetings that began in fiscal year 2006. These meetings have been intended to bring constituents in and engage them in a process of learning how public schools are funded in Ohio and why there is a shortfall of dollars to educate our students. This commitment continues as the district's board of education and administration continues to hold meetings to inform our constituents.

As mentioned previously, since the one mill continuous Permanent Improvement Levy was approved, the School District administration and board continued to work with the Ohio School Facilities Commission (OSFC) to introduce a master plan that would be accepted by the voters. The OSFC requires school districts to have at least a one half mill Continuous Permanent Improvement Levy on the books to support new schools should they become a reality. Despite hours upon hours of time invested educating the public, the board and administration were unsuccessful in passing a bond issue for new schools.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(Continued)**

Prior to becoming a lapsed district, we were 42% state funded and 58% locally funded as far as the Ohio School Facilities Commission was concerned. The District received notification that state funds could be available as early as November, 2009. The District needed to raise funds for its 58% portion of the master plan. The Bond Issue attempts were unsuccessful.

Externally, the State of Ohio was found by the Ohio Supreme Court (DeRolph case) in March 1997 to be operating an unconstitutional system of school funding, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth.

Toward the end of the 2005 fiscal year, a funding plan was presented by the state that phases out certain areas of local tax revenue. The impact on the District and its tax payers for future years has been quite significant.

During fiscal year 2006, the state began its planned phase out of personal tangible property tax. School Districts were to be held harmless through a fixed rate adjustment, resulting from commercial activity tax (CAT) revenue, through fiscal year 2014. After that period, a phase out was to begin until the revenue was to be totally phased out in 2018. The phase out has now been accelerated. A large group of individuals comprised of many educational professional organizations were unsuccessful in placing a constitutional amendment for school funding on the November, 2007 ballot. This constitutional amendment would have required the legislature to follow through with a new, more adequate funding plan for public education.

Other items of importance that occurred during the 2012 fiscal year are as follows:

- A step freeze continued for FY12. With the state of the economy and with many of our taxpayers losing their jobs it was negotiated, as well as a zero percent change on the base. An actual decrease on the base and three years of step freezes were extremely responsible measures for the administration and staff to take.
- In FY12, the Board of Education approved the development of a District Finance Committee. The committee is made up of the Superintendent, Treasurer, administrators, community members and parents, as well as one board member. The Committee was established to promote fiscal wellness in the district and to ascertain thoughts and ideas on what the community would like to see in the future with cuts and spending.
- A new website was launched in May 2012. It is more user-friendly and provides the staff and community with an abundance of district resources, as well as building specific webpages.
- With the new website, the main goal of the district was established: *TO BECOME THE PREMIERE SCHOOL DISTRICT IN CLARK COUNTY AND BEYOND*. In order to do this, we have identified key metrics for success, sought greater input from our stakeholders, and enacted strategies to help us improve. This work has culminated into Northeastern's first strategic improvement plan. The strategic plan has four core initiatives: student achievement, technology, school climate, and community engagement. Success of the district's four core initiatives is predicated on the effectiveness of the following supporting initiatives: fiscal stewardship, staff development and performance, and operations.
- The board continued the establishment of a virtual school on and off-campus. This was done to reach some students who otherwise may drop out of school and/or just need a few credits to graduate. Some of these students prefer not to attend school full-time and prefer less structure than a classroom environment.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(Continued)**

- The District held its third annual 5K run to try and get the community more involved with the schools. It's also part of our effort to promote health and wellness.

The Board members of the District continue to be extremely concerned about the school funding issues. The local superintendents and treasurers meet with the local legislators on a monthly basis. They continually work toward goals to raise awareness regarding the school funding crisis in the State of Ohio. They continue to participate in grass roots initiatives to improve public educational funding in the state of Ohio.

Information regarding the District's initiatives can be found on the District's website, <http://www.nelsd.org>. This has been done in an effort to further communication with our constituents.

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

Contacting the School District's Financial Management

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

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$6,597,480
Cash and Cash Equivalents in Segregated Accounts	13,770
Cash and Cash Equivalents with Fiscal Agents	11,763
Materials and Supplies Inventory	108,595
Accounts Receivable	64,277
Intergovernmental Receivable	146,381
Prepaid Items	3,234
Property Taxes Receivable	12,344,658
Deferred Charges	129,289
Capital Assets, net	17,834,499
Total Assets	37,253,946
 Liabilities and Fund Balances:	
Liabilities:	
Accounts Payable	84,815
Claims Payable	646,341
Accrued Wages	2,690,159
Intergovernmental Payable	806,528
Matured Bonds Payable	10,000
Matured Interest Payable	1,763
Accrued Interest Payable	10,316
Accrued Vacation Leave Payable	91,255
Deferred Revenue	8,106,841
Compensated Absences Payable	168,434
Long-Term Liabilities:	
Due Within One Year	754,168
Due in More Than One Year	4,077,445
Total Liabilities	17,448,065
 Net Assets:	
Invested in Capital Assets, Net of Related Debt	14,934,698
Restricted for Debt Service	900,706
Restricted for Capital Outlay	568,374
Restricted for Other Purposes	259,485
Unrestricted	3,142,618
Total Net Assets	\$19,805,881

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:				
Instruction:				
Regular	\$15,058,467	\$2,143,085	\$271,615	(\$12,643,767)
Special	3,000,184		715,564	(2,284,620)
Vocational	635,211		120,074	(515,137)
Student Intervention Services	22,522			(22,522)
Other	16,495			(16,495)
Support Services:				
Pupils	1,857,061		246,001	(1,611,060)
Instructional Staff	1,662,660		126,043	(1,536,617)
Board of Education	70,740			(70,740)
Administration	2,828,228		81,654	(2,746,574)
Fiscal	744,783			(744,783)
Operation and Maintenance of Plant	2,770,352	1,453	8	(2,768,891)
Pupil Transportation	2,053,987			(2,053,987)
Central	65,466		6,680	(58,786)
Operation of Non-Instructional Services	1,484,498	775,641	860,961	152,104
Extracurricular Activities	1,027,415	200,328	55	(827,032)
Interest and Fiscal Charges	156,608			(156,608)
Total Governmental Activities	<u>\$33,454,677</u>	<u>\$3,120,507</u>	<u>\$2,428,655</u>	<u>(27,905,515)</u>
General Revenues:				
Grants and Entitlements not Restricted to Specific Progra				14,648,538
Gifts and Donations				98,373
Investment Earnings				27,042
Miscellaneous				55,709
Revenues:				
Property and Other Local Taxes				10,574,816
Extracurricular Activities				2,023
Total General Revenues and Property and Other Local Tax				<u>25,406,501</u>
Change in Net Assets				(2,499,014)
Net Assets Beginning of Year				<u>22,304,895</u>
Net Assets End of Year				<u>\$19,805,881</u>

See accompanying notes to the basic financial statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>General Fund</u>	<u>Permanent Improvement</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$4,818,731	\$519,420	\$1,259,329	\$6,597,480
Cash and Cash Equivalents in Segregated Accounts	9,770		4,000	13,770
Cash and Cash Equivalents with Fiscal Agents			11,763	11,763
Materials and Supplies Inventory	89,598		13,081	102,679
Accrued Interest Receivable				
Accounts Receivable	64,277			64,277
Interfund Receivable	2,867			2,867
Intergovernmental Receivable	1,942		144,439	146,381
Prepaid Items	3,234			3,234
Property Taxes Receivable	11,548,571	408,089	387,998	12,344,658
Total Assets	<u>16,538,990</u>	<u>927,509</u>	<u>1,820,610</u>	<u>19,287,109</u>
Liabilities:				
Current Liabilities:				
Accounts Payable	49,566	15,500	19,749	84,815
Claims Payable	603,926	21,746	20,669	646,341
Accrued Wages	2,479,902		210,257	2,690,159
Interfund Payable			2,867	2,867
Intergovernmental Payable	756,543	2,603	47,382	806,528
Matured Bonds Payable			10,000	10,000
Matured Interest Payable			1,763	1,763
Deferred Revenue	8,158,281	334,587	318,030	8,810,898
Compensated Absences Payable	168,434			168,434
Total Liabilities	<u>12,216,652</u>	<u>374,436</u>	<u>630,717</u>	<u>13,221,805</u>
Fund Balances:				
Non-spendable	92,832		13,081	105,913
Restricted	11,000	553,073	1,165,204	1,729,277
Assigned	3,191,209		99,114	3,290,323
Unassigned	1,027,297		(87,506)	939,791
Total Fund Balances	<u>4,322,338</u>	<u>553,073</u>	<u>1,189,893</u>	<u>6,065,304</u>
Total Liabilities and Fund Balances	<u>\$16,538,990</u>	<u>\$927,509</u>	<u>\$1,820,610</u>	<u>\$19,287,109</u>

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2012**

Total Governmental Fund Balances		\$6,065,304
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p>		
Land	\$268,349	
Depreciable capital assets	33,294,124	
Accumulated depreciation	<u>(15,727,974)</u>	
Total capital assets		17,834,499
<p>Other long-term assets are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds:</p>		
Property Taxes		704,057
Deferred Charge on Refunded Debt		129,289
Federal donated commodities are not reported in the funds.		5,916
<p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.</p>		
		(10,316)
Unamortized Premium on Bonds issued during the fiscal year		(169,909)
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>		
Bonds and notes payable	(2,610,000)	
Compensated absences	(2,021,219)	
Capital leases	<u>(121,740)</u>	
Total liabilities		<u>(4,752,959)</u>
Net Assets of Governmental Activities		<u><u>\$19,805,881</u></u>

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>General Fund</u>	<u>Permanent Improvement</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property and Other Local Taxes	\$10,207,135	\$314,937	\$299,509	\$10,821,581
Intergovernmental	14,653,964	67,219	2,355,765	17,076,948
Interest	27,100		187	27,287
Tuition and Fees	2,114,535			2,114,535
Extracurricular Activities	13,418		193,555	206,973
Gifts and Donations	18,701		79,672	98,373
Customer Sales and Services			775,641	775,641
Miscellaneous	47,592		9,226	56,818
Total Revenues	<u>27,082,445</u>	<u>382,156</u>	<u>3,713,555</u>	<u>31,178,156</u>
Expenditures:				
Current:				
Instruction:				
Regular	14,231,613	114,295	284,383	14,630,291
Special	2,272,731	10,999	696,301	2,980,031
Vocational	673,573		250	673,823
Student Intervention Services	22,522			22,522
Other	16,495			16,495
Support Services:				
Pupils	1,561,306		246,148	1,807,454
Instructional Staff	1,483,787	4,650	123,233	1,611,670
Board of Education	70,740			70,740
Administration	2,634,089	87,744	80,331	2,802,164
Fiscal	776,443	16,253	7,844	800,540
Operation and Maintenance of Plant	2,548,312	172,885	23,004	2,744,201
Pupil Transportation	1,900,116	28,814	77,100	2,006,030
Central	52,575		12,650	65,225
Operation of Non-Instructional Services	375	5,575	1,442,984	1,448,934
Extracurricular Activities	730,540	23,303	246,366	1,000,209
Capital Outlay		118,338		118,338
Debt Service:				
Principal	373,012		300,000	673,012
Interest	7,475		132,038	139,513
Total Expenditures	<u>29,355,704</u>	<u>582,856</u>	<u>3,672,632</u>	<u>33,611,192</u>
Excess of Revenues Over (Under) Expenditures	<u>(2,273,259)</u>	<u>(200,700)</u>	<u>40,923</u>	<u>(2,433,036)</u>
Other Financing Sources:				
Transfers In			8,225	8,225
Transfers Out	(8,225)			(8,225)
Total Other Financing Sources	<u>(8,225)</u>		<u>8,225</u>	
Net Change in Fund Balances	(2,281,484)	(200,700)	49,148	(2,433,036)
Fund Balance at Beginning of Year	<u>6,603,822</u>	<u>753,773</u>	<u>1,140,745</u>	<u>8,498,340</u>
Fund Balance at End of Year	<u>\$4,322,338</u>	<u>\$553,073</u>	<u>\$1,189,893</u>	<u>\$6,065,304</u>

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Net Change in Fund Balances - Total Governmental Funds (\$2,433,036)

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

Governmental funds report capital outlays as expenditures.

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

Fixed Asset Additions	\$494,222	
Current Year Depreciation	(825,852)	
Fixed Asset Deletions	<u>(40,850)</u>	
		(372,480)

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

Property Taxes	(246,765)	
		(246,765)

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

Bond principal retirement	625,000	
Capital lease payments	<u>48,012</u>	
Total long-term debt repayment		673,012

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Current Year Impact of Issuance Costs	(18,470)	
Current Year Impact of Long-Term Debt Premium	<u>24,272</u>	5,802

In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due. 1,375

Donated commodities received and used are not recognized in the funds. 2,483

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

Compensated Absences	<u>(129,405)</u>	
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Change in Net Assets of Governmental Activities (\$2,499,014)

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property and Other Local Taxes	\$11,631,959	\$11,170,002	\$11,170,002	
Intergovernmental	15,261,673	14,655,564	14,655,564	
Interest	23,307	22,381	22,381	
Tuition and Fees	2,201,428	2,113,999	2,113,999	
Gifts and Donations	19,474	18,701	18,701	
Miscellaneous	35,751	34,331	34,331	
Total Revenues	29,173,592	28,014,978	28,014,978	
Expenditures:				
Current:				
Instruction:				
Regular	13,578,405	14,111,307	14,111,307	
Special	2,218,906	2,304,145	2,304,145	
Vocational	871,467	734,404	734,404	
Other	35,123	41,662	41,662	
Support Services:				
Pupils	1,471,062	1,500,462	1,500,462	
Instructional Staff	1,572,301	1,504,860	1,504,860	
Board of Education	95,997	63,830	63,830	
Administration	2,661,993	2,727,894	2,727,894	
Fiscal	669,372	718,261	718,261	
Operation and Maintenance of Plant	2,040,271	2,613,905	2,613,905	
Pupil Transportation	1,718,969	1,912,406	1,912,406	
Central	48,141	53,587	53,587	
Operation of Non-Instructional Services		3,878	3,878	
Extracurricular Activities	728,226	731,231	731,231	
Debt Service:				
Principal	325,000	325,000	325,000	
Interest and Fiscal Charges	7,475	7,475	7,475	
Total Expenditures	28,042,708	29,354,307	29,354,307	
Excess of Revenues Over (Under) Expenditures	1,130,884	(1,339,329)	(1,339,329)	
Other Financing Sources:				
Transfers Out		(8,225)	(8,225)	
Refund of Prior Year Expenditures	25,070	24,075	24,075	
Advances In	48,737	46,801	46,801	
Advances Out	(46,801)	(2,867)	(2,867)	
Total Other Financing Sources	27,006	59,784	59,784	
Net Change in Fund Balances	1,157,890	(1,279,545)	(1,279,545)	
Fund Balance at Beginning of Year	5,854,009	5,854,009	5,854,009	
Prior Year Encumbrances Appropriated	104,818	104,818	104,818	
Fund Balance at End of Year	<u>\$7,116,717</u>	<u>\$4,679,282</u>	<u>\$4,679,282</u>	<u>\$0</u>

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012**

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$19,585	\$96,889
Investments In Segregated Accounts	10,000	
Receivables:		
Accrued Interest	45	
Total Assets	29,630	96,889
Liabilities:		
Due to Students		\$96,889
Net Assets:		
Held in Trust for Scholarships	\$29,630	

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Private Purpose Trust
	Scholarship
Additions:	
Gifts and Contributions	\$4,323
Interest	45
Total Additions	4,368
Deductions:	
Payments in Accordance with Trust Agreements	3,100
Total Deductions	3,100
Change in Net Assets	1,268
Net Assets Beginning of Year	28,362
Net Assets End of Year	\$29,630

See accompanying notes to the basic financial statements.

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1916 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 118 square miles. It is located in Clark County, and includes the Villages of South Vienna and Catawba, and the Townships of Moorefield, Pleasant, and Harmony.

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

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

The School District participates in the Miami Valley Educational Computer Association (MVECA), Springfield/Clark County Career Technical Center, and the Southwestern Ohio Educational Purchasing Council (SOEPC) which are defined as jointly governed organizations, and the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), which is defined as an insurance purchasing pool. These organizations are presented in Note 18 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Government-wide Financial Statements

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

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

2. Fund Financial Statements

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

B. Fund Accounting

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

1. Governmental Funds:

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

2. Fiduciary Fund Types

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

C. Measurement Focus

1. Government-wide Financial Statements

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

2. Fund Financial Statements

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

1. Revenues - Exchange and Non-exchange Transactions

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

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

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

2. Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Expenses/Expenditures

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

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

E. Budgetary Data

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

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

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

F. Cash and Cash Equivalents

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2012, investments were limited to certificates of deposit, which are reported at cost, First American Treasury Money Market funds, Federal Home Loan Bank Notes, Federal National Mortgage Corporation Notes and Discount Notes, and Federal Home Loan Mortgage Corporation (FHLMC) Notes and Discount Notes.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$27,100 which includes \$7,967 assigned from other School District funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

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

I. Capital Assets

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

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

J. Compensated Absences

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

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Claims Payable

Claims payable is a liability account reflecting claims made but not payable until a later date. GASB Statement 10 requires governmental entities other than public entity risk pools to report an estimated loss from a claim as an expenditure and as a liability if both the information available before the financial statements are issued indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements *and* the amount of the loss can be reasonably estimated.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Net Assets

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

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. None of the restricted net assets were restricted by enabling legislation.

N. Fund Balance

Fund Balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

Non-spendable – The non-spendable classification includes amounts that cannot be spend because they are not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.

Committed – The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolutions) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School District first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

O. Interfund Activity

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

Interfund transfers are eliminated on the entity-wide statement of activities and statement of net assets.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2012.

Q. Estimates

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

3. FUND DEFICITS

The School District had deficit fund balances in the following special revenue funds as of June 30, 2012:

<u>Fund</u>	<u>Amount</u>
Food Service	\$74,177
Preschool Grant	248

The general fund is liable for deficits in these funds and will provide operating transfers when cash is required, not when accruals occur.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the fund liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

<u>Net Change in Fund Balance</u>	
GAAP Basis	(\$2,281,484)
Net Adjustment for Revenue Accruals	1,003,409
Net Adjustment for Expenditure Accruals	129,051
Encumbrances	(115,405)
Pre-paids	(2,504)
Funds Budgeted Elsewhere	(12,612)
Budget Basis	<u><u>(\$1,279,545)</u></u>

5. DEPOSITS AND INVESTMENTS

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

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

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

A. Cash on Hand

At year end, the School District had \$4,000 in undeposited cash on hand which is included on the financial statements of the School District as part of "Equity in Pooled Cash and Cash Equivalents."

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

B. Deposits

At year-end, the carrying amount of the School District's deposits was \$2,368,587 and the bank balance was \$3,966,316. \$272,136 of the bank balance was covered by federal depository insurance and \$3,694,180 was considered uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

C. Investments

The District's investments at June 30, 2012 are summarized below:

Investment	0-1 Years Before Maturity	1-5 Years Before Maturity	Credit Rating	% of Portfolio
First American Treasury Money Market	\$ 4,061			0.09%
Federal Home Loan Bank Notes	210,152	\$1,425,377	Aaa, AAA	37.37
Federal National Mortgage Association (FNMA) Notes	445,364	1,127,479	Aaa, AAA	35.94
Federal Home Loan Mortgage Corporation (FHLMC)	450,520		Aaa, AAA	10.29
Federal Home Loan Mortgage Corporation Discount Notes	713,947		Aaa, AAA	16.31
	<u>\$1,824,044</u>	<u>\$2,552,856</u>		<u>100.00%</u>

D. Custodial Credit Risk

The risk that, in the event of a failure of a counter party, the District will not be able to recover the value of its investments or collateral securities that is in the possession of an outside party. The District employs the use of "safekeeping" accounts to hold and maintain custody of its investments as identified within this policy and as a means of mitigating this risk.

E. Interest Rate Risk

Interest rate risk is the risk that the District will incur fair value losses arising from rising interest rates. Such risk is mitigated by the investment policy by limiting investments to certain maximum maturities. Per the Board of Education investment policy, investments are to have a maximum maturity of five years unless the investment is matched to a specific obligation or debt of the District.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

F. Credit Risk

The Ohio Revised Code limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations at the time of purchase.

G. Concentration of Credit Risk

The District's investment policy provides for diversification to avoid undue concentration in securities of one type or securities. This restriction does not apply to obligations guaranteed by the U.S. government. Of the District's total investments, .09 percent is invested in a money market fund; 37.37 percent are Federal Home Loan Bank Notes; 35.94 percent is invested in Federal National Mortgage Association Notes; 10.29 percent is invested in Federal Home Loan Mortgage Corporation (FHMLC); and 16.31 percent is invested in Federal Home Loan Mortgage Corporation Discount Notes.

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

	Cash and Cash Equivalents	Investments
Cash and Cash Equivalent - Basic Financial Statements	\$6,739,487	\$ 10,000
Cash on Hand	(4,000)	
Investments:		
CDARS Investments	10,000	(10,000)
First American Treasury Money Market	(4,061)	4,061
Federal Home Loan Bank Notes	(1,635,529)	1,635,529
Federal National Mortgage Association (FNMA) Notes	(1,572,843)	1,572,843
Federal Home Loan Mortgage Corporation (FHLMC)	(450,520)	450,520
Federal Home Loan Mortgage Corporation (FHLMC) Discount Notes	(713,947)	713,947
Total	\$2,368,587	\$4,376,900

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2012 for real and public utility property taxes represents collections of calendar 2011 taxes. Property tax payments received during calendar 2012 for tangible personal property (other than public utility property) are for calendar 2012 taxes. 2012 real property taxes are levied after April 1, 2012, on the assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

6. PROPERTY TAXES (Continued)

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2012 public utility property taxes became a lien December 31, 2011, are levied after April 1, 2012, and are collected in 2012 with real property taxes. 2012 tangible personal property taxes are levied after April 1, 2011, on the value as of December 31, 2011. Collections are made in 2012. Tangible personal property assessments are twenty-five percent of true value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property tax revenues received in calendar year 2012 (other than public utility property) represent the collection of calendar year 2012 taxes levied against local and inter-change telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures are no longer levied and collected. The October 2011 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2012 were levied after October 1, 2012, on the value as of December 31, 2011. 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. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second – Half Collections		2012 First – Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$446,913,410	98.12%	\$448,888,990	98.12%
Public Utility Personal	8,569,580	1.88	9,095,990	1.88
Total	<u>\$455,482,990</u>	<u>100.00%</u>	<u>\$457,984,980</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$48.08		\$48.09	

The School District receives property taxes from Clark County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents the late personal property tax settlement, real property, public utility property, and tangible personal property taxes which are measurable as of June 30, 2012, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue. At June 30, 2012, \$3,390,290 was available as an advance to the general fund, \$73,502 in the permanent improvement fund, and \$69,968 in the non-major governmental funds.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

7. RECEIVABLES

Receivables at June 30, 2012, consisted of property taxes, accounts (tuition and student fees), intergovernmental grants and interest. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

Governmental Activities:	
Motor Fuel Tax Reimbursement	\$1,942
Race to the Top Grant	880
Title VI-B Grant	106,466
Title II	2,093
Title I	35,000
Total Intergovernmental Receivables	<u><u>\$146,381</u></u>

8. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance 6/30/11	Additions	Deductions	Balance 6/30/12
Governmental Activities:				
Capital Asset, not being depreciated:				
Land	\$ 268,349			\$ 268,349
Total Capital Assets, not being depreciated	268,349			268,349
Capital Assets, being depreciated:				
Land Improvements	673,727			673,727
Buildings and Improvements	26,520,823		\$ 5,262	26,515,561
Furniture and Equipment	3,478,095	\$343,328	120,363	3,701,060
Vehicles	2,317,427	150,894	64,545	2,403,776
Total Capital Assets, being depreciated	32,990,072	494,222	190,170	33,294,124
Less Accumulated Depreciation:				
Land Improvements	(371,044)			(371,044)
Buildings and Improvements	(11,881,139)	(510,815)	(2,135)	(12,389,819)
Furniture and Equipment	(1,528,375)	(203,596)	(110,540)	(1,621,431)
Vehicles	(1,270,884)	(111,441)	(36,645)	(1,345,680)
Total Accumulated Depreciation	(15,051,442)	(825,852)	(149,320)	(15,727,974)
Total Capital Assets being depreciated, net	17,938,630	(331,630)	40,850	17,566,150
Governmental Activities Capital Assets, Net	\$18,206,979	(\$331,630)	\$40,850	\$17,834,499

* Depreciation expense was charged to governmental functions as follows:

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

8. CAPITAL ASSETS (Continued)

Instruction:	
Regular	\$309,857
Special	57,675
Vocational	38,005
Support Services:	
Pupil	33,653
Instructional Staff	34,309
Administration	52,856
Fiscal	15,845
Operation and Maintenance of Plant	43,704
Pupil Transportation	112,418
Operation of Non-Instructional Services	67,393
Extracurricular Activities	60,137
Total Depreciation Expense	\$825,852

9. CLAIMS PAYABLE

A claims payable in the amount of \$646,341 was the result of a tax settlement between Northeastern Local School District, Clark County, and Navistar Inc.

Navistar operates a 2.1-million square-foot assembly plant on 489 acres within the District. The tax dispute started in 2007, when Navistar appealed a reevaluation of its property by the Clark County Auditor's Office to the Clark County Board of Revisions. The board upheld the tax rate assessed of \$37,121,320. Navistar appealed that decision to the state board of tax appeals which found a market value of \$28,350,000. Subsequently, Clark County, Northeastern Local School District, and Navistar Inc. agreed to the state board of tax appeals value. The \$646,341 was the amount that Navistar overpaid on property taxes to the district for tax years 2007 through 2011. The claim was repaid in July of 2012 from the general, permanent improvement, and debt service funds and was a reduction of tax receipts from the Clark County Auditor's Office for the 2nd half property tax settlement.

10. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft or, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the School District contracted with the Southwestern Ohio Educational Purchasing Council for property and fleet insurance, liability insurance, crime, terrorism, and automobile coverage. Coverage provided through this Council is as follows:

Building and Contents - replacement cost; including Boiler and Machinery	\$50,000,000
Certified Acts of Terrorism	5,000,000
Automobile Liability (\$0 deductible)	1,000,000
General Liability:	
Per Occurrence	1,000,000
Total Per Year	3,000,000

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

10. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2012, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling fund" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Incorporated provides administrative, cost control, and actuarial services to the GRP.

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Northeastern Local School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2012, 12.70 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 a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$586,752, \$502,685, and \$761,587, respectively; 62.55 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. \$219,739 represents the unpaid contribution for fiscal year 2012.

B. State Teachers Retirement System of Ohio

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

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

A DB or Combined Plan member with five or more years of 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.

Funding Policy - For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. Northeastern Local School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2011, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010, were \$1,907,322, \$1,697,684, and \$1,936,092, respectively; 84.13 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$102,074 made by the School District and \$72,910 made by the plan members.

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, 2012, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

12. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description - The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or on SERS' website at www.ohsers.org.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2012, .55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2012, this amount was \$75,580.

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

The School District's contributions for health care for fiscal years ended June 30, 2012, 2011, and 2010 were \$100,991, \$139,949, and \$123,603 respectively; 62.55 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$34,651, \$32,349, and \$45,290 respectively; 62.55 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

12. POSTEMPLOYMENT BENEFITS (Continued)

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$146,717, \$130,591, and \$148,930 respectively; 84.13 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

13. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 280 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, unused sick leave up to the maximum of 280 days. Administrators retiring in fiscal year 2012 were eligible to receive payment of 40 percent of accrued, unused sick leave up to the maximum of 280 days.

B. Insurance Benefits

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

C. Special Termination Benefit

The School District offered a special termination benefit plan during fiscal year 2012. To participate in the plan, an employee must opt for this program the first time they are eligible to retire with 30 years of experience, or the first year eligible according to STRS. For certified staff, the special termination benefit amount is \$60,000, payable over the next four years after retirement in four equal payments beginning on June 1, 2012, and ending June 1, 2015. For classified employees, the amount is \$5,000, if full-time, \$2,500 if part-time, payable as a lump sum. For the School District, the liability as of June 30, 2012 is \$461,523.

14. CAPITAL LEASES - LESSEE DISCLOSURE

The School District has entered into several lease agreements for copiers for the district. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the general purpose financial statements for governmental funds. During fiscal year 2011, the School District entered into three new lease agreements, replacing expired leases, for copiers for the district. The items are being capitalized as part of fixed assets. A corresponding liability is included in governmental activities general long term debt. Principal payments in fiscal year 2012 totaled \$48,012. Future minimum lease payments are as follows:

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

14. CAPITAL LEASES - LESSEE DISCLOSURE (Continued)

Year	Amount
2013	\$ 49,856
2014	39,408
2015	25,980
2016	6,495
Present Value of Net Minimum Lease Payments	\$121,739

The scheduled payment for fiscal year 2013 reflects an increase of \$1,844 as a result of incorrect billing in fiscal year 2007.

15. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2012 were as follows:

	Amount Outstanding June 30, 2011	Additions	Deductions	Amount Outstanding June 30, 2012	Amounts Due Within One Year
Governmental Activities:					
General Obligation Bonds:					
2005 Refunding GO Bonds					
3% to 5.75% 14 years	\$2,910,000		\$300,000	\$2,610,000	\$300,000
Premium on 2005 Refunding	194,181		24,272	169,909	24,272
Energy Conservation Bonds:					
4.6% 10 years	325,000		325,000		
Total Bond Debt	3,429,181		649,272	2,779,909	324,272
Capital Leases	169,751		48,012	121,739	49,856
Compensated Absences	1,396,062	\$170,726	98,346	1,468,442	202,369
Termination Benefits	378,488	251,635	168,600	461,523	177,671
Total Governmental Activities					
Long-Term Liabilities	\$5,373,482	\$422,361	\$964,230	\$4,831,613	\$754,168

2005 Refunding General Obligation Bonds – On September 15, 2005, the School District issued School Improvement Refunding General Obligation Bonds, with semi-annual payments due on June 1 and December 1 of each year, and interest payable beginning December 1, 2005. The refunding bonds are issued for the purpose of refunding outstanding general obligation bonds originally issued for the purpose of new construction, improvements, renovations, and additions to school facilities and providing equipment, including educational equipment and curriculum materials, furnishings and site improvements.

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

The capital lease obligation will be paid from the general fund.

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

The School District's overall legal debt margin was \$39,517,779 with an unvoted debt margin of \$457,985, and an energy conservation debt margin of \$4,121,865 at June 30, 2012.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

15. LONG-TERM OBLIGATIONS

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2012, are as follows:

2005 Refunding GO Bonds			
Fiscal year Ending June 30,	Principal	Interest	Totals
2013	\$ 320,000	\$114,988	\$ 434,988
2014	345,000	96,268	441,268
2015	370,000	75,714	445,714
2016	390,000	53,853	443,853
2017	395,000	35,738	430,738
2018-2019	790,000	29,037	819,037
Total	<u>\$2,610,000</u>	<u>\$405,598</u>	<u>\$3,015,598</u>

16. ISSUANCE OF GENERAL OBLIGATION REFUNDING BONDS

On September 15, 2005, the Northeastern Local School District issued \$3,765,000 of General Obligation refunding bonds to provide resources to purchase United States Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$3,765,000 of General Obligation bonds. The School District used the new bonds, previously funded debt service payments, plus \$339,813, to defease the outstanding liability. The refunded portion of the 1996 bonds will be called at the first call date of December 1, 2007. As a result, the in-substance defeasance is considered to be defeased and the liability has been removed from the statement of net assets. Until the bonds are called the information will be presented as a note to the financial statements (See Note 17).

17. IN-SUBSTANCE DEFEASANCE OF GENERAL OBLIGATION BONDS

In September 2005, the School District entered into an Escrow Trust Agreement with the Bank of New York. The agreement required that the School District deposit \$4,023,579 into an irrevocable trust with the bank for the payment to final maturity from the 1996 General Obligation Bonds. The funds deposited, per the agreement, purchased U.S. Government Securities in substitution of the general obligations of the School District. The funds deposited, together with interest earned thereon, shall be sufficient to pay semi-annual principal and interest payments, thus providing an in-substance defeasance. The (in-substance) defeasance has occurred for the following General Obligation bonds:

<u>Original Amount</u>	<u>Amount Defeased</u>	<u>Outstanding Amount at 6/30/12</u>
\$5,300,000	\$3,765,000	\$0

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

18. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

A. Jointly Governed Organizations

Miami Valley Educational Computer Association - The School District is a participant in the Miami Valley Educational Computer System (MVECA), which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene, Madison, and Highland 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 districts. The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The School District paid MVECA \$123,356 for services provided during the year. Financial information can be obtained from Thor Sage, Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

Springfield/Clark County Career Technical Center - The Springfield/Clark County Career Technical Center (CTC) is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected boards, which possess its own budgeting and taxing authority. One member is appointed from the following: Clark-Shawnee Local School District, Greenon Local School District, Northeastern Local School District, Northwestern Local School District, Southeastern Local School District, Tecumseh Local School District, and the Clark County Educational Service Center. Two members are appointed from the Springfield City School District. The School District paid \$837 to the CTC for fiscal year 2012. To obtain financial information, write to the Springfield/Clark County Career Technical Center, Pamela Mustovich, Treasurer, 1901 Selma Road, Springfield, Ohio 45505-4239.

Southwestern Ohio Educational Purchasing Council -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of over 130 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the Fiscal Agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

Payments to SOEPC are made from the general fund. During fiscal year 2012, the School District paid \$1,716 to the SOEPC for membership fees. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

B. Insurance Purchasing Pool

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

19. SET-ASIDE CALCULATION

The School District is required by State statute to annually set aside an amount based on a statutory formula 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 in a separate fund 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 amount for capital acquisition. Disclosure of this information is required by State statute.

	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2011	
Current Year Set-aside Requirement	\$ 633,657
Current Year Offsets	
Qualifying Disbursements	(1,503,979)
Totals	(870,322)
Set-aside Balance Carried Forward to Future Fiscal Years	\$ 0

20. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 School District at June 30, 2012.

B. Litigation

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

C. Auditor of State Review of Student Attendance

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

21. SIGNIFICANT COMMITMENTS

A. Construction Commitments

The School District had the following contractual commitments as of June 30, 2012:

<u>Contractor</u>	<u>Job Description</u>	<u>Amount</u>
Farnham Company	Provide and install bleachers at South Vienna schools	\$15,500
Cleveland Tank & Supply Inc.	Two 60 gallon school bus diesel tanks	\$ 2,184
Kennedy Cottrel Richards LLC	Medicaid audit	\$ 2,680

B. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in governmental funds. Encumbrances are reported as a component of assigned, restricted, or committed fund balances since they do not constitute expenditure or liabilities. Outstanding encumbrances in governmental funds as of June 30, 2012 were as follows:

<u>Fund Type</u>	<u>Encumbrances</u>
General	\$ 65,876
Permanent Improvement	66,858
Other Governmental	83,496
Total	<u>\$216,230</u>

22. INTERFUND TRANSFERS

During the year ended June 30, 2012, the General Fund transferred \$8,225 to All Other Governmental Funds. This transfer was made to cover the negative unencumbered fund balance in the Food Service Fund.

23. INTERFUND RECEIVABLES/PAYABLES

An interfund receivable and payable of \$2,867 reported within the General Fund and Other Governmental Funds respectively, represents the amount due to the General Fund from the Title II – D Technology and Race to the Top Special Revenue funds for negative cash balances before fiscal year end. The amounts payable from each fund are \$771 and \$2,096 respectively. The negative cash balances reported within these funds is due to the timing of the receipt of federal grant cash requests.

24. FUND BALANCE

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

24. FUND BALANCE (Continued)

	General Fund	Permanent Improvement	Other Governmental Funds	Total
Non-spendable:				
Inventory	\$ 89,598		\$ 13,081	\$ 102,679
Prepaid Items	3,234			3,234
	<u>92,832</u>			<u>105,913</u>
Restricted for:				
Underground Storage Tank	11,000			11,000
Permanent Improvements		\$553,073		553,073
Building Fund			3,367	3,367
Video Distance Learning			928	928
Debt Retirement			958,429	958,429
Union Club Scholarship			36,500	36,500
Special Trust			26,221	26,221
District Managed Student Activities			18,139	18,139
Auxiliary Services			86,440	86,440
South Vienna Phonics			998	998
Race to the Top			7,296	7,296
Title VI-B			14,873	14,873
Technology II-D			1,771	1,771
Title I			10,242	10,242
Total Restricted	<u>11,000</u>	<u>553,073</u>	<u>1,165,204</u>	<u>1,729,277</u>
Assigned for:				
Future Appropriations	3,072,113			3,072,113
Public School Support	53,220			53,220
Legal Services	22,360			22,360
Utilities	36,627			36,627
District 5K Fund			6,520	6,520
Hattie Farrell Memorial Fund			3,142	3,142
Latchkey			89,452	89,452
Other Purposes	6,889			6,889
Total Assigned	<u>3,191,209</u>		<u>99,114</u>	<u>3,290,323</u>
Unassigned	1,027,297		(87,506)	939,791
Total Fund Balance	<u>\$4,322,338</u>	<u>\$553,073</u>	<u>\$1,189,893</u>	<u>\$6,065,304</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture					
<i>Passed Through Ohio Department of Education</i>					
Child Nutrition Cluster:					
National School Breakfast Program	10.553	\$49,170		\$49,170	
National School Lunch Program					
Cash Assistance	10.555	397,775		397,775	
Non-Cash Assistance	10.555		\$130,628		\$130,628
Total National School Lunch Program		<u>397,775</u>	<u>130,628</u>	<u>397,775</u>	<u>130,628</u>
Total Child Nutrition Cluster		<u>446,945</u>	<u>130,628</u>	<u>446,945</u>	<u>130,628</u>
Total U.S. Department of Agriculture		<u>446,945</u>	<u>130,628</u>	<u>446,945</u>	<u>130,628</u>
U.S. DEPARTMENT OF EDUCATION					
<i>Passed Through Ohio Department of Education</i>					
Title I, Part A Cluster:					
Title I Grants to Local Educational Agencies	84.010	295,406		303,601	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389			4,756	
Total Title I, Part A Cluster		<u>295,406</u>		<u>308,357</u>	
Special Education Cluster:					
Special Education Grants to States	84.027	696,110		692,407	
Special Education Preschool Grants	84.173	17,421		17,421	
ARRA - Special Education Grants to States, Recovery Act	84.391	13,786		18,359	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392			64	
Total Special Education Cluster		<u>727,317</u>		<u>728,251</u>	
Safe and Drug-Free Schools and Communities State Grants	84.186	2,186		2,186	
Educational Technology State Grants	84.318			618	
Improving Teacher Quality State Grants	84.367	60,975		60,975	
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394			127,077	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top, Recovery Act	84.395	23,998		17,708	
Education Jobs Fund	84.410	378,487		383,752	
Total U.S. Department of Education		<u>1,488,369</u>		<u>1,628,924</u>	
Total Federal Assistance		<u>\$1,935,314</u>	<u>\$130,628</u>	<u>\$2,075,869</u>	<u>\$130,628</u>

The accompanying notes are an integral part of this schedule.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports Northeastern Local School District's (the District's) award programs receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Dave Yost • 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
Clark County
1414 Bowman Road
Springfield, Ohio 45502

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, Clark County, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 14, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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*.

We did note a certain matter not requiring inclusion in this report that we reported to the District's management in a separate letter dated February 14, 2013.

We intend this report solely for the information and use of management, the audit committee, Board of Education, federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

February 14, 2013



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Education:

Compliance

We have audited the compliance of Northeastern Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Northeastern Local School District's major federal programs for the year ended June 30, 2012. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with these requirements.

In our opinion, Northeastern Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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**Internal Control Over Compliance
(Continued)**

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of the audit committee, management, Board of Education, others within the District, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

February 14, 2013

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	<p>Special Education Cluster:</p> <ul style="list-style-type: none"> • Special Education Grants to States – CFDA 84.027 • Special Education Preschool Grants – CFDA 84.173 • ARRA – Special Education Grants to States, Recovery Act – CFDA 84.391 • ARRA – Special Education Preschool Grants, Recovery Act – CFDA 84.392 <p>ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act – CFDA 84.394</p> <p>Nutrition Cluster: National School Breakfast Program - CFDA 10.553 National School Lunch Program– CFDA 10.555</p>
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Dave Yost • Auditor of State

NORTHEASTERN LOCAL SCHOOL DISTRICT

CLARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 12, 2013**