



Mary Taylor, CPA
Auditor of State

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets – June 30, 2006	13
Statement of Activities – for the Fiscal Year ended June 30, 2006.....	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds - June 30, 2006	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities - June 30, 2006	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds – for the Fiscal Year ended June 30, 2006.....	17
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, 2006	18
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual - General Fund For the Fiscal Year ended June 30, 2006.....	19
Statement of Fiduciary Net Assets - Fiduciary Funds - June 30, 2006	20
Statement of Changes in Fiduciary Net Assets - Fiduciary Fund – for the Fiscal Year Ended June 30, 2006	21
Notes to the Basic Financial Statements	23
Schedule of Federal Awards Expenditures.....	48
Notes to Schedule of Federal Awards Expenditures	49
Independent Accountants' Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required by <i>Government Auditing Standards</i>	51
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	53
Schedule of Findings.....	55

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Mary Taylor, CPA

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, and the aggregate remaining fund information of the Northeastern Local School District, Clark County, (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Northeastern Local School District, Clark County, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

January 19, 2007

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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, 2006. 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 2006 are as follows:

- In total, net assets increased \$2,485,215, which represents a 13.40 percent increase from 2005.
- General revenues accounted for \$27,229,326 in revenue or 86.18 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 \$4,363,379 or 13.82 percent of total revenues of \$31,592,705.
- Total assets of governmental activities increased by \$297,798 as cash and cash equivalents increased by \$1,512,163, receivables decreased by \$1,630,053 and capital assets increased by \$149,900.
- The governmental activities of the School District had \$29,107,490 in expenses; only \$4,363,379 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$27,229,326 were adequate to provide for these programs.
- Among major funds, the General Fund had \$28,353,652 in revenues and \$25,711,800 in expenditures. The General Fund's balance increased \$2,664,438 over 2005. This increase was predominately due to an increase in state and local revenue. State revenue increased due to an increase in enrollment and the additional phasing-in of parity aide. Local revenue increased due to the passage of a 6 mill operating levy that began collection in January, 2005 which would have given the district the first full fiscal year collection in the year ending June, 2006. Also, 2004 (2005 collection) being a reappraisal year for local land values had a bearing on additional local revenue. A full fiscal year's effect of this would have been realized in the period ending June, 2006. This generated additional revenue through inside millage. In Calendar year 2005, there was also new construction in Residential/Agricultural and Commercial Industrial real property of \$10,434,660 assessed value (35%). This generated additional revenue for the last half of the fiscal year. In 2006 (2007 collection) the reduction factors will increase to level off the collection on the new construction. Finally, another factor that had a positive affect on the ending balance was employee health insurance cost containment. Due to a newly negotiated health insurance plan with a two tiered system, the board was able to save premium dollars. An added bonus is that future increases from year to year should increase at a decreasing rate due to the make up of the new 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.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

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.

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 2006?" 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 8. 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, 2006
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 2006 compared to 2005.

**Table 1
Net Assets**

	2005	2006
Assets		
Current and Other Assets	\$20,072,357	\$20,220,255
Capital Assets	20,423,235	20,573,135
Total Assets	<u>\$40,495,592</u>	<u>\$40,793,390</u>
Liabilities		
Long-Term Liabilities	\$7,931,430	\$7,425,056
Other Liabilities	14,015,108	12,334,065
Total Liabilities	<u>21,946,538</u>	<u>19,759,121</u>
Net Assets		
Invested in Capital Assets, Net of Debt	14,012,080	14,192,133
Restricted	3,088,142	2,082,314
Unrestricted	1,448,832	4,759,822
Total Net Assets	<u>\$18,549,054</u>	<u>\$21,034,269</u>

Total assets increased \$297,798. Cash and cash equivalents increased by \$1,512,163, receivables decreased by \$1,630,053 and capital assets increased by \$149,900. 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 increased by \$3,310,990 due to an increase in state revenue and increase in local property tax revenue from the 6 mill operating levy. Also, in 2006, the liability related to the balance of the HB 264 projects decreased and reached conclusion.

Table 2 shows the changes in net assets for fiscal year 2006. Since this is the fourth 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**

	2005	2006
Revenues		
Program Revenues:		
Charges for Services	\$2,498,871	\$2,633,730
Operating Grants and Contributions	1,504,303	1,729,649
General Revenues		
Property Taxes	12,142,977	12,724,841
Grants and Entitlements	13,703,194	14,171,307
Other	172,458	333,178
Total Revenues	<u>30,021,803</u>	<u>31,592,705</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

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

	2005	2006
Program Expenses		
Instruction	15,505,065	15,734,787
Support Services:		
Pupils and Instructional Staff	2,847,501	2,987,300
Board of Education, Administration, and Fiscal	3,046,543	3,175,092
Operation and Maintenance of Plant	2,386,966	2,632,493
Pupil Transportation	1,672,133	1,871,343
Operation of Non-Instructional Services	1,373,485	1,515,062
Extracurricular Activities	781,914	868,602
Interest and Fiscal Charges	347,169	322,811
Total Expenses	27,960,776	29,107,490
Increase in Net Assets	\$2,061,027	\$2,485,215

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 40 percent of revenues for governmental activities for the Northeastern Local School District for fiscal year 2006.

The School District voters passed a four-year permanent improvement levy in March of 2000 for collection 2001 through 2004. This levy at 4.0 mills generated approximately \$1,436,000 in property tax revenue per year. Revenue collection for this levy ended in FY05. The Board has prioritized expenditure of the remaining permanent improvement dollars. Their remaining priorities are safety concerns and infrastructure improvements in the various buildings in the district. Following those, expenditures will be made in the areas of greatest need. A complete list of priorities can be obtained from the Treasurer's office. 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. Currently, the board plans to put the permanent improvement levy back on the ballot in May, 2007.

During a Special Election Ballot effort in August, 2004 an operating levy passed by 47 votes. This was at a time when other new levies statewide only had a 14% passage rate. This levy generates approximately \$2,650,000 per year for the district's general operating needs and is a continuous levy. It was very commendable that the district taxpayers would approve an additional levy in such tight financial times. The passage of the August, 2004 operating levy probably contributed to the failure of the November, 2006 permanent improvement levy. Often times, it is difficult for voters to understand that the two types of levies serve very different purposes.

Instruction comprises 54 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, 2006
UNAUDITED
(Continued)**

Table 3

	Total Cost of Services 2006	Net Cost of Services 2006
Instruction	\$15,734,787	\$13,484,462
Support Services:		
Pupils and Instructional Staff	2,987,300	2,578,176
Board of Education, Administration, and Fiscal	3,175,092	3,073,014
Operation and Maintenance of Plant	2,632,493	2,619,537
Pupil Transportation	1,871,343	1,846,625
Operation of Non-Instructional Services	1,515,062	135,778
Extracurricular Activities	868,602	683,708
Interest and Fiscal Charges	322,811	322,811
Total Expenses	\$29,107,490	\$24,744,111

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 100 percent of instruction activities are supported through taxes and other general revenues; for all activities general revenue support is 85 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, 2006
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 \$31,422,475 and expenditures of \$30,016,901. The net change in fund balance for the year was most significant in the General Fund, an increase of \$2,664,438. As stated previously, this increase was predominately due to an increase in state and local revenue. State revenue increased due to an increase in enrollment and the additional phasing-in of parity aide. Local revenue increased due to 2005 (2006 collection) being a reappraisal year for local land values. This generated minimal additional revenue through inside millage. There was also new construction in Residential/Agricultural and Commercial Industrial real property of \$10,434,660 assessed value (35%). This generated additional revenue for the full fiscal year. However, in 2006 (2007 collection) the reduction factors will increase to level off the collection on the new construction. The greatest factor that will continue to impact revenue, was the passage of the 6 mill general operating levy in August, 2004 for 2005 and beyond collections. The first full fiscal year collection was realized this year (FY06). Another factor that allowed the ending balance to be higher was the cost containment in the area of employee insurances district-wide. The ability to continue spending permanent improvement fund dollars for capital outlay made it possible for that expenditure area not to increase as rapidly as it would have otherwise. Once again, the winter was mild, thus making the utility bills more reasonable. That was another benefit to the bottom line.

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 2006 fiscal year, the School District amended its General Fund budget several times, which resulted in appropriations increasing \$660,220. 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.

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

For the General Fund, budget basis revenue and other financing sources was \$27,913,599; \$1,213,601 above the original budgeted estimates of \$26,699,998. This difference was primarily caused by unpredictable parity aide increases, due to a decreasing personal property tax base statewide and state basic aide increases related to increased enrollment that was conservatively estimated. Also, a greater cash flow as a result of the 6 mill operating levy allowed for increased investment revenue.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

Capital Assets

At the end of the 2006 fiscal year, the School District had \$20,573,135 invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal 2006 balances compared to 2005.

Capital Assets (Net of Depreciation) at June 30, 2006		
	Restated	
	2005	2006
Land	\$268,349	\$268,349
Land Improvement	177,085	409,582
Buildings and Improvements	17,472,787	17,063,992
Furniture and Equipment	1,570,225	1,751,638
Vehicles	934,789	1,079,574
Total Capital Assets	\$20,423,235	\$20,573,135

Overall capital assets increased \$149,900 from fiscal year 2005 to fiscal year 2006.

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 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.

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 6/30/06</u>
\$5,300,000	\$3,765,000	\$420,000

Current Financial Issues and Concerns

The fund balance in the general fund increased this year by \$2,664,438. This was due in large part to the 6 mill additional operating levy that began collection in January, 2005. Additional tax revenue coupled with a significant increase in state revenue due to increased enrollment and additional phasing in of parity aide, explains the increase.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

We are currently overcrowded in the majority of our buildings. The board and administration are trying to ascertain the consensus of our constituents prior to reconsideration of a bond issue for construction. 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 FY06. These meetings were 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.

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. The legislators and government officials have somewhat abandoned the DeRolph case. With the current financial concerns the State is facing, they feel they have done as much as they can for K-12 education. The legislators appointed a blue ribbon task force comprised of legislators, business owners, and school officials to study school funding. As a result of the task force meetings, a school funding plan was presented to the legislators; however the legislators were unsure how they were going to fund the plan, so they abandoned it.

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

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

Toward the end of the 2005 fiscal year, a funding plan was being presented by the state for the new biennium that will phase out certain areas of local tax revenue. Depending on how the districts are held harmless, and/or new sources of revenue growth are realized, the impact on the district and its tax payers for future years could be quite significant.

During fiscal year 2006, the state began its planned phase out of personal tangible property tax. School Districts will be held harmless through a fixed rate adjustment, resulting from commercial activity tax (CAT) revenue, for five years. After the five year period, a phase out will begin until the revenue is totally phased out in 2018. Hopefully, in the next several years, prior to phase out of the hold harmless provision, the legislators will come forward with a new funding plan for public education. A large group of individuals comprised of many educational professional organizations plan to place a constitutional amendment for school funding on the November, 2007 ballot. This constitutional amendment would require the legislature to follow through with a new, more adequate funding plan for public education.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

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

The Northeastern Local School District has worked with the OSFC. The construction of two new middle schools, among other possibilities, fell within the confines of the OSFC's master plan that was in place at the beginning of FY04. However, currently there is no master plan in place. It was allowed to expire because our state share is increasing slightly due to our personal property devaluation and our ranking in valuation statewide, decreasing. In November, 2006, the district resubmitted all the necessary information to the OSFC in order for them to come up with a new master plan. Once the new master plan is received, along with its associated cost, the Board and Administration's plan is to begin once again educating our constituents regarding the need of new facilities. This will also give the board the opportunity to introduce the plan to the district residents that the OSFC considers most cost effective.

Other items of importance that occurred during the 2006 fiscal year are as follows:

- Three State Literacy Grants for \$20,000 each were received in FY06.
- A 4% salary increase took effect in FY06. Additionally, a 4 ½% increase was agreed to take effect for FY07. The majority of this was funded by major insurance concessions.
- 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.
- Interactive Video Distance Learning Classes continued in the district.
- Under Mr. Broderick's guidance, a prioritized plan was adopted for expenditure of the remaining permanent improvement dollars. Some of the larger expenditures include, but are not limited to, replacing carpet with tile in six rooms at Rolling Hills and also at South Vienna, at least two more new school busses, purchasing textbooks, computers and software, replace aging kitchen equipment as needed, setting aside some funds for band equipment at Northeastern High School and Kenton Ridge High School, Repaving the driveway at Rolling Hills and Northridge Schools. Additional projects will be initiated and completed during the 2007 fiscal year and beyond until the current funds are exhausted.

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. With this in mind, at the end of the fiscal year, a commitment was made to present the Ohio Public School Dialogue program at various series of public meetings district-wide during fiscal year 2006 and beyond. In addition, a five year plan for the district has been placed on the district's website, <http://www.nelsd.org>. This has been done in an effort to further communication efforts with our constituents. The plan includes a proposed operating levy, permanent improvement levy and a bond issue. The timing of these issues will depend on state aid and future proposals to fund education in Ohio by the legislator. Also, timing will be in part based on the results of the OSFC's study for new construction in the district.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED
(Continued)**

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. This may become increasingly difficult with the states plan to phase out personal property tax revenue. However, we have faith that our students will become a top priority with the legislature and their ongoing school funding issues. The School District plans to continue its sound fiscal management to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Denise D. Schneider, Chief Fiscal Officer at Northeastern Local School District, 1414 Bowman Road, Springfield, Ohio 45502 or email at ne_dschneide@mveca.org. If Denise Schneider is not available, please contact Denise Robinson, her assistant, at the same location, or email her at ne_drobinson@mveca.org.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$6,624,545
Cash and Cash Equivalents in Segregated Accounts	4,000
Cash and Cash Equivalents with Fiscal Agents	11,764
Materials and Supplies Inventory	130,176
Accounts Receivable	33,637
Intergovernmental Receivable	132,896
Prepaid Items	98
Property Taxes Receivable	13,043,030
Deferred Charges	240,109
Capital Assets, net	20,573,135
Total Assets	40,793,390
 Liabilities and Fund Balances	
Liabilities:	
Accounts Payable	42,110
Accrued Wages	2,384,278
Intergovernmental Payable	865,889
Matured Bonds Payable	10,000
Matured Interest Payable	1,764
Accrued Interest Payable	17,199
Accrued Vacation Leave Payable	72,571
Deferred Revenue	8,841,931
Compensated Absences Payable	98,323
Long-Term Liabilities:	
Due Within One Year	564,199
Due in More Than One Year	6,545,316
Unamortized Premium on Bonds	315,541
Total Liabilities	19,759,121
 Net Assets:	
Invested in Capital Assets, Net of Related Debt	14,192,133
Restricted for Debt Service	1,002,631
Restricted for Capital Outlay	992,419
Restricted for Other Purposes	87,264
Unrestricted	4,759,822
Total Net Assets	\$21,034,269

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions		Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$12,789,942	\$1,517,306	\$130,349	(\$11,142,287)
Special	2,264,119		506,511	(1,757,608)
Vocational	662,940		96,159	(566,781)
Other	17,786			(17,786)
Support Services:				
Pupils	1,492,733		150,590	(1,342,143)
Instructional Staff	1,494,567		258,534	(1,236,033)
Board of Education	52,854			(52,854)
Administration	2,456,284		102,078	(2,354,206)
Fiscal	665,954			(665,954)
Operation and Maintenance of Plant	2,632,493	2,779	10,177	(2,619,537)
Pupil Transportation	1,871,343		24,718	(1,846,625)
Operation of Non-Instructional Services	1,515,062	929,880	449,404	(135,778)
Extracurricular Activities	868,602	183,765	1,129	(683,708)
Interest and Fiscal Charges	322,811			(322,811)
Total Governmental Activities	<u>\$29,107,490</u>	<u>\$2,633,730</u>	<u>\$1,729,649</u>	<u>(\$24,744,111)</u>
General Revenues				
Grants and Entitlements not Restricted to Specific Programs				14,171,307
Gifts and Donations				29,480
Investment Earnings				270,518
Miscellaneous				32,240
Property and Other Local Taxes				12,724,841
Rent				640
Proceeds from Sale of Fixed Assets				300
Total General Revenues and Property and Other Local Taxes				<u>27,229,326</u>
Change in Net Assets				2,485,215
Net Assets Beginning of Year, Restated				<u>18,549,054</u>
Net Assets End of Year				<u>\$21,034,269</u>

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006**

	<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	\$4,331,590	\$936,167	\$1,356,788	\$6,624,545
Cash and Cash Equivalents in Segregated Accounts			4,000	4,000
Cash and Cash Equivalents with Fiscal Agents			11,764	11,764
Materials and Supplies Inventory	110,338		12,700	123,038
Accounts Receivable	28,906	4,731		33,637
Interfund Receivable	8,332			8,332
Intergovernmental Receivable	82,916		49,980	132,896
Prepaid Items	98			98
Property Taxes Receivable	12,617,920		425,110	13,043,030
Total Assets	<u>17,180,100</u>	<u>940,898</u>	<u>1,860,342</u>	<u>19,981,340</u>
Liabilities:				
Current Liabilities:				
Accounts Payable	12,888	27,706	1,516	42,110
Accrued Wages	2,183,581		200,697	2,384,278
Interfund Payable			8,332	8,332
Intergovernmental Payable	807,500		58,389	865,889
Matured Bonds Payable			10,000	10,000
Matured Interest Payable			1,764	1,764
Accrued Vacation Leave Payable	3,056			3,056
Deferred Revenue	9,415,982		358,752	9,774,734
Compensated Absences Payable	92,974		5,349	98,323
Total Liabilities	<u>12,515,981</u>	<u>27,706</u>	<u>644,799</u>	<u>13,188,486</u>
Fund Balances:				
Reserved:				
Reserved for Encumbrances	252,086	156,953	95,755	504,794
Reserved for Inventory	110,338		12,700	123,038
Reserved for Property Taxes	3,285,075		66,358	3,351,433
Unreserved, Undesignated, Reported in:				
General Fund (Deficit)	1,016,620			1,016,620
Special Revenue Funds			79,058	79,058
Debt Service Funds			919,450	919,450
Capital Projects Funds		756,239	42,222	798,461
Total Fund Balances	<u>4,664,119</u>	<u>913,192</u>	<u>1,215,543</u>	<u>6,792,854</u>
Total Liabilities and Fund Balances	<u>\$17,180,100</u>	<u>\$940,898</u>	<u>\$1,860,342</u>	<u>\$19,981,340</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, 2006**

Total Governmental Fund Balances		\$6,792,854
<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	32,571,903	
Accumulated depreciation	<u>(12,267,117)</u>	
Total capital assets		20,573,135
<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	849,666	
Accounts Receivable	<u>83,137</u>	
		932,803
Deferred Charge on Refunded Debt		240,109
Federal donated commodities are not reported in the funds.		7,138
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(17,199)
Unamortized Premium on Bonds issued during the fiscal year		(315,541)
<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	(5,880,000)	
Compensated absences	(1,113,569)	
Capital leases	<u>(185,461)</u>	
Total liabilities		<u>(7,179,030)</u>
Net Assets of Governmental Activities		<u><u>\$21,034,269</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, 2006**

	<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	\$12,235,114		\$385,938	\$12,621,052
Intergovernmental	14,212,874		1,675,293	15,888,167
Interest	268,017		13,261	281,278
Tuition and Fees	1,408,488			1,408,488
Rent	640			640
Extracurricular Activities			230,058	230,058
Gifts and Donations			31,509	31,509
Customer Sales and Services			929,880	929,880
Miscellaneous	7,968		23,435	31,403
Total Revenues	<u>28,133,101</u>		<u>3,289,374</u>	<u>31,422,475</u>
Expenditures:				
Current:				
Instruction:				
Regular	12,376,154	\$366,581	202,960	12,945,695
Special	1,726,280		537,400	2,263,680
Vocational	650,646			650,646
Other	17,786			17,786
Support Services:				
Pupils	1,310,038		162,908	1,472,946
Instructional Staff	1,158,914		274,880	1,433,794
Board of Education	48,306			48,306
Administration	2,306,158		109,063	2,415,221
Fiscal	653,810		7,212	661,022
Operation and Maintenance of Plant	2,472,843	150,461	12,810	2,636,114
Pupil Transportation	1,611,652	207,293	1,870	1,820,815
Operation of Non-Instructional Services	69,106	27,228	1,284,370	1,380,704
Extracurricular Activities	607,987	20,532	210,812	839,331
Capital Outlay	330,321	220,101		550,422
Debt Service:				
Principal	285,089	36,159	245,000	566,248
Interest	86,710		227,461	314,171
Total Expenditures	<u>25,711,800</u>	<u>1,028,355</u>	<u>3,276,746</u>	<u>30,016,901</u>
Excess of Revenues Over (Under) Expenditures	<u>2,421,301</u>	<u>(1,028,355)</u>	<u>12,628</u>	<u>1,405,574</u>
Other Financing Sources and Uses:				
Transfers In			28,636	28,636
Refunding Bonds Issued			3,765,000	3,765,000
Premium on Refunded Bonds			339,813	339,813
Payment to Refunded Bond Escrow Agent			(4,023,579)	(4,023,579)
Inception of Capital Lease	220,551			220,551
Proceeds from Sale of Fixed Assets			300	300
Transfers Out			(28,636)	(28,636)
Total Other Financing Sources and Uses	<u>220,551</u>		<u>81,534</u>	<u>302,085</u>
Net Change in Fund Balances	2,641,852	(1,028,355)	94,162	1,707,659
Fund Balance (Deficit) at Beginning of Year	1,999,681	1,941,547	1,119,723	5,060,951
Increase (Decrease) in Reserve for Inventory	22,586		1,658	24,244
Fund Balance (Deficit) at End of Year	<u>\$4,664,119</u>	<u>\$913,192</u>	<u>\$1,215,543</u>	<u>\$6,792,854</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, 2006**

Net Change in Fund Balances - Total Governmental Funds		\$1,707,659
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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:</p>		
Fixed Asset Additions	\$1,017,922	
Current Year Depreciation	(800,700)	
Fixed Asset Deletions	<u>(67,322)</u>	
		149,900
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Property Taxes	103,789	
Tuition and Fees	<u>41,874</u>	
		145,663
<p>Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.</p>		
		(220,551)
<p>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:</p>		
Bond principal retirement	495,000	
Capital lease payments	<u>71,244</u>	
Total long-term debt repayment		566,244
<p>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.</p>		
Payment to Escrow for Refunding Long-Term Debt	4,023,579	
Proceeds from Sale of Long-Term Debt	(3,765,000)	
Current Year Impact of Issuance Costs	(18,470)	
Current Year Impact of Long-Term Debt Premium	<u>(315,541)</u>	
		(75,432)
<p>In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.</p>		
		9,830
<p>Donated commodities received and used are not recognized in the funds.</p>		
		1,583
<p>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:</p>		
Compensated Absences	473,087	
Intergovernmental Payable	(297,012)	
Change in Inventory	<u>24,244</u>	
Total additional expenditures		<u>200,319</u>
Change in Net Assets of Governmental Activities		<u><u>\$2,485,215</u></u>

**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, 2006**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Property and Other Local Taxes	\$11,445,343	\$11,965,571	\$11,965,571	
Intergovernmental	13,594,941	14,212,875	14,212,875	
Interest	250,272	261,648	261,648	
Tuition and Fees	1,379,177	1,441,865	1,441,865	
Rent	612	640	640	
Payments in Lieu of Taxes	4,783	5,000	5,000	
Miscellaneous	17,963	18,779	18,779	
Total Revenues	<u>26,693,091</u>	<u>27,906,378</u>	<u>27,906,378</u>	
Expenditures:				
Current:				
Instruction:				
Regular	12,047,886	12,477,435	12,477,435	
Special	1,795,744	1,781,936	1,781,936	
Vocational	602,738	649,500	649,500	
Other	41,226	67,634	67,634	
Support Services:				
Pupils	1,370,343	1,253,498	1,253,498	
Instructional Staff	1,140,275	1,159,508	1,159,508	
Board of Education	76,527	66,770	66,770	
Administration	2,241,226	2,290,441	2,290,441	
Fiscal	602,329	658,202	658,202	
Operation and Maintenance of Plant	2,396,980	2,633,213	2,633,213	
Pupil Transportation	1,544,027	1,632,336	1,632,336	
Operation of Non-Instructional Services	150			
Extracurricular Activities	620,409	623,371	623,371	
Capital Outlay	225,361	112,191	112,191	
Debt Service:				
Principal	250,000	250,000	250,000	
Interest and Fiscal Charges	46,230	46,230	46,230	
Total Expenditures	<u>25,001,451</u>	<u>25,702,265</u>	<u>25,702,265</u>	
Excess of Revenues Under Expenditures	<u>1,691,640</u>	<u>2,204,113</u>	<u>2,204,113</u>	
Other Financing Sources (Uses):				
Advances In	6,907	7,221	7,221	
Advances Out	(48,926)	(8,332)	(8,332)	
Total Other Financing Sources (Uses)	<u>(42,019)</u>	<u>(1,111)</u>	<u>(1,111)</u>	
Net Change in Fund Balances	1,649,621	2,203,002	2,203,002	
Fund Balance at Beginning of Year	1,530,458	1,530,458	1,530,458	
Prior Year Encumbrances Appropriated	322,334	322,334	322,334	
Fund Balance at End of Year	<u>\$3,502,413</u>	<u>\$4,055,794</u>	<u>\$4,055,794</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, 2006**

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$5,644	\$120,801
Investments:		
In Segregated Accounts	10,000	
Receivables:		
Accrued Interest	24	
Total Assets	15,668	120,801
 Liabilities		
Due to Students		\$120,801
 Net Assets		
Held in Trust for Scholarships	\$15,668	

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Private Purpose Trust
	Scholarship
Additions	
Gifts and Contributions	\$3,350
Interest	251
Total Additions	3,601
 Deductions	
Payments in Accordance with Trust Agreements	3,173
Total Deductions	3,173
 Change in Net Assets	428
 Net Assets Beginning of Year	15,240
 Net Assets End of Year	\$15,668

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, 2006**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

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

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

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

The School District participates in the Miami Valley Educational Computer Association (MVECA), Springfield/Clark County Joint Vocational School, and the Southwestern Ohio Educational Purchasing Council (SOEPC) which are defined as jointly governed organizations, and the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), which is defined as an insurance purchasing pool. These organizations are presented in Note 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, 2006
(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, 2006
(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 two private purpose trust funds. One accounts for a scholarship program 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 consists 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, 2006
(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 non-exchange 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, 2006, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have 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, 2006
(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 level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The Treasurer is authorized to further allocate appropriations to the function and object level for all funds.

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

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

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, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During fiscal year 2006, investments were limited to certificates of deposit, which are reported at cost, First American Treasury Money Market funds, Federal Home Loan Bank Notes, and Federal Home Loan Mortgage Corporation (FHLMC) 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 2006 amounted to \$268,017 which includes \$99,579 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, 2006, 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:

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Fund Balance Reserves

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

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

N. 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.

O. 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 2006.

P. 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. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS

GASB Statement No. 47 establishes accounting and financial reporting standards for termination benefits. This statement clarifies and establishes reporting requirements for those benefits provided by employers to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on the School District's financial statements for fiscal year 2006.

During fiscal year 2006, the School District changed the useful lives of the District's buildings to more accurately reflect the net carrying values. The effect of these changes on the prior year is as follows:

	<u>Governmental Activities</u>
Net Assets, June 30, 2005	\$15,651,818
Restatement of Capital Assets	2,897,236
Net Assets, June 30, 2005, as Restated	<u>\$18,549,054</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

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

Net Change in Fund Balance	
GAAP Basis	\$2,641,852
Net Adjustment for Revenue Accruals	(447,291)
Net Adjustment for Expenditure Accruals	239,567
Unrecorded Cash	17
Advances	(1,111)
Pre-pays	(147)
Principal Payments	35,089
Adjustment for Encumbrances	(264,974)
Budget Basis	\$2,203,002

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, 2006
(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, 2006
(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 \$5,218,832 and the bank balance was \$6,411,448. \$111,764 of the bank balance was covered by federal depository insurance and \$6,299,684 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:

During fiscal year 2006, the School District began to diversify its investment portfolio to gain a higher rate of return while still maintaining liquidity and minimizing risk. Investments include First American Treasury Money Market, Federal Home Loan Bank Notes, and mortgaged backed securities issued by Federal Home Loan Mortgage Corporation (FHLMC).

The district's investments at June 30, 2006 are summarized below:

<u>Investment</u>	<u>Maturity Year</u>	<u>0-1 Years Before Maturity</u>	<u>1-5 Years Before Maturity</u>	<u>Credit Rating</u>	<u>% of Portfolio</u>
First American Treasury Money Market	N/A	\$3,450	\$0		0.20%
Federal Home Loan Bank Notes	2008	0	350,724	Aaa, AAA	22.60%
Federal Home Loan Bank Discount Notes	2007	344,103	0	Aaa, AAA	22.10%
Federal Home Loan Mortgage Corporation (FHLMC) Discount Notes	2007	470,645	0	Aaa, AAA	30.40%
Federal Home Loan Mortgage Corporation (FHLMC) Discount Notes	2007	385,000		Aaa, AAA	24.70%
		<u>\$1,203,198</u>	<u>\$350,724</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.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

5. DEPOSITS AND INVESTMENTS (Continued)

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.

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, .20 percent is invested in a money market fund: 44.70 percent are Federal Home Loan Bank Notes; and 55.10 percent are Federal Home Loan Mortgage Corporation (FHMLC) 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 Equivalents – Basic Financial Statements	\$6,766,754	\$10,000
Cash on Hand	(4,000)	0
Investments:		
Certificate of Deposit	10,000	(10,000)
First American Treasury Money Market	(3,450)	3,450
Federal Home Loan Bank Notes	(694,826)	694,826
Federal Home Loan Mortgage Corporation (FHMLC) Notes	(855,646)	855,646
Total	\$5,218,832	\$1,553,922

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 2006 for real and public utility property taxes represents collections of calendar 2005 taxes. Property tax payments received during calendar 2006 for tangible personal property (other than public utility property) are for calendar 2006 taxes.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

6. PROPERTY TAXES (Continued)

2006 real property taxes are levied after April 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after April 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after April 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are twenty-five percent of true value.

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

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

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second - Half Collections		2006 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$391,983,200	88.76%	402,418,050	90.09%
Public Utility Personal	14,158,390	3.21	11,711,460	2.62
Tangible Personal Property	35,459,944	8.03	32,600,236	7.29
Total	\$441,601,534	100.00%	\$446,729,746	100.00%
Tax Rate per \$1,000 of Assessed Valuation	\$47.14		\$47.07	

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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding, and real property, personal property and public utility taxes which are measurable as of June 30, 2006, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, 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, 2006, \$3,285,075 was available as an advance to the general fund and \$66,358 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, 2006
(Continued)**

7. RECEIVABLES

Receivables at June 30, 2006, 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:	
Tuition Costs	\$82,916
Ohio Reads Grant	6,000
Title VI-B Grant	31,662
Title I Grant	11,792
Preschool Grant	526
Total Intergovernmental Receivables	<u>\$132,896</u>

8. CAPITAL ASSETS

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

	Restated Balance 6/30/05	Additions	Deductions	Balance 6/30/06
Governmental Activities				
Capital Asset, not being depreciated:				
Land	\$268,349	\$0	\$0	\$268,349
Total Capital Assets, not being depreciated	268,349	0	0	268,349
Capital Assets, being depreciated:				
Land Improvements	562,840	241,300	0	804,140
Buildings and Improvements	26,339,652	105,841	17,676	26,427,817
Furniture and Equipment	3,069,990	433,616	145,107	3,358,499
Vehicles	1,744,282	237,165	0	1,981,447
Total Capital Assets, being depreciated	31,716,764	1,017,922	162,783	32,571,903
Less Accumulated Depreciation:				
Land Improvements	(385,755)	(8,803)	0	(394,558)
Buildings and Improvements	(8,866,865)	(501,600)	(4,640)	(9,363,825)
Furniture and Equipment	(1,499,765)	(197,917)	(90,821)	(1,606,861)
Vehicles	(809,493)	(92,380)	0	(901,873)
Total Accumulated Depreciation	(11,561,878)	(800,700)	(95,461)	(12,267,117)
Total Capital Assets being depreciated, net	20,154,886	217,222	67,322	20,304,786
Governmental Activities Capital Assets, Net	\$20,423,235	\$217,222	\$67,322	\$20,573,135

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

8. CAPITAL ASSETS (Continued)

- Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$367,570
Special	51,650
Vocational	27,255
Support Services:	
Pupil	33,856
Instructional Staff	46,068
Administration	52,896
Fiscal	3,042
Operation and Maintenance of Plant	33,721
Pupil Transportation	94,000
Operation of Non-Instructional Services	47,527
Extracurricular Activities	43,115
Total Depreciation Expense	\$800,700

9. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft or, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, 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	1,000,000
Automobile Liability (\$0 deductible)	1,000,000
Uninsured Motorists (\$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 has 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, 2006
(Continued)**

9. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2006, 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 insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Incorporated provides administrative, cost control, and actuarial services to the GRP.

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to 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, 2006, 2005, and 2004 were \$482,086, \$498,739, and \$419,310, respectively; 46.89 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$256,024 represents the unpaid contribution for fiscal year 2006.

B. State Teachers Retirement System of Ohio

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 (614) 227-4090, 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, 2006
(Continued)**

10. 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 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 Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, 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 2005, 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, 2006, 2005, and 2004, were \$1,714,558, \$1,644,331, and \$1,626,066, respectively; 83.17 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$15,065 made by the School District and \$59,363 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, 2006, 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
CLARK COUNTY**

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

11. POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$131,889 for fiscal year 2006.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$224,941.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 225 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, unused sick leave up to the maximum of 225 days. Administrators retiring in fiscal year 2006 were eligible to receive payment of 40 percent of accrued, unused sick leave up to the maximum of 225 days.

B. Insurance Benefits

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

C. Special Termination Benefit

The School District offered a special termination benefit plan during fiscal year 2006. To participate in the plan, an employee must opt for this program the first time they are eligible to retire with 30 years of experience, or the first year eligible according to STRS. The special termination benefit amount is \$20,000, payable over the next three years after retirement in three equal payments beginning on June 1, 2005, and ending June 1, 2007. For food service employees, the amount is \$4,000, payable as stated above. For the School District, the liability as of June 30, 2006 is \$45,089.

13. CAPITAL LEASES - LESSEE DISCLOSURE

The School District has entered into a capital lease for fitness equipment for the two high schools. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the general purpose financial statements for governmental funds. During fiscal year 2006, the School District entered into several lease agreements 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 2006 totaled \$71,244. Future minimum lease payments are as follows:

Year	Amount
2007	\$ 44,110
2008	44,110
2009	44,110
2010	44,110
2011	9,021
Present Value of Net Minimum Lease Payments	\$185,461

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

13. CAPITAL LEASES - LESSEE DISCLOSURE (Continued)

In April 2004, the National School Fitness Foundation became the subject of an investigation by the Attorney General of the State of Minnesota and thus defaulted on their lease agreements. The Board of Education passed a resolution permitting the remaining principal payments to be made out of the Permanent Improvement fund and the interest payments to be made out of the General fund. The last payments on this lease were made during fiscal year 2006.

14. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	Amount Outstanding June 30, 2005	Additions	Deductions	Amount Outstanding June 30, 2006	Amounts Due Within One Year
Governmental Activities:					
General Obligation Bonds:					
1996 Building Issue 5.125 to 6%	\$4,365,000	\$0	\$3,945,000	\$420,000	\$200,000
2005 Refunding GO Bonds 3% to 5.75% 14 years	\$0	3,765,000	65,000	3,700,000	15,000
Premium on 2005 Refunding	\$0	339,813	24,272	315,541	24,272
Energy Conservation Bonds: 4.6% 10 years	\$2,010,000	0	250,000	1,760,000	260,000
Total Bond Debt	\$6,375,000	\$4,104,813	\$4,284,272	\$6,195,541	\$499,272
Capital Leases	\$36,154	220,551	71,244	185,461	44,110
Compensated Absences	\$1,520,274	98,323	574,543	1,044,054	45,089
Total Governmental Activities Long-Term Liabilities	\$7,931,428	\$4,423,687	\$4,930,059	\$7,425,056	\$588,471

1996 General Obligation Bonds - On March 1, 1996, Northeastern Local School District issued \$5,300,000 in voted general obligation bonds for the purpose of an addition and improvement to the District's buildings.

These bonds were partially refunded in 2005. The non-refunded portion matures December 1, 2007. The bonds will be retired from the debt service fund.

2005 Refunding General Obligation Bonds – On September 28, 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.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

14. LONG-TERM OBLIGATIONS (Continued)

The capital lease obligation will now be paid from the general fund and capital improvement fund, due to the default of the lease agreement by the National School Fitness Foundation.

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

The School District's overall legal debt margin was \$37,071,485, with an unvoted debt margin of \$446,730, and an energy conservation debt margin of (\$1,398,149) at June 30, 2006.

Principal and interest requirements to retire general obligation and energy conservation debt outstanding at June 30, 2006, are as follows:

1995 GO Bonds

Fiscal year Ending June 30,	Principal	Interest	Totals
2007	\$200,000	\$17,275	\$217,275
2008	220,000	5,638	225,638
Total	<u>\$420,000</u>	<u>\$22,913</u>	<u>\$442,913</u>

2005 Refunding GO Bonds

Fiscal year Ending June 30,	Principal	Interest	Totals
2007	\$ 15,000	\$ 182,889	\$ 197,889
2008	10,000	182,514	192,514
2009	235,000	175,901	410,901
2010	255,000	162,426	417,426
2011	275,000	147,851	422,851
2012-2016	1,725,000	472,862	2,197,862
2017-2019	1,185,000	64,775	1,249,775
Total	<u>\$3,700,000</u>	<u>\$1,389,218</u>	<u>\$5,089,218</u>

Energy Conservation Bonds

Fiscal year Ending June 30,	Principal	Interest	Totals
2007	\$ 260,000	\$ 74,980	\$ 334,980
2008	275,000	62,675	337,675
2009	285,000	49,795	334,795
2010	300,000	36,340	336,340
2011	315,000	22,195	337,195
2012	325,000	7,475	332,475
Total	<u>\$1,760,000</u>	<u>\$253,460</u>	<u>\$2,013,460</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

15. ISSUANCE OF GENERAL OBLIGATION REUNDING 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 16).

This advance refunding was undertaken to reduce total debt service payments by \$635,830 and resulted in an economic gain of \$510,205.

As follows are the sources and uses of funds related to the issuance of the new debt:

Sources:	
Bond Face Value	\$3,765,000
Premium	339,813
Total Sources	\$4,104,813
Uses:	
Deposit for Defeasance	\$4,023,579
Issuance Cost	74,843
Debt Service Reserve	6,391
Total Uses	\$4,104,813

16. 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:

Original Amount	Amount Defeased	Outstanding Amount at 6/30/06
\$5,300,000	\$3,765,000	\$3,765,000

17. INTERFUND ASSETS/LIABILITIES AND TRANSFERS

The general fund had an interfund receivable at June 30, 2006, of \$8,332, while all other nonmajor funds had interfund payables of \$8,332. General fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Restricted monies are used to reimburse the general fund for advancing monies to other funds due to timing differences in the receiving of grant monies. When the monies are finally received, the grant fund reimburses the general fund for the initial advance.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(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 and Highland Counties and Cities of Springfield, Wilmington, Washington Court House, Xenia and Hillsboro. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The School District paid MVECA \$120,771 for services provided during the year. Financial information can be obtained from Angie Crandall, Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

Springfield/Clark County Joint Vocational School - The Springfield/Clark County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected boards, which possess its own budgeting and taxing authority. One member is appointed from the following: Clark-Shawnee Local School District, 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 did not make any payments to the JVS for fiscal year 2006. To obtain financial information, write to the Springfield/Clark County Joint Vocational School, Pamela Mustovich, who serves as Treasurer, 1901 Selma Road, Springfield, Ohio 45505-4239.

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

Payments to SOEPC are made from the general fund. During fiscal year 2006, the School District paid \$1,776 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 1831 Harshman Road, Dayton, Ohio 45424.

B. Insurance Purchasing Pool

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

19. SET-ASIDE CALCULATIONS

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

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

	Textbooks	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2005	(\$1,425,142)	\$0
Current Year Set-aside Requirement	538,187	538,187
Qualifying Disbursements	(911,532)	(3,265,588)
Totals	(\$1,798,487)	(\$2,727,401)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$1,798,487)	\$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, 2006.

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.

21. CONTRACTUAL COMMITMENTS

The School District had the following contractual commitments as of June 30, 2006:

Contractor	Job Description	Amount
Freisthler Paving	Resurfacing at Rolling Hills and Northridge	\$62,030
Richard Smith & Sons	New Carpet at Rolling Hills	\$ 5,120
Richard Smith & Sons	New Tile at South Vienna	\$14,734
Roger Storer Plumbing	New Bathroom in MH unit at South Vienna	\$15,800

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education</i>						
Food Distribution Program	10.550	N/A		\$126,082		\$126,082
National School Lunch Program	10.555	LL-P4-05 LL-P4-06	\$44,171 125,870		\$44,171 125,870	
Total National School Lunch Program			<u>170,041</u>		<u>170,041</u>	
Total U.S. Department of Agriculture			<u>170,041</u>	<u>126,082</u>	<u>170,041</u>	<u>126,082</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education</i>						
Title I - Grants to Local Educational Agencies	84.010	C1-S1-05 C1-S1-06	15,179 147,813		25,072 137,037	
Total Title 1 - Grants to Local Educational Agencies			<u>162,992</u>		<u>162,109</u>	
Special Education Cluster:						
Special Education - Grants to State	84.027	6B-SD-05 6B-SD-06 6B-SF-05 6B-SF-06	14,086 63,571 719,727		1,592 13,086 86,265 703,822	
Total Special Ed - Grants to State			<u>797,384</u>		<u>804,765</u>	
Special Education - Preschool Grants	84.173	PG-D1-03 PG-S1-05 PG-S1-06	2,543 24,255		130 3,860 22,684	
Total Special Education - Preschool Grants			<u>26,798</u>		<u>26,674</u>	
Total Special Education Cluster			<u>824,182</u>		<u>831,439</u>	
Safe and Drug-Free Schools and Communities State Grants	84.186	DR-S1-05 DR-S1-06	832 11,812		721 11,084	
Total Safe and Drug-Free Schools and Communities State Grants			<u>12,644</u>		<u>11,805</u>	
Innovative Education Program Strategies	84.298	C2-S1-05 C2-S1-06	2,950 12,543		3,006 11,747	
Total Innovative Education Program Strategies			<u>15,493</u>		<u>14,753</u>	
Education Technology State Grants	84.318	TJ-S1-05 TJ-S1-06	3,684		50 3,650	
Total Education Technology State Grants			<u>3,684</u>		<u>3,700</u>	
Improving Teacher Quality State Grants	84.367	TR-S1-05 TR-S1-06	6,662 72,255		(168) 74,978	
Total Improving Teacher Quality State Grants			<u>78,917</u>		<u>74,810</u>	
Total U.S. Department of Education			<u>1,097,912</u>		<u>1,098,616</u>	
Total Federal Assistance			<u><u>\$1,267,953</u></u>	<u><u>\$126,082</u></u>	<u><u>\$1,268,657</u></u>	<u><u>\$126,082</u></u>

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – U.S. DEPARTMENT OF AGRICULTURE

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

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Mary Taylor, CPA

Auditor of State

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

Northeastern Local School District
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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated January 19, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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*.

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

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

Mary Taylor, CPA
Auditor of State

January 19, 2007



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Northeastern Local School District, Clark County, (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of 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 those 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 those requirements.

In our opinion, Northeastern Local School District, Clark County, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

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

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**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Mary Taylor, CPA
Auditor of State

January 19, 2007

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

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 weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions 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 weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions 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?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster – CFDA #'s 84.027, 84.173
<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?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
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 27, 2007**