



Dave Yost • Auditor of State



**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Northeastern Local School District  
Defiance County  
05751 Domersville Road  
Defiance, Ohio 43512-6703

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Northeastern Local School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Northeastern Local School District, Defiance County, Ohio, as of June 30, 2013, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

**Other Matters**

*Supplemental and Other Information*

We audited to opine on the District's financial statements that collectively comprise its basic financial statements.

*Management's Discussion and Analysis* includes tables of net position, changes in net position, and governmental activities. This information provides additional analysis and is not a required part of the basic financial statements.

The Schedule of Federal Awards Receipts and Expenditures (the Schedule) also presents additional analysis as required by the 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 financial statements.

These tables and the Schedule are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables and the Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables and the Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables and the Schedule are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion and Analysis, and we express no opinion on any other assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

Columbus, Ohio

January 15, 2014

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**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2013  
UNAUDITED**

The discussion and analysis of the financial performance of Northeastern Local School District (the District) provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2013 are as follows:

In total, net position decreased \$271,857.

General receipts accounted for \$9,028,010 or 80 percent of all receipts. Program specific receipts in the form of charges for services and operating grants and contributions accounted for \$2,225,404 or 20 percent of total receipts of \$11,253,414.

The District's major fund is the General Fund. The General Fund had \$9,583,479 in receipts and other financing sources and \$9,880,234 in disbursements and other financing uses. The General Fund's balance decreased \$296,755 from the prior fiscal year.

**Using the Basic Financial Statements**

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

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

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

For the District, the General Fund is by far the most significant fund and the only major fund.

**Reporting the District as a Whole**

**Statement of Net Position and Statement of Activities**

The statement of net position and the statement of activities, both reported on the cash basis, reflect how the District performed financially during fiscal year 2013. These statements are reported on a cash basis of accounting, which reflects receipts and disbursements when cash is received or disbursed.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2013  
UNAUDITED  
(Continued)**

In the statement of net position and the statement of activities, the District discloses a single type of activity, its governmental activities, which includes all of the District's programs and services, are reported here including instruction, support services, non-instructional services, and extracurricular activities. These services are primarily funded by property tax receipts and from intergovernmental receipts, including federal and state grants and other shared receipts.

**Reporting the District's Most Significant Funds**

Fund Financial Statements

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

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

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

**The District as a Whole**

Table 1 provides a summary of the District's net position for fiscal year 2013 compared to fiscal year 2012 on a cash basis.

**Table 1  
Net Position  
Governmental Activities**

	2013	2012
<b><u>Assets:</u></b>		
Current and Other Assets	<u>\$3,917,033</u>	<u>\$4,188,890</u>
<b><u>Net Position:</u></b>		
Restricted for Debt Service	\$303,831	\$285,179
Restricted for Capital Outlay	165,836	166,526
Restricted for Other Purposes	87,161	80,225
Unrestricted	<u>3,360,205</u>	<u>3,656,960</u>
Total	<u>\$3,917,033</u>	<u>\$4,188,890</u>

The decrease in net position was attributed to several different factors. Total receipts for FY 2013 were \$265,794 higher than total receipts for FY 2012. This increase was primarily due to public utility taxes collected on property that came off of abatement. While these additional receipts would have been sufficient to cover the prior year deficit, it was not enough to cover the increase in disbursements from FY 2012 to FY 2013. Total disbursements in FY 2013 were \$288,181 higher than in FY 2012. Instructional disbursements increased substantially due to the reinstatement of one full time elementary teaching

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2013  
UNAUDITED  
(Continued)**

position, an increase in the number of special education students requiring more services, and normal increases in salaries and benefits for returning staff members. Upgrades to technology equipment and the installation of infrastructure for a wireless environment also contributed to the increase in disbursements.

Table 2 reflects the changes in net position for fiscal year 2013 compared to fiscal year 2012.

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

	<b>2013</b>	<b>2012</b>
<b><u>Receipts:</u></b>		
Program Receipts:		
Charges for Services and Sales	\$1,484,797	\$1,334,070
Operating Grants and Contributions	740,607	845,682
Total Program Receipts	\$2,225,404	\$2,179,752
General Receipts:		
Property Taxes	5,845,908	5,585,976
Grants and Entitlements	3,068,899	3,109,862
Interest	18,736	9,735
Payments in Lieu of Taxes	2,126	31,895
Gifts and Donations	30,788	16,317
Miscellaneous	12,321	13,915
Insurance Recoveries	6,936	6,083
Refund of Prior Year Expenditures	42,296	34,085
Total General Receipts	\$9,028,010	\$8,807,868
Total Receipts	\$11,253,414	\$10,987,620
<b><u>Disbursements:</u></b>		
Instruction	\$6,293,020	\$6,108,093
Support Services:		
Pupils	540,281	504,350
Instructional Staff	396,738	497,736
Board of Education	44,423	44,110
Administration	846,801	868,030
Fiscal	375,503	367,380
Operation and Maintenance of Plant	826,948	781,924
Pupil Transportation	644,135	632,323
Central	48,826	72,431
Non-Instructional	515,536	509,391
Extracurricular Activities	387,643	322,045
Capital Outlay	76,608	23,371
Principal	350,000	325,000
Interest and Fiscal Charges	173,194	175,381
Refund of Prior Year Receipts	90	
Total Disbursements	\$11,519,746	\$11,231,565
Transfers	(25)	(57)
Advances	(5,500)	
Decrease in Net Position	\$(271,857)	\$(244,002)

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2013  
UNAUDITED  
(Continued)**

Governmental Activities

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

**Table 3  
Governmental Activities**

	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
	<b>2013</b>	<b>2013</b>	<b>2012</b>	<b>2012</b>
Instruction	\$6,293,020	\$4,771,447	\$6,108,093	\$4,665,403
Support Services:				
Pupils	540,281	537,044	504,350	496,991
Instructional Staff	396,738	373,287	497,736	465,414
Board of Education	44,423	44,423	44,110	44,110
Administration	846,801	801,989	868,030	824,664
Fiscal	375,503	375,503	367,380	367,380
Operation and Maintenance of Plant	826,948	826,948	781,924	769,257
Pupil Transportation	644,135	620,661	632,323	611,632
Central	48,826	41,626	72,431	64,181
Non-Instructional	515,536	58,327	509,391	3,279
Extracurricular Activities	387,643	243,195	322,045	215,750
Capital Outlay	76,608	76,608	23,371	23,371
Principal	350,000	350,000	325,000	325,000
Interest and Fiscal Charges	173,194	173,194	175,381	175,381
Refund of Prior Year Receipts	90	90		
<b>Total Expenses</b>	<b><u>\$11,519,746</u></b>	<b><u>\$9,294,342</u></b>	<b><u>\$11,231,565</u></b>	<b><u>\$9,051,813</u></b>

The dependence upon tax receipts and unrestricted state entitlements for governmental activities is apparent. Over 75 percent of instruction activities are supported through taxes and other general receipts. For all governmental activities, support from general receipts is 81 percent. The remaining 19 percent is derived from tuition and fees, specific grants, and donations.

**The District's Funds**

The District's governmental funds are accounted for using the cash basis of accounting. The District's major governmental fund is the General Fund. Total governmental funds had receipts and other financing sources of \$11,324,040 and disbursements and other financing uses of \$11,595,897. The District's net negative change of \$271,857 was primarily due to a substantial increase in instructional disbursements due to reinstating one full time teaching position, an increase in the number of students requiring special education services, and increases in the cost of salaries and benefits for returning staff members. Upgrades to technology equipment and infrastructure for a wireless environment also contributed to the negative change.

**General Fund Budgeting Highlights**

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2013, the District amended its General Fund budget as needed.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2013  
UNAUDITED  
(Continued)**

Final estimated resources were more than original estimated resources by \$504,950 due to increases in public utility taxes and tuition and fees. Final receipts and other financing sources were budgeted at \$9,456,225 while actual receipts and other financing sources were \$9,524,081. The difference of \$67,856 is primarily due to an increase in intergovernmental receipts.

Original disbursements and other financing uses were budgeted at \$10,772,610. Final disbursements and other financing uses were budgeted at \$10,958,260 while actual disbursements and other financing uses were \$10,034,146. The difference of \$924,114 is primarily due to a conservative "worst case scenario" approach. The District over-appropriated for regular and special instruction, instructional staff support, administration, operation and maintenance disbursements, and capital outlay.

**Debt Administration**

**Debt**

At June 30, 2013, the District had completely paid off the school improvement general obligation bonds for building improvements. The bonds were issued in 2000, with final maturity on December 2012. The bonds were retired through the Bond Retirement Fund.

At June 30, 2013, the District had \$5,787,334 in school improvement general obligation bonds for refunding prior building improvement bonds. The bonds were issued for a twenty-one year period, with final maturity on December 1, 2026. The bonds are being retired through the Bond Retirement Fund.

At June 30, 2013, the District's overall legal debt margin was \$14,633,253, with an un-voted debt margin of \$221,566.

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

**Current Issues**

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

The District is currently operating in the first year of the state biennium budget. Preliminary projections created by the Ohio Legislative Service Commission in June indicate that the District may receive additional state funding in FY 2014 and FY 2015 in the amounts of \$154,917 and \$234,718 respectively. In FY 2013 sixty-six percent of District revenue sources were from local funds, twenty-eight percent from state funds and the remaining six percent was from federal funds. The total expenditure per pupil was calculated at \$8,977.

The District has enjoyed steady growth in its tax base. New businesses continue to locate in the District allowing it to provide the educational opportunities to which the residents are accustomed. However, like all school districts in Ohio, the Northeastern Local School District is faced with financial challenges such as changes to state funding, the long-term effects of public utility deregulation, and the elimination of personal property taxes on business inventory. In November 2013, voters in the District approved a five-year 2.95 mill levy for current operating expenses. This tax would first be levied in tax year 2013 for first collection in calendar year 2014 and will generate an additional \$653,610 in revenue.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2013  
UNAUDITED  
(Continued)**

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Susan Garmyn, Treasurer, Northeastern Local School District, 05751 Domersville Road, Defiance, Ohio 43512-6703.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**Statement of Net Position - Cash Basis  
June 30, 2013**

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$2,644,945
Investments	<u>1,272,088</u>
Total Assets	<u><u>3,917,033</u></u>
<b>Net Position:</b>	
Restricted for Debt Service	\$303,831
Restricted for Capital Outlay	165,836
Restricted for Other Purposes	87,161
Unrestricted	<u>3,360,205</u>
<i>Total Net Position</i>	<u><u>\$3,917,033</u></u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**Statement of Activities - Cash Basis  
For the Fiscal Year Ended June 30, 2013**

	<u>Cash Disbursements</u>	<u>Program Cash Receipts</u>		<u>Net (Disbursements) Receipts and Changes in Net Position</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:				
Instruction:				
Regular	\$4,502,943	\$1,007,149	\$87,342	(\$3,408,452)
Special	902,844	9,878	394,070	(498,896)
Vocational	128,277		16,917	(111,360)
Student Intervention Services	43,092		6,217	(36,875)
Other	715,864			(715,864)
Support Services:				
Pupils	540,281		3,237	(537,044)
Instructional Staff	396,738		23,451	(373,287)
Board of Education	44,423			(44,423)
Administration	846,801	37,736	7,076	(801,989)
Fiscal	375,503			(375,503)
Operation and Maintenance of Plant	826,948			(826,948)
Pupil Transportation	644,135	11,723	11,751	(620,661)
Central	48,826		7,200	(41,626)
Operation of Non-Instructional Services	515,536	273,863	183,346	(58,327)
Extracurricular Activities	387,643	144,448		(243,195)
Capital Outlay	76,608			(76,608)
Principal	350,000			(350,000)
Interest and Fiscal Charges	173,194			(173,194)
Refund of Prior Year Receipts	90			(90)
<b>Totals</b>	<b>\$11,519,746</b>	<b>\$1,484,797</b>	<b>\$740,607</b>	<b>(9,294,342)</b>
General Receipts:				
Taxes:				
Property Taxes, Levied for General Purposes				5,276,010
Property Taxes, Levies for Capital Outlay				68,996
Property Taxes, Levied for Debt Service				500,902
Payments in Lieu of Taxes				2,126
Grants and Entitlements not Restricted to Specific Programs				3,068,899
Gifts and Donations				30,788
Investment Earnings				18,736
Miscellaneous				12,321
Insurance Recoveries				6,936
Refund of Prior Year Expenditures				42,296
<b>Total General Receipts</b>				<b>9,028,010</b>
Advances				(5,500)
Transfers				(25)
<b>Total General Receipts, Advances, and Transfers</b>				<b>9,022,485</b>
Change in Net Position				(271,857)
Net Position Beginning of Year				4,188,890
Net Position End of Year				<b>\$3,917,033</b>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**Statement of Assets and Fund Balances - Cash Basis  
Governmental Funds  
June 30, 2013**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$2,088,117	\$556,828	\$2,644,945
Investments	1,272,088		1,272,088
Total Assets	<u>\$3,360,205</u>	<u>\$556,828</u>	<u>\$3,917,033</u>
<b>Fund Balances</b>			
Restricted	\$20,152	\$556,828	\$576,980
Assigned	1,592,737		1,592,737
Unassigned	1,747,316		1,747,316
Total Fund Balances	<u>\$3,360,205</u>	<u>\$556,828</u>	<u>\$3,917,033</u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**Statement of Receipts, Disbursements, and Changes in Fund Balances - Cash Basis  
Governmental Funds  
For the Fiscal Year Ended June 30, 2013**

	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$5,276,010	\$569,898	\$5,845,908
Intergovernmental	3,136,490	663,016	3,799,506
Interest	18,736		18,736
Tuition and Fees	1,015,692		1,015,692
Extracurricular Activities	37,736	144,448	182,184
Gifts and Donations	21,288	9,500	30,788
Customer Sales and Services		273,863	273,863
Payments in Lieu of Taxes	2,126		2,126
Miscellaneous	24,467	10,912	35,379
<i>Total Cash Receipts</i>	<u>9,532,545</u>	<u>1,671,637</u>	<u>11,204,182</u>
<b>Cash Disbursements:</b>			
Current:			
Instruction:			
Regular	4,415,607	87,336	4,502,943
Special	623,775	279,069	902,844
Vocational	128,277		128,277
Student Intervention Services	36,875	6,217	43,092
Other	715,864		715,864
Support Services:			
Pupils	537,044	3,237	540,281
Instructional Staff	373,287	23,451	396,738
Board of Education	44,423		44,423
Administration	839,725	7,076	846,801
Fiscal	359,883	15,620	375,503
Operation and Maintenance of Plant	816,858	10,090	826,948
Pupil Transportation	644,135		644,135
Central	41,626	7,200	48,826
Operation of Non-Instructional Services	8,838	506,698	515,536
Extracurricular Activities	210,273	177,370	387,643
Capital Outlay	7,503	69,105	76,608
Debt Service:			
Principal		350,000	350,000
Interest		173,194	173,194
<i>Total Cash Disbursements</i>	<u>9,803,993</u>	<u>1,715,663</u>	<u>11,519,656</u>
<i>Excess of Cash Receipts (Under) Cash Disbursements</i>	<u>(271,448)</u>	<u>(44,026)</u>	<u>(315,474)</u>
<b>Other Financing Sources and (Uses):</b>			
Transfers In		60,626	60,626
Advances In		10,000	10,000
Insurance Recoveries	3,638	3,298	6,936
Repayment of Prior Year Advance	5,000	(5,000)	
Refund of Prior Year Expenditures	42,296		42,296
Transfers Out	(60,651)		(60,651)
Advances Out	(15,500)		(15,500)
Refund of Prior Year Receipts	(90)		(90)
<i>Total Other Financing Sources and (Uses)</i>	<u>(25,307)</u>	<u>68,924</u>	<u>43,617</u>
<i>Net Change in Fund Balances</i>	<u>(296,755)</u>	<u>24,898</u>	<u>(271,857)</u>
<i>Fund Balance at Beginning of Year</i>	<u>3,656,960</u>	<u>531,930</u>	<u>4,188,890</u>
<i>Fund Balance at End of Year</i>	<u>\$3,360,205</u>	<u>\$556,828</u>	<u>\$3,917,033</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**Statement of Receipts, Disbursements and Changes  
In Fund Balance - Budget and Actual - Budgetary Basis  
General Fund  
For the Fiscal Year Ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Receipts:</b>				
Property and Other Local Taxes	\$5,085,500	\$5,255,500	\$5,276,010	\$20,510
Intergovernmental	3,041,800	3,066,500	3,136,489	69,989
Interest	10,000	19,000	18,736	(264)
Tuition and Fees	726,600	987,275	994,175	6,900
Rent	300	300		(300)
Gifts and Donations	0	21,775	21,288	(487)
Payments in Lieu of Taxes	33,675	33,675	2,126	(31,549)
Miscellaneous	2,800	21,600	24,323	2,723
<i>Total Receipts</i>	<u>8,900,675</u>	<u>9,405,625</u>	<u>9,473,147</u>	<u>67,522</u>
<b>Disbursements:</b>				
Current:				
Instruction:				
Regular	4,384,163	4,496,763	4,412,626	84,137
Special	566,504	730,507	663,276	67,231
Vocational	122,876	138,626	128,648	9,978
Other	778,890	781,390	763,840	17,550
Support Services:				
Pupils	498,878	562,200	538,047	24,153
Instructional Staff	467,669	429,969	375,355	54,614
Board of Education	80,690	80,690	45,658	35,032
Administration	1,133,439	948,439	820,466	127,973
Fiscal	381,406	396,406	361,046	35,360
Operation and Maintenance of Plant	1,093,667	1,096,267	918,715	177,552
Pupil Transportation	688,965	688,965	648,684	40,281
Central	69,400	47,500	41,626	5,874
Operation of Non-Instructional Services	19,730	19,730	9,839	9,891
Extracurricular Activities	240,833	265,308	211,373	53,935
Capital Outlay	58,000	58,000	18,699	39,301
<i>Total Disbursements</i>	<u>10,585,110</u>	<u>10,740,760</u>	<u>9,957,898</u>	<u>782,862</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(1,684,435)</u>	<u>(1,335,135)</u>	<u>(484,751)</u>	<u>850,384</u>
<b>Other Financing Sources and (Uses):</b>				
Advances In		5,000	5,000	
Insurance Recoveries		3,600	3,638	38
Refund of Prior Year Expenditures	30,000	42,000	42,296	296
Transfers Out	(32,500)	(62,500)	(60,658)	1,842
Advances Out	(50,000)	(50,000)	(15,500)	34,500
Refund of Prior Year Receipts	(5,000)	(5,000)	(90)	4,910
Other Financing Uses	(100,000)	(100,000)		100,000
<i>Total Other Financing Sources and (Uses)</i>	<u>(157,500)</u>	<u>(166,900)</u>	<u>(25,314)</u>	<u>141,586</u>
<i>Net Change in Fund Balance</i>	<u>(1,841,935)</u>	<u>(1,502,035)</u>	<u>(510,065)</u>	<u>991,970</u>
<i>Fund Balance at Beginning of Year</i>	3,402,068	3,402,068	3,402,068	
Prior Year Encumbrances Appropriated	225,710	225,710	225,710	
<i>Fund Balance at End of Year</i>	<u>\$1,785,843</u>	<u>\$2,125,743</u>	<u>\$3,117,713</u>	<u>\$991,970</u>

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**Statement of Fiduciary Net Position - Cash Basis  
Fiduciary Funds  
June 30, 2013**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
<b>Assets</b>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	<u>\$11,038</u>	<u>\$20,873</u>
<b>Liabilities</b>		
Current Liabilities:		
Undistributed Monies		<u>\$20,873</u>
<b>Net Position</b>		
Held in Trust for Scholarships	<u>\$11,038</u>	

See Accompanying Notes to the Basic Financial Statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**Statement of Changes in Fiduciary Net Position - Cash Basis  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2013**

	<u>Private Purpose Trust</u>
<b>Additions:</b>	
Transfers In	<u>\$6</u>
<i>Change in Net Position</i>	6
<i>Net Position Beginning of Year</i>	<u>11,032</u>
<i>Net Position End of Year</i>	<u><u>\$11,038</u></u>

See Accompanying Notes to the Basic Financial Statements

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**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**1. DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY**

Northeastern Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Northeastern Local School District is a local school district as defined by §3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's three instructional/support facilities staffed by 54 non-certified and 77 certified part-time and full-time teaching personnel who provide services to 1,117 students and other community members.

**The Reporting Entity**

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

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

The District is associated with organizations, which are defined as jointly governed organizations and group purchasing pools. These organizations include the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Northern Buckeye Health Plan - the Northwest Division of Optimal Health Initiatives, the Northern Buckeye Health Plan Workers' Compensation Group Rating Plan, and the Schools of Ohio Risk Sharing Authority. These organizations are presented in Notes 13 and 14 to the basic financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the District's accounting policies.

**A. Basis of Presentation**

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1. Government-Wide Financial Statements**

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

The statement of net position presents the cash balance of the governmental activities of the District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the District's general receipts.

**2. Fund Financial Statements**

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

**B. Fund Accounting**

The 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. The funds of the District are divided into two categories, governmental and fiduciary.

**1. Governmental Funds**

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The District's only major fund is the General Fund.

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Fiduciary Funds**

Fiduciary fund reporting focuses on net position and changes in net position. 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 District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. The District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature. The District's agency fund accounts for various student-managed activities.

**C. Basis of Accounting**

Although the Ohio Administrative Code § 117-2-03(B) requires that the District's financial report follow generally accepted accounting principles, the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. This is a comprehensive basis of accounting other than generally accepted accounting principles.

The District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

**D. Budgetary Process**

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. Expenditures plus encumbrances may not legally exceed appropriations. Encumbrances at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

**E. Cash and Investments**

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

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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

During fiscal year 2013, investments were limited to STAR Ohio, certificates of deposit, a money market mutual fund, and federal agency securities. Investments are reported at cost, except for the money market mutual fund and STAR Ohio. The District's money market mutual fund investment is recorded at the amount reported by Morgan Stanley Smith Barney at June 30, 2013.

The District had invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2013. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2013.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2013 amounted to \$18,736, which includes \$2,793 assigned from other District funds.

**F. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by law through constitutional provisions or enabling legislation. The District has no restricted assets.

**G. Inventory and Prepaid Items**

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**H. Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

**I. Interfund Receivables/Payables**

The District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

**J. Accumulated Leave**

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's cash basis of accounting.

**K. Fund Balance**

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Nonspendable - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

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

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

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

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

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

**L. Employer Contributions to Cost-Sharing Pension Plans**

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**M. Long-term Obligations**

The District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor capital outlay expenditure are reported at inception. Lease payments are reported when paid.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**N. Net Position**

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position are available. There are no amounts restricted by enabling legislation.

**O. Interfund Transactions**

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 cash disbursements to the funds that initially paid for them are not presented in the financial statements.

**3. BUDGETARY BASIS OF ACCOUNTING**

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 Receipts, Disbursements, and Changes in Fund Balance - Budget and Actual - Budgetary for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis) and certain funds included in the General Fund as part of the GASB 54 requirements are not included in the budgetary statement.

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement for the General Fund.

**Net Change in Fund Balance**

Budget Basis	\$(510,065)
<u>Increase (Decrease) Due To:</u>	
Encumbrances Outstanding at Year End (Budget Basis)	220,139
Activity of Funds Reclassified for Reporting Purposes	(6,829)
Cash Basis	\$(296,755)

**4. DEPOSITS AND INVESTMENTS**

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

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

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

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

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

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,395,773 of the District's bank balance of \$2,745,550 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

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

Investments

As of June 30, 2013, the District had the following investments:

<u>Investment Type</u>	<u>Cost Value</u>	<u>Investment Maturities</u>		
		<u>Less than One year</u>	<u>One to Two Years</u>	<u>Three to Five Years</u>
Money Market Mutual Fund Account	\$14,653	\$14,653		
Federal Home Loan Mortgage Notes	501,551	250,000	\$251,551	
Federal National Mortgage Assn. Notes	770,537			\$770,537
STAR Ohio	<u>171,403</u>	<u>171,403</u>		
Total Investments	<u>\$1,458,144</u>	<u>\$436,056</u>	<u>\$251,551</u>	<u>\$770,537</u>

Interest Rate Risk - Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**4. DEPOSITS AND INVESTMENTS (Continued)**

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

Concentration of Credit Risk - The District places no limit on the amount it may invest in any one issuer, however state statute limits investments in commercial paper and bankers' acceptances to 25 percent of the interim monies available for investment at any one time. The District's investment in the Federal Home Loan Mortgage Notes and the Federal National Mortgage Association Notes represent 34 percent and 53 percent, respectively, of the District's total investments.

**5. PROPERTY TAXES**

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

Property taxes include amounts levied against all real and public utility property located in the District. Real and public utility property tax revenues received in calendar year 2013 represent the collection of calendar year 2012 taxes. Real property taxes for 2013 were levied after April 1, 2012, on the assessed values as of January 1, 2012, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2013 were levied after April 1, 2012, on the assessed values as of December 31, 2011, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The District receives property taxes from Defiance County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30, 2013, are available to finance fiscal year 2013 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**5. PROPERTY TAXES (Continued)**

The assessed values upon which the fiscal year 2013 taxes were collected are:

	<b>2012 Second- Half Collections</b>		<b>2013 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Residential/Agricultural	\$131,098,380	64%	\$131,639,360	60%
Commercial/Industrial	44,957,940	22%	47,407,540	21%
Public Utility	28,777,310	14%	42,518,790	19%
Total Assessed Value	<u>\$204,833,630</u>	<u>100%</u>	<u>\$221,565,690</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$44.35		\$44.35	

**6. RISK MANAGEMENT**

**A. Comprehensive**

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

Property Insurance	\$43,334,825
Equipment Breakdown	50,000,000
Automobile Liability	12,000,000
Wrongful Acts	12,000,000
Crime Coverage	100,000
General Liability:	
Per Occurrence	12,000,000
Total Per Year	14,000,000

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

**B. Employee Insurance Benefits Program**

The District participates in the Northern Buckeye Health Plan – Northwest Division of Optimal Health Initiative (OHI) Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities (see Note 14). The District pays monthly premiums to OHI for the benefits offered to its employees, which includes health, dental, vision, and life insurance plans. Northern Buckeye Health Plan is responsible for the management and operations of the program. The agreement for the program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

**C. Workers' Compensation Group Program**

The District participates in the Northern Buckeye Health Plan – Northern Division of OHI (NBHP) Workers' Compensation Group Rating Plan (WCGRP), an insurance purchasing pool (see Note 14). The NBHP WCGRP is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the WCGRP. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. The WCGRP is governed by the Northern Buckeye Health Plan and the participating members of the WCGRP. The executive Director of the NBHP coordinates the management and administration of the program.

**7. DEFINED PENSION BENEFIT PLANS**

**A. School Employees Retirement System**

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the 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 District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2013, 13.10 percent of annual covered salary was the portion used to fund pension obligations and death benefits. The remaining .90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers.

Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$217,278, \$153,847, and \$151,187 respectively; 56 percent has been contributed for fiscal year 2013 and 100 percent has been contributed for fiscal years 2012 and 2011.

**B. State Teachers Retirement System**

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**7. DEFINED PENSION BENEFIT 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2012 (latest information available), 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 District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012, and 2011, were \$585,869, \$551,982, and \$563,797, respectively; 84 percent has been contributed for fiscal year 2013 and 100 percent has been contributed for fiscal years 2012 and 2011.

**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 Retirement System. As of June 30, 2013, three members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**8. POSTEMPLOYMENT BENEFITS**

**A. School Employee Retirement System**

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2013, 0.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2013 this amount was \$20,525. The District's SERS surcharge amount for 2012 was \$19,003.

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

The District's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$2,654, \$37,518, and \$37,468, respectively; 56 percent has been contributed for fiscal year 2013 and 100 percent has been contributed for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2013, this actuarially required allocation was 0.74 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal year ended June 30, 2013 was \$12,274.

**B. State Teachers Retirement System**

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**8. POSTEMPLOYMENT BENEFITS (Continued)**

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011, were \$45,067, \$42,460, and \$43,369, respectively; 84 percent has been contributed for fiscal year 2013 and 100 percent has been contributed for fiscal years 2012 and 2011.

**9. COMPENSATED ABSENCES**

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

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 59.75 days for certified employees and 59.75 days for non-certified employees.

**10. LONG-TERM OBLIGATIONS**

Changes in long-term obligations of the District during fiscal year 2013 were as follows:

	<u>Balance at 06/30/12</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 06/30/13</u>	<u>Amount Due In one Year</u>
Series 2000:					
Current interest bonds					
Capital appreciation bonds	\$208,961	\$16,039	\$225,000		
Total Series 2000	<u>\$208,961</u>	<u>\$16,039</u>	<u>\$225,000</u>		
Series 2005:					
Current interest bonds	4,105,000			\$4,105,000	
Capital appreciation bonds	1,197,498	129,648	125,000	1,202,146	\$333,403
Unamortized Bond Costs	514,826		34,638	480,188	34,638
Total Series 2005	<u>\$5,817,324</u>	<u>129,648</u>	<u>\$159,638</u>	<u>\$5,787,334</u>	<u>\$368,041</u>
Total Long-Term Obligations	<u>\$6,026,285</u>	<u>\$145,687</u>	<u>\$384,638</u>	<u>\$5,787,334</u>	<u>\$368,041</u>

Total expenditures for interest for the above debt for the period ended June 30, 2013 was \$173,194.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**10. LONG-TERM OBLIGATIONS (Continued)**

The scheduled payments of principal and interest on debt outstanding at June 30, 2013, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 368,041	\$ 204,791	\$ 572,832
2015	348,521	234,311	582,832
2016	323,238	259,594	582,832
2017	300,898	281,934	582,832
2018	409,638	165,224	574,862
2019-2023	2,298,190	574,071	2,872,261
2024-2027	1,738,808	115,272	1,854,080
Total	<u>\$5,787,334</u>	<u>\$1,835,197</u>	<u>\$7,622,531</u>

**General Obligation Bonds – Series 2000**

The general obligation bonds were issued in March 2000 for the purpose of constructing, furnishing, and equipping a new elementary building, and for the purpose of improving the junior/senior high school building. These bonds were refinanced on May 11, 2005. The final maturity date for these bonds was December 1, 2012. The bonds were retired through the Bond Retirement Debt Service Fund.

**General Obligation Bonds – Series 2005**

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

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

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2017	375,000	4.25%
2018	390,000	4.25%
2019	405,000	4.00%
2020	425,000	4.10%
2021	445,000	4.15%
2022	460,000	4.20%
2023	480,000	4.25%
2024	500,000	4.30%
2025	525,000	4.37%
2026	100,000	4.40%

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**10. LONG-TERM OBLIGATIONS (Continued)**

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

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

The value of the capital appreciation bonds at June 30, 2013 was \$1,202,146. The annual accretion of interest is based on the straight-line method. Total accreted interest of \$945,101 has been included in the value. The bonds are being retired through the Bond Retirement Debt Service Fund.

**11. SET-ASIDE CALCULATION**

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

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

	<b>Capital Acquisition</b>
Set Aside Reserve Balance June 30, 2012	
Current Year Set-aside Requirement	\$194,917
Current Year Qualifying Expenditures	( 163,921)
Current Year Offsets	( 80,385)
Total	(\$ 49,389)

The District had qualifying disbursements and current year offsets during the year that reduced the set-aside amount to below zero. The negative amount may not be used to reduce future capital set-aside requirements.

**12. FUND BALANCE**

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**12. FUND BALANCE (Continued)**

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

Fund Balance	General	Other Governmental	Total Governmental Funds
Restricted for:			
Educational Activities		\$ 11	\$ 11
Extra-Curricular Activities		37,773	37,773
Food Service Operations		49,377	49,377
Facilities Maintenance	\$20,152	12,409	32,561
Debt Retirement		303,831	303,831
Permanent Improvements		153,427	153,427
Total Restricted	<u>\$20,152</u>	<u>\$556,828</u>	<u>\$576,980</u>
Assigned for:			
Unpaid Obligations (Encumbrances)	222,665		222,665
Budget Stabilization	1,370,072		1,370,072
Total Assigned	<u>\$1,592,737</u>		<u>\$1,592,737</u>
Unassigned:	<u>\$1,747,316</u>		<u>\$1,747,316</u>
Total Fund Balance	<u>\$3,360,205</u>	<u>\$556,828</u>	<u>\$3,917,033</u>

**13. JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Computer Association**

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the District to NWOCA during this fiscal year were \$139,698. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 209 Nolan Parkway, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located.

The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC during this fiscal year were \$250. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, at 209 Nolan Parkway, Archbold, Ohio 43502.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**13. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**C. Four County Career Center**

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center—one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. Total disbursements made by the District to the Four County Career Center during this fiscal year were \$45,158. To obtain financial information write to the Four County Career Center, Jennifer Bonner, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**D. Northwestern Ohio Educational Research Council, Inc.**

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials and provide opportunities for training. The NOERC serves twenty-five county area of Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Total disbursements made by the District to NOERC during this fiscal year were \$400. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

**E. Northern Buckeye Health Plan**

The Northern Buckeye Health Plan (NBHP) was established January 1, 2012 to foster cooperation among school districts located in Defiance, Fulton, Henry, and Williams Counties. NBHP is a member of Ohio Health Initiatives (OHI) and provides insurance services to its members. NBHP is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. To obtain financial information write to the northern Buckeye Health Plan/OHI, Jenny Jostworth, Treasurer, at 10999 Reed Hartman Hwy., Suite 304E, Cincinnati, OH 45242.

**14. GROUP PURCHASING POOLS**

**A. Employee Insurance Benefits Program**

Northern Buckeye Health Plan (NBHP) is a joint self-insurance arrangement created pursuant to the authority vested in Ohio Revised Code §9.833 established January 1, 2012 to assume and fulfill all responsibility and functions of the Northern Buckeye Education Council's (NBEC) health insurance activities. NBHP has merged with and into the Optimal Health Initiative Consortium (OHI) as a controlling regional member.

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**14. GROUP PURCHASING POOLS (Continued)**

NBHP is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBHP for employee insurance benefits during this fiscal year were \$991,697. Financial information can be obtained from Northern Buckeye Health Plan/OHI, Jenny Jostworth, Treasurer, at 10999 Reed Hartman Hwy., Suite 304E, Cincinnati, OH 45242.

**B. Workers' Compensation Group Rating Plan**

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Health Plan, Northern Division of OHI Workers' Compensation Group Rating Plan (WCGRP) was established on January 1, 2012 as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Health Plan and the participating members of the WCGRP. The Executive Director of the NBHP coordinates the management and administration of the program. During this fiscal year, the District paid an enrollment fee of \$1,069 to the WCGRP to cover the costs of administering the program.

**C. Schools of Ohio Risk Sharing Authority**

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code – Non-Profit Corporations and functioning under authority granted by Section 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool to assist member school districts in preventing and reducing losses and injuries to property and persons which might result in claims being made against members of SORSA, their employees or officers. The District paid \$59,239 for those services to SORSA during fiscal year 2013.

A nine-person Board of Directors manages the business and affairs of SORSA and is elected annually by the members of the pool. The Board of Directors consists of superintendents, treasurers, or business managers from the participating school districts. SORSA employs an Executive Director and a Member Services Coordinator to administer the pool while claims are processed by Avizent. Financial information can be obtained from SORSA at 8050 North High Street, Suite 160, Columbus, Ohio 43235 or by calling 866-767-7299.

**15. INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2013, consisted of the following, as reported on the fund statements:

<b>Transfers from the General Fund to:</b>	<b>Amount</b>
Other Governmental Funds:	
Food Service Fund	\$ 60,026
Athletic Fund	584
District Managed Student Activity Funds	16
Total	\$60,626
Private Purpose Funds:	
Scholarship fund	6
Agency Funds:	
Student Activities	19
Total Transfers	\$60,651

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**15. INTERFUND TRANSFERS (Continued)**

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**16. INTERFUND RECEIVABLES / PAYABLES**

Interfund balances at June 30, 2013, consisted of the following individual fund receivables and payables:

<b>Due to the General Fund From:</b>	<b>Amount</b>
Other Governmental Funds:	
Athletic Fund	\$10,000
Agency Funds:	
F.F.A. Fund	\$ 5,500

The balance due to the General Fund includes loans made to cover costs in the athletic fund and the Future Farmers of American (F.F.A.) fund where revenues were not received by June 30. These amounts are expected to be repaid within one year. These amounts are not included on the accompanying financial statements. All interfund balances outstanding at June 30, 2012 were repaid during fiscal year 2013.

**17. CONTINGENCIES**

**A. Grants**

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2013, if applicable, cannot be determined at this time.

**B. Litigation**

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

**18. CHANGE IN ACCOUNTING PRINCIPLES**

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the District.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the District's financial statements to incorporate the concepts of net position.

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**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR YEAR ENDED JUNE 30, 2013**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Expenditures</b>
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b> (Passed through the Ohio Department of Education)			
Nutrition Cluster:			
National School Lunch Program			
Cash Assistance	10.555	\$170,571	\$170,571
Non-Cash Assistance (Food Distribution)	10.555	44,996	44,996
Total National School Lunch Program		<u>215,567</u>	<u>215,567</u>
School Breakfast Program	10.553	9,009	9,009
Total Nutrition Cluster		<u>224,576</u>	<u>224,576</u>
<b>UNITED STATES DEPARTMENT OF EDUCATION</b> (Passed through the Ohio Department of Education)			
Title I Grants to Local Educational Agencies	84.010	107,953	107,945
Special Education Cluster:			
Special Education Grants to States	84.027	237,333	237,333
Special Education Preschool Grants	84.173	5,737	5,737
Total Special Education Cluster		<u>243,070</u>	<u>243,070</u>
Improving Teacher Quality State Grants	84.367	33,577	33,574
ARRA - Race to the Top	84.395	1,050	1,050
Education Jobs	84.410	20,297	20,297
Total United States Department of Education		<u>405,947</u>	<u>405,936</u>
Total Federal Financial Assistance		<u><u>\$630,523</u></u>	<u><u>\$630,512</u></u>

*See accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.*

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - SUBRECIPIENTS**

The District passes certain federal awards received from the Ohio Department of Education to other governments or not-for-profit agencies (subrecipients). As Note A describes, the District reports expenditures of Federal awards to subrecipients when paid in cash.

As a subrecipient, the District has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals. The amounts passed through to its subrecipient were \$243,070.

**NOTE C - CHILD NUTRITION CLUSTER**

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

**NOTE D – FOOD DONATION PROGRAM**

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



# Dave Yost • Auditor of State

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

Northeastern Local School District  
Defiance County  
05751 Domersville Road  
Hicksville, Ohio 43512-6703

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Northeastern Local School District, Defiance County, Ohio (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 15, 2014, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2013-002 described in the accompanying schedule of findings to be a material weakness.

***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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2013-001.

***Entity's Response to Findings***

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State

Columbus, Ohio

January 15, 2014



# Dave Yost • Auditor of State

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

Northeastern Local School District  
Defiance County  
05751 Domersville Road  
Defiance, Ohio 43512-6703

To the Board of Education:

### ***Report on Compliance for Each Major Federal Program***

We have audited Northeastern Local School District's, Defiance County, Ohio (the District's) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Northeastern Local School District's major federal programs for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the District's major federal programs.

### ***Management's Responsibility***

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Northeastern Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2013.

***Report on Internal Control over Compliance***

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



**Dave Yost**  
Auditor of State

Columbus, Ohio

January 15, 2014

**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Child Nutrition Cluster: School Breakfast Program CFDA #10.533 and National School Lunch Program CFDA #10.555 Special Education Cluster: Special Education Grants to States CFDA #84.027 and Special Education Preschool Grants CFDA #84.173
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

**FINDING NUMBER 2013-001**

**Noncompliance**

**Ohio Revised Code § 117.38** provides that each public office, other than a state agency, shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.

**Ohio Administrative Code § 117-2-03 (B)**, which further clarifies the requirements of Ohio Revised Code § 117.38, requires the District to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

The District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the cash basis of accounting. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between the District's accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

We recommend the District take the necessary steps to ensure the financial report is prepared in accordance with generally accepted accounting principles.

**Officials' Response:**

Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient.

**FINDING NUMBER 2013-002**

**Material Weakness**

Accurate financial reporting is the responsibility of the Treasurer of the Board of Education and is essential to ensure the information provided to the readers of the financial statements is correct.

The Treasurer compiles the annual financial report of the District which is filed with the Auditor of State as required by Ohio law. However, there is no review of this report by anyone other than the Treasurer prior to it being filed with the Auditor of State.

Additionally, the 2013 financial statements contained the following errors:

- General Fund investments reported on the Statement of Assets and Fund Balances - Cash Basis were overstated by \$546,557. This led to a corresponding understatement of equity in pooled cash and cash equivalents.
- Debt service principal totaling \$170,985 reported in Governmental Activities on the Statement of Activities and in Other Governmental Funds on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Cash Basis was incorrectly reported as debt service interest instead.

As a result of these errors, the District's financial statements did not correctly reflect the financial activity of the District for the fiscal year. The financial statements and accounting records have been adjusted to correct these errors.

To ensure the District's financial statements and notes to the statements are complete and accurate, we recommend the Treasurer post all transactions in accordance with the guidance established by the Uniform School Accounting System issued by the Auditor of State. Furthermore, the Board should adopt policies and procedures, including a final review of the statements and notes by the Treasurer and Board, to identify and correct errors and omissions.

**Officials' Response:**

FY 2014 financial reports will be reviewed with the Board of Education prior to submitting the report to the Auditor of State if possible.

Interest and principal payments were posted to match the amortization schedule that was received when the bonds were issued. In the future they will be posted to match the statement that is received from Huntington Bank.

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
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None

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**NORTHEASTERN LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2012-001	<p><b>Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03 (B)</b> for not preparing the annual financial report in accordance with generally accepted accounting principles.</p>	No	Not Corrected. Reissued as finding 2013-001 in this report.

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Northeastern Local School District  
Defiance County  
05751 Domersville Road  
Defiance, Ohio 43512-6703

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Northeastern Local School District, Defiance County, Ohio (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We noted the Board amended its anti-harassment policy at its meeting on May 14, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Dave Yost".

**Dave Yost**  
Auditor of State

January 15, 2014

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# Dave Yost • Auditor of State

**NORTHEASTERN LOCAL SCHOOL DISTRICT**

**DEFIANCE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 4, 2014**