

**CLERMONT NORTHEASTERN LOCAL
SCHOOL DISTRICT**

Basic Financial Statements

Year Ended June 30, 2006

With

Independent Auditors' Report



Mary Taylor, CPA
Auditor of State

Board of Education
Clermont Northeastern Local School District
2792 U.S. 50
Batavia, Ohio 45103

We have reviewed the *Independent Auditors' Report* of the Clermont Northeastern Local School District, Clermont County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Clermont Northeastern Local School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 21, 2008

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CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Clermont Northeastern Local School District:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2008 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 10 and pages 39 through 41, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clark, Schaefer, Hachett & Co.

Cincinnati, Ohio
January 23, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This discussion and analysis provides key information from management highlighting the financial performance of the Clermont Northeastern Local School District for the year ended June 30, 2006. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the School District's financial statements.

Financial Highlights

Major financial highlights for fiscal year 2006 are listed below:

- ✓ The assets of the School District exceeded its liabilities at year-end by \$7,330,684. Of this amount, \$2,871,925 may be used to meet the government's ongoing obligations to citizens and creditors.
- ✓ In total, net assets increased by \$1,233,813.
- ✓ The School District had \$16,489,620 in expenses related to governmental activities; only \$2,168,812 of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$15,554,621, made up primarily of property taxes, income taxes and State Foundation payments, were adequate to provide for these programs.
- ✓ The General Fund balance decreased by \$232,651 from \$2,247,306 at June 30, 2005 to \$2,014,655 at June 30, 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the School District's finances in a manner similar to a private-sector business. The statement of net assets presents information on all of the School District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating. The statement of activities presents information showing how the School District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g. uncollected taxes and earned but unused vacation leave).

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2006
Unaudited

The governmental activities of the School District include instruction, support services (administration, operation and maintenance of plant), and non-instructional services including extracurricular activities and food services. The School District has no business-type activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School District's near-term financing requirements.

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

The School District accounts for its activities using many individual funds. The most significant funds are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds – unlike the government-wide financial statements, which report on the School District as a whole. Some funds are required to be established by State law. Also, the School District may also establish separate funds to show that it is meeting legal requirements for using grants or other money.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources are not available to support the School District's own programs.

Notes to the basic financial statements. The notes provide additional information that is essential to understanding the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also contains required supplementary information concerning the General Fund and Termination Benefits Fund budget.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
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Unaudited

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A. Net assets at year-end

The following table presents a condensed summary of the School District's overall financial position at June 30, 2006 and June 30, 2005:

		<u>FY06</u>	<u>FY05</u>
Current and other assets	\$	11,782,053	11,411,171
Capital assets		<u>6,126,506</u>	<u>6,490,588</u>
Total assets		<u>17,908,559</u>	<u>17,901,759</u>
Long-term liabilities		4,071,207	5,873,431
Other liabilities		<u>6,506,668</u>	<u>5,931,547</u>
Total liabilities		<u>10,577,875</u>	<u>11,804,978</u>
Net assets:			
Invested in capital assets, net of debt		3,121,506	1,846,553
Restricted:			
For debt service		1,131,293	1,050,953
Other purposes		205,960	208,298
Unrestricted		<u>2,871,925</u>	<u>2,990,977</u>
Total net assets	\$	<u><u>7,330,684</u></u>	<u><u>6,096,781</u></u>

The increase in current and other assets of \$370,882 is primarily attributed to an increase of taxes receivable of approximately \$854,000, offset by a decrease of cash and investments of approximately \$495,000.

The decrease in long-term liabilities of \$1,802,224 was primarily due to the School District making its scheduled debt payments on general obligation bonds and paying off the lease-purchase agreement early.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
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B. Governmental Activities

The following table presents a condensed summary of the School District's governmental activities during fiscal year 2006 and 2005 and the resulting change in net assets:

	<u>FY06</u>	<u>FY05</u>
Revenues:		
Program revenues:		
Charges for services and sales	\$ 1,007,884	1,015,427
Operating grants and contributions	1,149,151	1,080,352
Capital grants and contributions	<u>11,777</u>	<u>33,807</u>
Total program revenues	<u>2,168,812</u>	<u>2,129,586</u>
General revenues:		
Property taxes	6,307,440	5,843,558
Income taxes	2,643,988	2,109,820
Grants and entitlements	6,172,285	6,076,018
Investment earnings	176,898	153,211
Miscellaneous	<u>254,010</u>	<u>158,736</u>
Total general revenues	<u>15,554,621</u>	<u>14,341,343</u>
Total revenues	<u>17,723,433</u>	<u>16,470,929</u>
Expenses:		
Instruction	8,879,170	8,540,990
Support services:		
Pupil	681,368	613,630
Instructional staff	769,877	689,009
Board of Education	75,671	43,541
Administration	1,208,489	1,076,834
Fiscal	465,522	467,472
Business	68,573	138,196
Operation and maintenance of plant	1,312,030	1,086,555
Pupil transportation	1,642,041	1,462,419
Central	224,658	198,211
Non-instructional services	551,793	468,501
Interest and fiscal charges	145,465	174,144
Food services	<u>464,963</u>	<u>575,759</u>
Total expenses	<u>16,489,620</u>	<u>15,535,261</u>
Change in net assets	\$ <u>1,233,813</u>	<u>935,668</u>

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Of the total governmental activities revenues of \$17,723,433, \$2,168,812 (12%) is from program revenue. This means that the government relies on general revenues to fund the majority of the cost of services provided to the citizens. Of those general revenues, 58% (\$8,951,428) comes from property tax levies and income taxes and 40% (\$6,172,285) is from state funding. The School District's operations are reliant upon its property tax levy, income taxes and the state's foundation program.

The income tax revenue has increased more than anticipated as the State of Ohio is now pursuing people who have not paid, or filed a school income tax return, by cross referencing driver license files with tax department files.

Through negotiations, the School District extended the workday for teachers thus increasing the educational contact time with students by 20 minutes per day. This caused a slightly higher increase in payroll expense than in prior years.

Governmental Activities

The following table presents the total cost of each of the government's primary services, and the comparative net cost after deducting the revenues generated by each function. Approximately 13% of the cost of the general government programs was recouped in program revenues. Instruction costs were \$8,879,170 but program revenue contributed to fund 11% of those costs. Thus, general revenues of \$7,943,964 were used to support of remainder of the instruction costs.

Governmental Activities

		<u>Total Cost of Services</u>	<u>Program Revenue</u>	<u>Revenues as a % of Total Costs</u>	<u>Net Cost of Services</u>
Instruction	\$	8,879,170	935,206	11%	7,943,964
Support services		6,448,229	423,954	7%	6,024,275
Non-instructional services		551,793	263,853	48%	287,940
Food services		464,963	545,799	117%	(80,836)
Interest and fiscal charges		<u>145,465</u>	<u>-</u>	0%	<u>145,465</u>
Total	\$	<u>16,489,620</u>	<u>2,168,812</u>	<u>13%</u>	<u>14,320,808</u>

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2006
Unaudited

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S INDIVIDUAL FUNDS

Governmental funds

The focus of the School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The School District has three major funds: the General Fund, Debt Service Fund, and Termination Benefits Fund. Assets of these fund comprise \$11,194,874 (95%) of the total \$11,782,053 governmental funds assets.

General Fund. Fund balance at June 30, 2006 was \$2,014,655, including \$803,718 of unreserved balance, which represents 5% of expenditures for fiscal year 2006.

Debt Service Fund. The Debt Service Fund is used to accumulate resources to retire the School District's general obligation bonds. All required bond payments were made as scheduled during the current fiscal year. The fund's cash balance at year-end is adequate to make the required debt payments for the year ending June 30, 2007 as well.

Termination Benefits Fund. The Termination Benefits Fund is used to accumulate resources to pay severance payments for retirees.

GENERAL FUND BUDGETARY HIGHLIGHTS

The schedule comparing the School District's original and final budgets and actual results are included in the required supplementary information. During fiscal year 2006, the School District amended its General Fund budget with Clermont County as changes occurred in School District revenues and expenditures. There were no significant differences between the original and final budgets.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
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CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. At June 30, 2006, the School District had \$6,126,506 invested in a broad range of capital assets, including land, buildings and equipment. The School District had no capital asset activity during the year ended June 30, 2006 due in large part to significant renovations undertaken in the prior fiscal years. See Note 4 to the financial statements for more detail.

**Capital Assets at Year-End
(Net of Depreciation)**

		<u>FY06</u>	<u>FY05</u>
Land	\$	2,024,809	2,024,809
Land improvements		361,161	425,455
Buildings and improvements		3,522,196	3,733,207
Furniture and equipment		218,340	307,117
Vehicles		<u>-</u>	<u>-</u>
Total	\$	<u><u>6,126,506</u></u>	<u><u>6,490,588</u></u>

Debt. The School District did not issue any debt during the year ended June 30, 2006. However, the School District retired \$420,000 of general obligation bonds and has \$3,005,000 outstanding at June 30, 2006. In addition, the School District paid principal of \$1,219,035 to pay off its HB264 Lease-Purchase Agreement. See Note 10 to the financial statements.

ECONOMIC FACTORS

The School District, like all other taxing entities in the State of Ohio, faces the uncertainty of the economy. The School District's operating revenue is composed primarily of property taxes and a local income tax. With a weak economy, many of the School District's citizens have either lost their jobs and are unemployed or have had to take lesser paying jobs, thus reducing the School District's Income Tax collections. Further, as household budgets tighten, the number and amount of property tax delinquencies increase thus decreasing property tax revenue for the School District.

As for expenses, the School District faces continued significant increases in the cost of health care for its employees. The School District also faces an increasing number of children requiring special education and services and these charges also are increasing by double digits each year. The School District has faced these challenges the last few years by making drastic cuts to its budget and services offered but will soon reach a point where no further cuts can be made and expects to have to go to the electorate and ask for more taxes to be levied to finance operations of the School District.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2006
Unaudited

REQUESTS FOR ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's office at the Clermont Northeastern Local School District, 2792 US Route 50, Batavia, Ohio 45103.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments	\$ 3,867,308
Receivables:	
Taxes	7,853,567
Accounts	38,293
Interest	15,728
Supplies inventory	7,157
Nondepreciable capital assets	2,024,809
Depreciable capital assets, net	<u>4,101,697</u>
Total assets	<u>17,908,559</u>
Liabilities:	
Accounts payable	268,949
Accrued wages and benefits	1,016,825
Pension obligation payable	277,872
Unearned revenue	4,933,588
Accrued interest payable	9,434
Noncurrent liabilities:	
Due within one year	621,962
Due within more than one year	<u>3,449,245</u>
Total liabilities	<u>10,577,875</u>
Net Assets:	
Invested in capital assets, net of related debt	3,121,506
Restricted for:	
Debt service	1,131,293
Other purposes	205,960
Unrestricted	<u>2,871,925</u>
Total net assets	<u>\$ 7,330,684</u>

See accompanying notes to the basic financial statements.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Statement of Activities
Year Ended June 30, 2006

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$ 6,853,983	442,572	13,164	-	\$ (6,398,247)
Special education	1,829,091	-	479,470	-	(1,349,621)
Other	196,096	-	-	-	(196,096)
Support services:					
Pupil	681,368	-	8,598	-	(672,770)
Instructional staff	769,877	-	146,653	-	(623,224)
Board of Education	75,671	-	-	-	(75,671)
Administration	1,208,489	-	123,911	-	(1,084,578)
Fiscal	465,522	-	-	-	(465,522)
Business	68,573	-	-	-	(68,573)
Operation and maintenance of plant					
Pupil transportation	1,312,030	-	-	-	(1,312,030)
Central	1,642,041	-	-	11,777	(1,630,264)
	224,658	126,733	6,282	-	(91,643)
Non-instructional services:					
Extracurricular activities	377,510	97,702	-	-	(279,808)
Community service	174,283	-	166,151	-	(8,132)
Food service	464,963	340,877	204,922	-	80,836
Interest on long-term debt	145,465	-	-	-	(145,465)
	<u>\$ 16,489,620</u>	<u>1,007,884</u>	<u>1,149,151</u>	<u>11,777</u>	<u>(14,320,808)</u>
General Revenues:					
Property taxes, levied for general purposes					5,765,738
Property taxes, levied for debt services					541,702
Income taxes					2,643,988
Grants and entitlements not restricted to specific programs					6,172,285
Investment earnings					176,898
Miscellaneous					254,010
Total general revenues					<u>15,554,621</u>
Change in net assets					1,233,813
Net assets beginning of year					<u>6,096,871</u>
Net assets end of year					\$ <u>7,330,684</u>

See accompanying notes to the basic financial statements.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Balance Sheet
 Governmental Funds
 June 30, 2006

	General	Debt Service	Termination Benefits	Other Governmental Funds
Assets:				
Equity in pooled cash and investments	\$ 1,185,545	993,091	1,108,650	580,022
Receivables:				
Taxes	7,290,391	563,176	-	-
Accounts	38,293	-	-	-
Accrued interest	15,728	-	-	-
Materials and supplies inventory	-	-	-	7,157
Total assets	8,529,957	1,556,267	1,108,650	587,179
Liabilities:				
Accounts payable	257,429	-	-	11,520
Accrued wages and benefits	926,273	-	-	90,552
Pension obligation payable	239,578	-	-	38,294
Compensated absences payable	-	-	58,288	-
Deferred revenue	5,092,022	454,576	-	-
Total liabilities	6,515,302	454,576	58,288	140,366
Fund Balances:				
Reserved for:				
Encumbrances	93,737	-	-	11,198
Property taxes	1,117,200	108,600	-	-
Debt service	-	993,091	-	-
Unreserved, reported in:				
General Fund	803,718	-	-	-
Special Revenue Funds	-	-	1,050,362	428,458
Total fund balances	2,014,655	1,101,691	1,050,362	446,813
Total liabilities and fund balances	\$ 8,529,957	1,556,267	1,108,650	587,179

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006

<p>Total Governmental Funds</p> <hr style="width: 100%;"/>	<p>Total Governmental Fund Balances</p>	<p>\$</p>	<p>4,613,521</p>
<p>3,867,308</p>	<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>7,853,567</p>	<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>		<p>6,126,506</p>
<p>38,293</p>			
<p>15,728</p>			
<p>7,157</p>			
<p><u>11,782,053</u></p>	<p>Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds.</p>		<p>613,010</p>
<p>268,949</p>	<p>Long-term liabilities, including bonds payable, are not due and payable</p>		
<p>1,016,825</p>	<p> General obligation bonds</p>	<p>3,005,000</p>	
<p>277,872</p>	<p> Compensated absences</p>	<p>1,007,919</p>	
<p>58,288</p>	<p> Accrued interest payable</p>	<p>9,434</p>	<p><u>(4,022,353)</u></p>
<p><u>5,546,598</u></p>			
<p><u>7,168,532</u></p>			
<p>104,935</p>			
<p>1,225,800</p>			
<p>993,091</p>			
<p>803,718</p>			
<p><u>1,478,820</u></p>			
<p><u>4,613,521</u></p>			
<p><u>11,782,053</u></p>	<p>Net Assets of Governmental Activities</p>	<p>\$</p>	<p><u>7,330,684</u></p>

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2006

	General	Debt Service	Termination Benefits	Other Governmental Funds
Revenues:				
Taxes	\$ 8,388,807	549,434	-	-
Tuition and fees	410,437	-	-	8,507
Charges for services	-	-	-	364,505
Interest	186,226	-	-	1,529
Intergovernmental	6,125,772	58,290	-	1,147,622
Other local revenues	246,796	-	-	231,649
Total revenues	15,358,038	607,724	-	1,753,812
Expenditures:				
Current:				
Instruction:				
Regular	6,427,217	-	8,088	142,907
Special education	1,314,092	-	-	482,251
Other	168,538	-	-	23,078
Support services:				
Pupil	654,330	-	315	11,042
Instructional staff	543,901	-	47,539	164,688
Board of Education	75,671	-	-	-
Administration	1,024,532	-	25,107	133,362
Fiscal	445,284	9,236	-	-
Business	68,573	-	-	-
Operation and maintenance of plant	1,248,486	-	-	-
Pupil transportation	1,603,295	-	-	4,000
Central	55,186	-	-	169,472
Non-instructional services:				
Extracurricular activities	7,095	-	-	370,236
Community service	16,774	-	-	157,509
Food service	-	-	-	463,327
Debt Service:				
Principal	1,219,035	420,000	-	-
Interest and fiscal charges	55,049	91,483	-	-
Total expenditures	14,927,058	520,719	81,049	2,121,872
Excess of revenues over (under) expenditures	430,980	87,005	(81,049)	(368,060)
Other financing sources (uses):				
Transfers in	-	-	200,000	463,631
Transfers out	(663,631)	-	-	-
Total other financing sources (uses):	(663,631)	-	200,000	463,631
Net change in fund balance	(232,651)	87,005	118,951	95,571
Fund balance, beginning of year	2,247,306	1,014,686	931,411	351,242
Fund balance, end of year	\$ 2,014,655	1,101,691	1,050,362	446,813

See accompanying notes to the basic financial statements.

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

<p>Total Governmental Funds</p> <hr/> <p>8,938,241 418,944 364,505 187,755 7,331,684 478,445</p> <hr/> <p>17,719,574</p>	<p>Net Change in Fund Balances - Total Governmental Funds</p> <p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p> <p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p> <p>Repayment of capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p> <p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.</p> <p>Some expenses reported in the statement of activities, such as compensated absences and pension obligation do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p> <p>Revenues in the statement of activities that do not provide current financial current financial resources are not reported as revenues in the funds.</p> <p>Change in Net Assets of Governmental Activities</p>	<p>\$ 68,876</p> <p>(364,082)</p> <p>420,000</p> <p>1,219,035</p> <p>1,067</p> <p>(114,942)</p> <p>3,859</p> <p>\$ <u>1,233,813</u></p>
<p>6,578,212 1,796,343 191,616</p> <p>665,687 756,128 75,671</p> <p>1,183,001 454,520 68,573</p> <p>1,248,486 1,607,295 224,658</p> <p>377,331 174,283 463,327</p> <p>1,639,035 146,532</p> <hr/> <p>17,650,698</p> <hr/> <p>68,876</p>		
<p>663,631 <u>(663,631)</u></p> <hr/> <p>-</p> <hr/> <p>68,876</p> <hr/> <p>4,544,645</p> <hr/> <p><u>4,613,521</u></p>		

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Statement of Net Assets

Fiduciary Funds

June 30, 2006

		Private Purpose Trusts	Agency Funds
		<u> </u>	<u> </u>
ASSETS			
Equity in pooled cash and investments	\$	<u>18,065</u>	<u>25,391</u>
Total assets		<u><u>18,065</u></u>	<u><u>25,391</u></u>
LIABILITIES			
Accounts payable		400	-
Due to student groups		<u>-</u>	<u>25,391</u>
Total liabilities		<u>400</u>	<u><u>25,391</u></u>
NET ASSETS			
Held in trust	\$	<u><u>17,665</u></u>	

See accompanying notes to the basic financial statements.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Statement of Changes in Net Assets

Fiduciary Funds

Year Ended June 30, 2006

	<u>Private- Purpose Trust Funds</u>
Additions:	
Contributions	\$ <u>4,192</u>
Total additions	<u>4,192</u>
Deductions:	
Community gifts, awards and scholarships	<u>2,475</u>
Total deductions	<u>2,475</u>
Change in net assets	1,717
Net assets, beginning of year	<u>15,948</u>
Net assets, end of year	\$ <u><u>17,665</u></u>

See accompanying notes to the basic financial statements.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Clermont Northeastern Local School District (the "School District") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Reporting Entity

Clermont Northeastern Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services to approximately 1,900 students and community members as authorized by state statute and/or federal guidelines. The School District was established in 1958 through the consolidation of existing school districts. The School District serves an area of approximately 84 square miles, is located in Clermont County, and includes all of the Villages of Owensville, Newtonsville, Marathon, Perintown, and Monterey.

Included within the reporting entity is a parochial school located within the School District boundaries. St. Louis Elementary is operated through the Cincinnati Catholic Archdiocese but current State legislation provides funding to this parochial school. This money is received and disbursed on behalf of the parochial school by the Treasurer of the School District, as directed by the parochial school. The activity related to this funding is reflected in a special revenue fund for financial reporting purposes.

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards, and agencies that are not legally separate from the School District. This includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

The School District is associated with four organizations, two of which are defined as jointly governed organizations and two are insurance purchasing pools. These organizations include Hamilton Clermont Cooperative Association, the Great Oaks Institute of Technology and Career Development, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Clermont County Health Trust. These organizations are presented in Notes 11 and 12 to the basic financial statements.

B. Basis of Presentation

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financials activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District has no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which the governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

C. Fund Accounting

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

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

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

Termination Benefits Fund – This fund is used to accumulate resources for severance payments for retired employees.

Fiduciary Funds report on net assets and changes in net assets. The School District's fiduciary funds consist of a private-purpose trust fund and agency funds. The School District's only private-purpose trust fund accounts for scholarship programs for students. These assets are not available for the School District's use. Agency funds, used to account for student activities, are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made. The modified accrual basis of accounting is used by the governmental funds. On a modified accrual basis, revenues are recorded when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

The available period for the School District is sixty days after fiscal year end. Under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available for advance, interest, tuition, student fees, and grants.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable except for unmatured principal and interest on general long-term debt as well as expenditures related to compensated absences which are recognized when due. Allocations of cost, such as depreciation, are not recognized in the governmental funds.

Government-wide financial statements are prepared using the accrual basis of accounting. Also, fiduciary funds utilize accrual accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Revenues - Exchange and Non-exchange transactions. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

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

Deferred Revenue Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes measurable as of June 30, 2006, which are intended to finance fiscal year 2007 operations, have been recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled in central bank accounts. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements. During fiscal year 2006, the School District's investments included U.S. agency securities, STAR Ohio, U.S. Treasury notes and money market funds.

STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2006.

The Governmental Accounting Standards Board Statement No. 31 (GASB 31), "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", requires that investments be recorded at their fair value and that changes in the fair value be reported in the operating statement. At June 30, 2006, the fair value of investments approximates cost.

Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to agency funds, certain trust funds, and those funds individually authorized by Board resolution. Interest is allocated to these funds based on average monthly cash balance.

F. Inventory

All inventories are valued at cost determined on a first-in, first-out basis. Inventory in governmental funds are recorded as expenditures in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds, which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

G. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. The School District defines capital assets as those with an individual cost of more than \$1,000 and an estimated useful life in excess of one year. All capital assets are capitalized at cost or estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements and the proprietary fund statements. Capital assets are reported as expenditures of the current period in the governmental fund financial statements.

All reported capital assets except land are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and building improvements	50 years
Land improvements	15 years
Equipment and furniture other than vehicles	3-20 years
Vehicles	10 years

H. Compensated Absences

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

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

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, a liability is recorded only for the portion of unpaid compensated absences that has matured, for example, as a result of employee resignations and retirements.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources with the exception of compensated absences as noted above.

J. Fund Balance Reserves

The School District records reservations for portions of fund equity that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, property taxes, and debt service.

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

K. Net Assets

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

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

L. Estimates

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

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

2. DEPOSITS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies that 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.

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and amended by GASB Statement No. 40 "Deposit and Investment Risk Disclosures":

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's custodial credit risk policy requires that deposits be collateralized as required by ORC Chapter 135. At year-end, \$148,637 of the School District's bank balance of \$326,637 was exposed to custodial credit risk since it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

Investments

The School District's investments at June 30, 2006 are as summarized as follows:

	<u>Fair Value</u>	<u>Average Maturity Years</u>	<u>Percentage of Investments</u>
FHLB	\$ 489,845	1.51	13%
FHLMC	1,578,273	2.03	42%
Star Ohio	1,064,632	n/a	29%
US Money Market Funds	<u>596,485</u>	n/a	16%
	<u>\$ 3,729,235</u>		

Credit Risk

It is the School District's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings by nationally recognized statistical rating organizations. The School District's investments in FHLB and FHLMC securities were rated AAA by Standard & Poor's and Aaa by Moody's. Investments in STAR Ohio were rated AAAM by Standard & Poor's.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a counter party, the School 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 School District's investment securities are registered in the name of the School District.

Interest Rate Risk

In accordance with the investment policy, the School District manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to five years.

3. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

Assessed values for real property taxes are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88% of true value (with certain exceptions) and on real property at 35% of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25% of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from the Clermont County Auditor, who periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006 are available to finance fiscal year 2006 operations.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes that became measurable as of June 30, 2006. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2006, was \$1,117,200 in the General Fund and \$108,600 in the Debt Service Fund.

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

	<u>2005 Second- Half Collections</u>		<u>2006 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 230,645,240	90.30%	267,350,030	92.69%
Public Utility	8,450,880	3.31%	8,074,170	2.80%
Tangible Personal Property	<u>16,310,838</u>	6.39%	<u>13,020,712</u>	4.51%
Total Assessed Value	\$ <u>255,406,958</u>	100.00%	<u>288,444,912</u>	100.00%
Tax rate per \$1,000 of assessed valuation	\$36.00		\$35.50	

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

4. CAPITAL ASSETS

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

	Balance 7/1/05	Additions	Disposals	Balance 6/30/06
<i>Governmental Activities</i>				
Nondepreciable:				
Land	\$ 2,024,809	-	-	2,024,809
Depreciable:				
Land improvements	1,117,737	-	-	1,117,737
Buildings and improvements	9,216,656	-	-	9,216,656
Equipment and furniture	3,851,942	-	-	3,851,942
Vehicles	62,089	-	-	62,089
Subtotal	<u>14,248,424</u>	<u>-</u>	<u>-</u>	<u>14,248,424</u>
Totals at historical cost	<u>16,273,233</u>	<u>-</u>	<u>-</u>	<u>16,273,233</u>
Less accumulated depreciation:				
Land improvements	692,282	64,294	-	756,576
Buildings and improvements	5,483,449	211,011	-	5,694,460
Equipment and furniture	3,544,825	88,777	-	3,633,602
Vehicles	62,089	-	-	62,089
Total accumulated depreciation	<u>9,782,645</u>	<u>364,082</u>	<u>-</u>	<u>10,146,727</u>
Capital assets, net	<u>\$ 6,490,588</u>	<u>(364,082)</u>	<u>-</u>	<u>6,126,506</u>

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

Depreciation expense was charged to functions as follows:

Instruction:	
Regular	\$ 160,829
Special	32,748
Other	4,480
Support services:	
Pupil	15,681
Instructional staff	13,749
Administration	25,488
Fiscal	11,002
Operation and maintenance of plant	63,544
Pupil transportation	34,746
Extracurricular activities	179
Food service	1,636
Total depreciation expense	<u>\$ 364,082</u>

5. INTERFUND TRANSACTIONS

During the year ended June 30, 2006, the General Fund made transfers of \$200,000 and \$463,631 to the Termination Benefits Fund and Other Governmental Funds, respectively. Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

6. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted with commercial carriers for property and fleet insurance, liability insurance and inland marine coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage in the last year.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 12). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

For fiscal year 2006, the School District participated in the Clermont County Health Trust (the Trust), a group insurance purchasing pool (Note 12), in order to provide dental, life, medical, and disability benefits to employees, their dependents and designated beneficiaries and to set aside funds for such purposes. The Trustee provides insurance policies in whole or in part through one or more group insurance policies.

7. DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to SERS, 300 East Broad Street, Columbus, Ohio 43215.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate, which is currently 14% of annual covered payroll. The contribution rates are not determined actuarially, but are established by SERS' Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were approximately \$202,000, \$179,000, and \$170,000, respectively. Approximately 59% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. The current portion of the unpaid contribution for fiscal year 2006 is recorded as a liability within the financial statements.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issued a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to STRS, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code. A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were approximately \$930,000, \$863,000, and \$844,000, respectively. Approximately 85% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. The unpaid contribution for fiscal year 2006 is recorded as a liability in the respective funds.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

Social Security System

All employees not otherwise covered by SERS or STRS have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. Members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

8. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the STRS, and to retired non-certified employees and their dependents through the SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by state statute and are funded on a pay-as-you-go basis.

STRS has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the year ended June 30, 2006, the board allocated employer contributions equal to 1.00% of covered payroll to the Health Care Reserve Fund. For the School District, this amount was approximately \$66,000 during fiscal year 2006. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.5 billion at June 30, 2006. For the year ended June 30, 2006, net health care costs paid by STRS were \$282.7 million and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. For this fiscal year, employer contributions to fund health care benefits were 3.42% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$35,800.

The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care for the year ended June 30, 2006 were \$158.8 million and the target level was \$200.6 million. At June 30, 2006, SERS' net assets available for payment of health care benefits was \$295.6 million. SERS has approximately 59,000 participants currently receiving health care benefits. For the School District, this amount to fund health care benefits was approximately \$49,000 during the 2006 fiscal year.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

9. EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of 1.25 days per month. Sick leave may be accumulated up to maximum of 240 days for teachers, 225 days for classified staff and unlimited days for administrators. Upon retirement, payment is made for 25% of the employee's accumulated sick leave up to a maximum of 60 days for teachers and administrators, and 45 for classified employees.

10. LONG-TERM OBLIGATIONS

Long-term liability activity for the year ended June 30, 2006 was as follows:

		Principal Outstanding			Principal Outstanding	Due Within
		<u>7/1/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/06</u>	<u>One Year</u>
General obligation bonds	\$	3,425,000	-	420,000	3,005,000	430,000
Lease-purchase agreement		1,219,035	-	1,219,035	-	-
Compensated absences		<u>1,229,396</u>	<u>259,861</u>	<u>423,050</u>	<u>1,066,207</u>	<u>191,962</u>
Total	\$	<u>5,873,431</u>	<u>259,861</u>	<u>2,062,085</u>	<u>4,071,207</u>	<u>621,962</u>

Capital Improvement General Obligation Bonds Payable – In 1992, the School District issued \$6,045,000 in voted general obligations bonds for the purpose of classroom additions and improvements to the existing three school buildings. In 2002, the School District issued \$4,960,000 of general obligation bonds for the purpose of a current refunding of the 1992 bonds. The outstanding bonds of \$3,005,000 as of June 30, 2006 bear interest at rates ranging from 2.15% to 3.95% with final payment on December 1, 2014.

House Bill 264, Lease-Purchase Agreement – In June 2000, the School District entered into a lease-purchase agreement for building renovations. During the prior fiscal year, the School District borrowed additional funds under the lease-purchase agreement for additional renovations and equipment purchases. The lease-purchase agreement was paid in full during the current fiscal year.

All general obligation debt is supported by the full faith and credit of the School District. Compensated absences will be paid from the fund from which the employees' salaries are paid. The School District's voted legal debt margin was \$22,955,042 with an unvoted debt margin of \$288,445 at June 30, 2006.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$ 430,000	77,982	507,982
2008	445,000	62,989	507,989
2009	460,000	46,465	506,465
2010	475,000	28,696	503,696
2011	495,000	9,776	504,776
2012-2015	<u>700,000</u>	<u>1,370,000</u>	<u>2,070,000</u>
Total	<u>\$ 3,005,000</u>	<u>1,595,908</u>	<u>4,600,908</u>

11. JOINTLY GOVERNED ORGANIZATIONS

The Hamilton Clermont Cooperative Association

The School District is a participant in a two-county consortium of school districts that operate the Hamilton/Clermont Cooperative Association (H/CCA). H/CCA is an association of public districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The Board of H/CCA consists of one representative from each of the participating members. Financial statements for H/CCA can be obtained at its administrative offices at 7615 Harrison Avenue, Cincinnati 45231.

The Great Oaks Institute of Technology and Career Development

The Great Oaks Institute of Technology and Career Development, a jointly governed organization, is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from each of the participating school district's elected board. The Board possesses its own budgeting and taxing authority as a separate body politic and corporate, established by the Ohio Revised Code. Great Oaks was formed for the purpose of providing vocational education opportunities to the students of the member school districts, which includes the students of the School District. The School District has no ongoing financial interest in nor responsibility for Great Oaks. For financial information, write to Great Oaks at 3254 East Kemper Road, Cincinnati, Ohio 45241.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

12. INSURANCE PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

The Clermont County Health Trust

The Clermont County Health Trust (the Trust), an insurance purchasing pool, is a health trust formed to provide affordable and desirable dental, life, medical, and other disability group insurance for member's employees, eligible dependents and designated beneficiaries of such employees. The Board of Directors consists of one representative from each of the participating members and is elected by the vote of a majority of the member school districts. The School District pays premiums to a third party administrator which in turns buys the insurance policies from various insurance companies. Upon termination, the School District shall be responsible for prompt payment of all plan liabilities accruing as a result of such termination and maintain no right to any assets of the Trust. The School District may terminate participation in the Trust for the benefit of its employees upon written notice to the Trustee delivered at least sixty days prior to the annual review date of the policy. Financial information can be obtained from the Clermont County Health Trust at P. O. Box 526, Middletown, Ohio 45042.

13. CONTINGENCIES

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

Litigation

The School District is party to legal proceedings and is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2006

14. REQUIRED SET-ASIDES

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

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

		<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance as of June 30, 2005	\$	(532,122)	-
Current year set-aside requirement		263,131	263,131
Less qualifying disbursements and offsets		<u>(283,007)</u>	<u>(263,131)</u>
Total		<u><u>(551,998)</u></u>	<u><u>-</u></u>
Balance carried to FY2007	\$	<u><u>(551,998)</u></u>	<u><u>-</u></u>

Since the School District had offsets and qualifying disbursements during the year that reduced the set aside amount for textbooks and instructional materials to below zero, these extra amounts may be used to reduce the set aside requirements of future years. However, the excess qualifying disbursements of the capital improvement set-aside may not be used to reduce the capital improvement set aside requirements of future years.

14. INCOME TAXES

As approved by voters, the School District levies a 1% school income tax on wages earned by residents of the School District. The taxes are collected by the State Department of Taxation in the same manner as the state income tax. In the fiscal year ended June 30, 2006, the School District recorded income tax revenue of \$2,643,988 in the entity-wide financials and a receivable as of June 30, 2006 of \$1,241,799.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund
 Balance - Budget and Actual (Non-GAAP Budgetary Basis)
 General Fund
 Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Taxes	7,406,003	7,853,124	7,853,124	-
Tuition and fees	350,000	439,005	439,795	790
Interest	134,410	159,701	164,290	4,589
Intergovernmental	6,039,356	6,125,772	6,125,772	-
Other local revenues	522,235	539,219	210,294	(328,925)
Total revenues	<u>14,452,004</u>	<u>15,116,821</u>	<u>14,793,275</u>	<u>(323,546)</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,400,000	6,432,597	6,432,597	-
Special education	1,300,000	1,300,748	1,300,748	-
Other instruction	180,000	184,509	184,509	-
Support services:				
Pupil	600,000	624,785	624,785	-
Instructional staff	550,000	546,412	546,412	-
Board of Education	80,000	80,572	80,572	-
Administration	900,000	1,014,553	1,014,553	-
Fiscal	450,000	457,668	457,678	(10)
Business	75,000	77,918	77,918	-
Operation and maintenance of plant	2,429,053	2,550,825	2,550,825	-
Pupil transportation	1,480,000	1,564,098	1,564,098	-
Central	50,000	57,019	57,019	-
Non-instructional services:				
Extracurricular activities	7,095	7,095	7,095	-
Total expenditures	<u>14,501,148</u>	<u>14,898,799</u>	<u>14,898,809</u>	<u>(10)</u>
Excess of revenues over expenditures	(49,144)	218,022	(105,534)	(323,556)
Other financing sources (uses):				
Transfers out	(500,000)	(680,405)	(680,405)	-
Other financing sources	-	190	190	-
Total other financing sources (uses):	<u>(500,000)</u>	<u>(680,215)</u>	<u>(680,215)</u>	<u>-</u>
Change in fund balance	(549,144)	(462,193)	(785,749)	(323,556)
Fund balance, beginning of year	292,610	292,610	292,610	
Prior year encumbrances appropriated	1,379,483	1,379,483	1,379,483	
Fund balance, end of year	<u>1,122,949</u>	<u>1,209,900</u>	<u>886,344</u>	

See accompanying notes to required supplemental information.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund
Balance - Budget and Actual (Non-GAAP Budgetary Basis)

Termination Benefits Fund

Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance <u>With Final Budget</u>
Revenues:				
Other local revenues	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	200,000	214,192	214,192	-
Other instruction	42,000	37,685	37,685	-
Support services:				
Pupil	-	21,990	21,990	-
Instructional staff	50,000	52,717	52,717	-
Administration	-	25,107	25,107	-
Business	-	7,488	7,488	-
Total expenditures	<u>292,000</u>	<u>359,179</u>	<u>359,179</u>	<u>-</u>
Excess of revenues over expenditures	(292,000)	(359,179)	(359,179)	-
Other financing sources (uses):				
Transfers in	<u>100,000</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>
Change in fund balance	(192,000)	(159,179)	(159,179)	-
Fund balance, beginning of year	1,267,830	1,267,830	1,267,830	
Prior year encumbrances appropriated	<u>-</u>	<u>-</u>	<u>-</u>	
Fund balance, end of year	<u>1,075,830</u>	<u>1,108,651</u>	<u>1,108,651</u>	

See accompanying notes to required supplemental information.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Notes to Required Supplementary Information

Year Ended June 30, 2006

Note A Budgetary Basis of Accounting

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

Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP statements and the budgetary basis schedule:

	<u>General</u>	<u>Termination Benefits</u>
Net change in fund balance - GAAP Basis	\$ (232,651)	118,951
Increase / (decrease):		
Due to revenues	(564,763)	-
Due to expenditures	337,611	(278,130)
Due to other sources (uses)	(16,584)	-
Due to encumbrances	<u>(309,362)</u>	<u>-</u>
Net change in fund balance - Budget Basis	\$ <u><u>(785,749)</u></u>	<u><u>(159,179)</u></u>

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

<u>Federal Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Nutrition Cluster:				
Special Milk Program for Children	n/a	10.556	299	299
School Breakfast Program	03-PU	10.553	38,985	38,985
National School Lunch Program	04-PU	10.555	159,626	159,626
			<u>198,910</u>	<u>198,910</u>
Total U.S. Department of Agriculture			<u>198,910</u>	<u>198,910</u>
 <u>U.S. Department of Education:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Title I Grants to Local Education Agencies	C1-S1	84.010	205,858	198,053
Special Education Grants to States	6B-SF	84.027	433,465	460,331
Safe and Drug Free Schools	DR-S1	84.186	8,598	16,513
Innovative Education Program Strategy - Title VI	C2-S1	84.298	5,888	13,552
Technology Literacy Challenge Fund Grant	CR-S1	84.318	3,745	6,053
Improving Teacher Quality	TR-S1	84.367	87,104	70,345
<i>(Passed through Great Oaks Institute of Technology and Career Development)</i>				
Vocational Education - Basic Grants to States	n/a	84.048	4,999	5,893
Total U.S. Department of Education			<u>749,657</u>	<u>770,740</u>
Total Federal Awards			\$ <u>948,567</u>	<u>969,650</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

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



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Clermont Northeastern Local School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Clermont Northeastern Local School District (the School District) as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs and labeled as finding 2006-1 to be a significant deficiency in internal control over financial reporting

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2006-2.

We noted certain matters that we reported to management of the School District in a separate letter dated January 23, 2008.

The School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the School District's response and accordingly, we express no opinion on it.

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

Clark, Schaefer, Hachett & Co.

Cincinnati, Ohio
January 23, 2008



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Clermont Northeastern Local School District:

Compliance

We have audited the compliance of the Clermont Northeastern Local School District (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Clermont Northeastern Local School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the Clermont Northeastern Local School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are described in the accompanying schedule of findings and questioned costs as item 2006-3.

Internal Control over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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 that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the School District's response and accordingly, we express no opinion on it.

This report is intended solely for the information of management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Haskett & Co.

Cincinnati, Ohio
January 23, 2008

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Section I - Summary of Auditors' Results

Financial Statements

Type of report issued on financial statements:	unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	none
Significant deficiency(ies) identified not considered to be material weakness(es)?	yes
Noncompliance material to financial statements noted?	yes

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	none
Significant deficiency(ies) identified not considered to be material weakness(es)?	none
Type of auditors' report issued on compliance for major programs:	unqualified
Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	yes

Identification of major programs:

CFDA 84.027 Special Education Grants to States

Nutrition Cluster:

CFDA 10.556 – Special Milk Program for Children

CFDA 10.553 – School Breakfast Program

CFDA 10.555 – National School Lunch Program

Dollar threshold to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	no

Section II - Financial Statement Findings

Finding 2006-1 – Non-payroll Cash Disbursements

As part of our testing of internal controls over the non-payroll cash disbursement process, we selected a sample of 60 cash disbursements to determine if controls were functioning as designed. For 23 items, the School District did not have requisitions approved by appropriate personnel, generally building principals. The School District has mitigating controls in that both the Superintendent and Treasurer review and approve a listing of requisitions. However, the approval of individual requisitions is an important control in the non-payroll cash disbursement process. We recommend the School District adhere to its accounting policies to maximize internal controls over the cash disbursement process.

***Management response:** The School District has allowed building principals and department heads to make verbal requests for a purchase order. In the future, the School District will require the building principals and department heads to fill out a paper requisition to attach to the purchase order.*

Finding 2006-2 Filing of GAAP Financial Statements

Ohio Revised Code Section, 117.38 requires the School District to file an annual report prepared in accordance with generally accepted accounting principles (GAAP) with the Auditor of State within 150 days of the fiscal year end. Contrary to this requirement, the School District did not file its report for the year ended June 30, 2006 until December 2007.

***Management's Response:** The School District detected irregularities in its contracted Food Services and requested a Special Investigation from the State of Ohio's Auditor's Office. This investigation started May 2005 and lasted until January 2007, at which time the case was concluded in Clermont County Court. The School District hires an accounting firm to convert its cash basis accounting records to GAAP accounting financial statements. Until the State's investigation was concluded, the School District did not have this conversion performed. Once the investigation was complete, the conversions were started and the School District will soon be in compliance and caught up.*

Section III - Federal Award Findings and Questioned Costs

2006-3 Timeliness of Single Audit

OMB Circular A-133 Section .320 requires that the audit shall be completed and the data collection form and reporting package shall be submitted to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit. The School District's audit for the year ended June 30, 2006 was not completed and submitted with the required time period. We recommend the School District implement procedures to ensure its required audit is completed and submitted in a timely manner.

Management's Response: *The School District detected irregularities in its contracted Food Services and requested a Special Investigation from the State of Ohio's Auditor's Office. This investigation started May 2005 and lasted until January 2007, at which time the case was concluded in Clermont County Court. The School District hires an accounting firm to perform its annual audit. Until the State's investigation was concluded, the School District did not have an audit performed. Once the investigation was complete, the accounting firm commenced with completing the outstanding audits.*

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Schedule of Prior Audit Findings

Year Ended June 30, 2006

2005-1 Encumbering Compliance

Ohio Revised Code Section, 5705.41(D), states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Board of Education can authorize the drawing of a warrant. The Board of Education has 30 days from the receipt of such certificate to approve payment by resolution or ordinance.

Amounts of less than \$3,000 may be paid by the fiscal officer without such affirmation of the Board of Education upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful.

In our sample of sixty cash disbursements, we found seven disbursements that did not have certification prior to the obligation date and neither of the two exceptions provided above were utilized. Failure to certify the availability of funds and encumber appropriation for the appropriate amount can result in overspending funds and negative cash balances. The Treasurer should certify the availability of funds for expenditures and consider implementing the use of Then and Now Certificates as further means to certify funds pursuant to Ohio Revised Code Section 5705.41(D).

Status: Corrected.

2005-2 Filing of GAAP Financial Statements

Ohio Revised Code Section, 117.38 requires the School District to file an annual report prepared in accordance with generally accepted accounting principles (GAAP) with the Auditor of State within 150 days of the fiscal year end. Contrary to this requirement, the School District did not file its report for the year ended June 30, 2005 until November 2007.

Status: The financials for the year ended June 30, 2006 were not filed until December 2007 and thus, we have repeated the finding in the current audit as item 2006-2.

2005-3 Timeliness of Single Audit

OMB Circular A-133 Section .320 requires that the audit shall be completed and the data collection form and reporting package shall be submitted to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit. The School District's audits for the years ended June 30, 2005 and 2004 were not completed and submitted with the required time period. We recommend the School District implement procedures to ensure its required audit is completed and submitted in a timely manner.

Status: The audit for the year ended June 30, 2006 was not completed and submitted within the required time period and thus, we have repeated the finding in the current audit as item 2006-3.



Mary Taylor, CPA
Auditor of State

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

CLERMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 6, 2008**