



Dave Yost • Auditor of State

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Local School District, Clark County, Ohio, as of June 30, 2013, and the respective changes in financial position thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2013, the District adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Federal Awards Receipts and Expenditures also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State

Columbus, Ohio

March 5, 2014

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

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

Financial Highlights

Key financial highlights for 2013 are as follows:

- In total, net position decreased \$1,190,380, which represents an 6.05 percent decrease from 2012.
- General revenues accounted for \$25,428,487 in revenue or 82.34 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$5,453,884 or 17.66 percent of total revenues of \$30,882,371.
- Total assets of governmental activities decreased as cash and cash equivalents decreased by \$1,271,628, receivables increased by \$318,331 and capital assets decreased by \$414,618.
- The governmental activities of the School District had \$32,072,751 in expenses; only \$5,453,884 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$25,428,487 were adequate to provide for these programs.

Among major funds, the General Fund had \$26,735,889 in revenues and \$28,069,569 in expenditures. The General Fund's balance decreased \$1,374,338 from 2012. Once again, State revenue decreased based on a guaranteed percent of the previous year. In FY 12, the administration of Governor John Kasich proposed a new formula for fund distribution to school districts. Since this new formula wasn't available in time to be implemented for the FY 12-13 biennium, a "bridge" formula was used instead. The Bridge formula attempts to simplify fund distribution based on FY 11 per pupil amounts. This did not affect the special education weighted amounts, which continued at 90%. In calendar year 2013, due to the state of the economy there was very minimal new construction in Residential/Agricultural and Commercial Industrial real property. In 2012 (2013 collection) the minimal change in reduction factors continued to level off the real estate tax collections. Actual real estate tax revenue decreased slightly since there was not much new construction. For the fourth year, interest earnings continued to decline. Interest rates of return have continued to decrease as of late. Health insurance cost increases from year to year continue to increase at a decreasing rate due to the make up of the two tiered health insurance plan.

Using this General Accepted Accounting Principles Report (GAAP)

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

Reporting the School District as a Whole

Statement of Net position and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2013?" The Statement of Net position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Permanent Improvement Capital Projects Fund.

Governmental Funds

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

The School District as a Whole

Recall that the Statement of Net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2013 compared to 2012.

**Table 1
Net Position**

| | (Restated) | |
|----------------------------------|---------------------|---------------------|
| | 2012 | 2013 |
| Assets: | | |
| Current and Other Assets | \$19,290,158 | \$18,342,520 |
| Capital Assets | 17,834,499 | 17,419,881 |
| Total Assets | <u>37,124,657</u> | <u>35,762,401</u> |
| Liabilities: | | |
| Long-Term Liabilities | 4,661,704 | 4,057,503 |
| Other Liabilities | 4,509,611 | 3,706,968 |
| Total Liabilities | <u>9,171,315</u> | <u>7,764,471</u> |
| Deferred Inflows of Resources | 8,276,750 | 9,511,718 |
| Net Position: | | |
| Net Investment in Capital Assets | 14,934,698 | 14,912,422 |
| Restricted | 1,728,565 | 1,444,812 |
| Unrestricted | 3,013,329 | 2,128,978 |
| Total Net Position | <u>\$19,676,592</u> | <u>\$18,486,212</u> |

Total net position decreased \$1,190,380. Cash and cash equivalents decreased by \$1,271,628, receivables increased by \$318,331 and capital assets decreased by \$414,618. Unrestricted net position, the part of net position that can be used to finance day-to-day activities without constraints established by grants or legal requirements of the School District decreased by \$884,351 primarily due to the decrease in state funding.

Table 2 shows the change in net position for fiscal year 2013. Since this is the seventh year the School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons are available. Therefore, a comparative analysis of district-wide data is being presented, as follows:

**Table 2
Changes in Net Position**

| | 2012 | 2013 |
|------------------------------------|-------------------|-------------------|
| Revenues: | | |
| Program Revenues: | | |
| Charges for Services | \$3,120,507 | \$3,231,941 |
| Operating Grants and Contributions | 2,428,655 | 2,221,943 |
| General Revenues: | | |
| Property Taxes | 10,574,816 | 10,512,421 |
| Grants and Entitlements | 14,648,538 | 14,768,569 |
| Other | 183,147 | 147,497 |
| Total Revenues | <u>30,955,663</u> | <u>30,882,371</u> |

(Continued)

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

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

| | 2012 | 2013 |
|--|---------------|---------------|
| Program Expenses: | | |
| Instruction | 18,732,879 | 17,999,779 |
| Support Services: | | |
| Pupils and Instructional Staff | 3,519,721 | 3,297,499 |
| Board of Education, Administration, and Fiscal | 3,643,751 | 3,403,020 |
| Operation and Maintenance of Plant | 2,770,352 | 2,508,741 |
| Pupil Transportation | 2,053,987 | 2,173,981 |
| Central | 65,466 | 14,392 |
| Operation of Non-Instructional Services | 1,484,498 | 1,600,105 |
| Extracurricular Activities | 1,027,415 | 961,713 |
| Interest and Fiscal Charges | 156,608 | 113,521 |
| Total Expenses | 33,454,677 | 32,072,751 |
| Increase (Decrease) in Net Position | (\$2,499,014) | (\$1,190,380) |

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District operations. Property taxes made up 34 percent of revenues for governmental activities for the Northeastern Local School District for fiscal year 2013.

Due to the fact that permanent improvement needs never end; the board decided to place a 1 mill continuous permanent improvement levy on the ballot in November, 2006. This levy attempt failed. The board voted to place the permanent improvement levy back on the ballot in May, 2007. However, upon learning that May was considered a Special election and the cost to the District could be \$33,000 or more to place the issue on the ballot, the board voted to remove the issue in May and place it on the ballot in November, 2007. November, 2007 is not a special election and collection would still begin in January, 2008. However, the levy was again defeated in November, 2007. Additionally, the levy failed in March, 2008 and August, 2008. The board voted to place it back on the ballot again in November, 2008. After a long hard battle, the board was able to get voter approval for the 1 mill continuous permanent improvement levy. This also set the stage for the District to qualify for approval of a project to be co-funded by the Ohio School Facilities Commission. On August 24, 2009, the district was informed that their OSFC number had arrived and the district had one year to pass its local funding for a building project. The district put on a combination ¼% income tax and 7.572 mill bond issue on each of the November of 2009 and February of 2012 elections. The issues failed both times. Then the district regrouped, got more community input, changed its plan to better suit the desires of the community. Upon doing so, the district came back to the voters on the August 3, 2012 ballot with a 7.876 mill bond issue shortened to 28 years rather than 37 and no income tax. The issue still failed, which caused the district to become a lapsed district with no guarantee of OSFC co-funding in the future.

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

Table 3

| | <u>Net Cost of Services 2012</u> | <u>Net Cost of Services 2013</u> |
|--|--------------------------------------|--------------------------------------|
| Instruction | \$15,482,541 | \$14,729,536 |
| Support Services: | | |
| Pupils and Instructional Staff | 3,147,677 | 2,978,833 |
| Board of Education, Administration, and Fiscal | 3,562,097 | 3,321,925 |
| Operation and Maintenance of Plant | 2,768,891 | 2,497,349 |
| Pupil Transportation | 2,053,987 | 2,147,937 |
| Central | 58,786 | 9,892 |
| Operation of Non-Instructional Services | (152,104) | 58,004 |
| Extracurricular Activities | 827,032 | 761,870 |
| Interest and Fiscal Charges | 156,608 | 113,521 |
| Total Expenses | <u><u>\$27,905,515</u></u> | <u><u>\$26,618,867</u></u> |

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

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

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

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

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

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

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

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

The dependence upon tax revenues is apparent. Almost 82 percent of instruction activities are supported through taxes and other general revenues; for all activities general revenue support is 82 percent. The community, as a whole, is the primary support for the Northeastern Local School District.

The School District's Funds

Information about the School District's major funds starts on page 17. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$30,600,045 and expenditures of \$32,265,334. The net change in fund balance for the year was most significant in the General Fund, a decrease of \$1,374,338. This decrease was due to a decrease in State funding and also in property and other local taxes. Currently, continued phasing out of personal property taxes is being offset by the hold harmless revenue being contributed by the state. Our bottom line is also only being assisted currently by the passage of the permanent improvement levy in November of 2008. Some expenditures, which previously had to be absorbed by the General Fund are now being paid from the Permanent Improvement Fund. However, due to using the Permanent Improvement fund more, we are now seeing its fund balance begin to decline more rapidly than before.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

General Fund Budgeting Highlights

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

During the course of the 2013 fiscal year, the School District amended its General Fund budget several times, which resulted in appropriations decreasing \$1,049,521. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. Prior to year-end, the School District requested an amended certificate of estimated resources that reflected actual revenue for the fiscal year and passed appropriations to match expenditures plus encumbrances.

For the General Fund, budget basis revenue and other financing sources was \$27,252,397; \$1,333,705 above the original budgeted estimates of \$25,918,692. This difference was mainly caused by an increase in projected state funding.

Capital Assets

At the end of the 2013 fiscal year, the School District had \$17,419,881 invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal 2013 balances compared to 2012.

Table 4
Capital Assets (Net of Depreciation) at June 30, 2013

| | 2012 | 2013 |
|----------------------------|---------------------|---------------------|
| Land | \$268,349 | \$268,349 |
| Land Improvement | 302,683 | 302,625 |
| Buildings and Improvements | 14,125,742 | 13,664,200 |
| Furniture and Equipment | 2,079,629 | 2,180,996 |
| Vehicles | 1,058,096 | 1,003,711 |
| Total Expenses | <u>\$17,834,499</u> | <u>\$17,419,881</u> |

Overall capital assets decreased \$414,618 from fiscal year 2012 to fiscal year 2013. This is the result of the increase in accumulated depreciation exceeding the investment in new assets.

Debt Administration

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

| | | |
|------------------------|------------------------|--------------------------------------|
| <u>Original Amount</u> | <u>Amount Defeased</u> | <u>Outstanding Amount at 6/30/13</u> |
| \$5,300,000 | \$3,765,000 | \$0 |

Current Financial Issues and Concerns

The cash fund balance in the general fund decreased this year by \$1,374,338. This was due in large part to a decrease in federal and state funding, combined with the district's expenditures not decreasing at the same rate.

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

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

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

The District tried a new approach for operating funds in November 2012 by putting a 1% earned income tax on the ballot. The issue failed, and the district has tried two additional times since then and the results have not changed. The margin has grown closer, but the voters have not approved any additional funds.

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

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

Other items of importance that occurred during the 2013 fiscal year are as follows:

- A step freeze continued for fiscal year 2013. With the state of the economy and with many of our taxpayers losing their jobs it was negotiated, as well as a zero percent change on the base. An actual decrease on the base and three years of step freezes were extremely responsible measures for the administration and staff to take.
- In fiscal year 2013, the District Finance Committee, made up of the Superintendent, Treasurer, administrators, community members and parents, as well as one board member, continued to promote fiscal wellness in the district and to ascertain thoughts and ideas on what the community would like to see in the future with cuts and spending.
- In January 2013, the District instituted an Interscholastic Sports and Activity Pay-to-Participate Policy. The District also eliminated drug testing costs from the general fund, limited district professional development costs, and limited general fund field trips.
- The main goal of Northeastern Local School District: *TO BECOME THE PREMIERE SCHOOL DISTRICT IN CLARK COUNTY AND BEYOND*. In order to do this, we have identified key metrics for success, sought greater input from our stakeholders, and enacted strategies to help us improve. This work has culminated into Northeasterns' first strategic improvement plan. The strategic plan has four core initiatives: student achievement, technology, school climate, and community engagement. Success of the district's four core initiatives is predicated on the effectiveness of the following supporting initiatives: fiscal stewardship, staff development and performance, and operations.
- The Board continued the establishment of a virtual school on and off-campus. This was done to reach some students who otherwise may drop out of school and/or just need a few credits to graduate. Some of these students prefer not to attend school full-time and prefer less structure than a classroom environment.
- The District held its fourth annual 5K run to try and get the community more involved with the schools. It's also part of our effort to promote health and wellness.

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

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

Contacting the School District's Financial Management

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

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF NET POSITION
JUNE 30, 2013**

| | Governmental Activities |
|--|------------------------------------|
| Assets: | |
| Equity in Pooled Cash and Cash Equivalents | \$5,335,621 |
| Cash and Cash Equivalents in Segregated Accounts | 4,000 |
| Cash and Cash Equivalents with Fiscal Agents | 11,764 |
| Accrued Interest Receivable | 3,332 |
| Materials and Supplies Inventory | 115,110 |
| Accounts Receivable | 76,283 |
| Intergovernmental Receivable | 440,144 |
| Prepaid Items | 2,378 |
| Property Taxes Receivable | 12,353,888 |
| Capital Assets, net | 17,419,881 |
| Total Assets | 35,762,401 |
| Liabilities: | |
| Accounts Payable | 108,569 |
| Accrued Wages | 2,564,000 |
| Intergovernmental Payable | 710,476 |
| Matured Bonds Payable | 10,000 |
| Matured Interest Payable | 1,764 |
| Accrued Interest Payable | 8,849 |
| Accrued Vacation Leave Payable | 88,544 |
| Compensated Absences Payable | 214,766 |
| Long-Term Liabilities: | |
| Due Within One Year | 715,531 |
| Due in More Than One Year | 3,341,972 |
| Total Liabilities | 7,764,471 |
| Deferred Inflows of Resources: | |
| Property Taxes Levied for the Next Fiscal Year | 9,366,081 |
| Unamortized Premium on Bonds | 145,637 |
| Total Deferred Inflows of Resources | 9,511,718 |
| Net Position: | |
| Net Investment in Capital Assets | 14,912,422 |
| Restricted for Debt Service | 907,199 |
| Restricted for Capital Outlay | 368,638 |
| Restricted for Other Purposes | 168,975 |
| Unrestricted | 2,128,978 |
| Total Net Position | \$18,486,212 |

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|--|--------------------------------------|---------------------------------------|----------------------------|--|
| Expenses | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities | |
| Governmental Activities: | | | | |
| Instruction: | | | | |
| Regular | \$14,242,926 | \$2,330,606 | \$93,818 | (\$11,818,502) |
| Special | 3,042,310 | | 726,595 | (2,315,715) |
| Vocational | 680,364 | | 119,224 | (561,140) |
| Student Intervention Services | 17,851 | | | (17,851) |
| Other | 16,328 | | | (16,328) |
| Support Services: | | | | |
| Pupils | 1,800,927 | | 168,823 | (1,632,104) |
| Instructional Staff | 1,496,572 | | 149,843 | (1,346,729) |
| Board of Education | 49,315 | | | (49,315) |
| Administration | 2,645,629 | | 63,947 | (2,581,682) |
| Fiscal | 708,076 | 17,148 | | (690,928) |
| Operation and Maintenance of Plant | 2,508,741 | 11,387 | 5 | (2,497,349) |
| Pupil Transportation | 2,173,981 | | 26,044 | (2,147,937) |
| Central | 14,392 | | 4,500 | (9,892) |
| Operation of Non-Instructional Services | 1,600,105 | 672,994 | 869,107 | (58,004) |
| Extracurricular Activities | 961,713 | 199,806 | 37 | (761,870) |
| Interest and Fiscal Charges | 113,521 | | | (113,521) |
| Total Governmental Activities | \$32,072,751 | \$3,231,941 | \$2,221,943 | (26,618,867) |
| General Revenues: | | | | |
| Grants and Entitlements not Restricted to Specific Programs | | | | 14,768,569 |
| Gifts and Donations | | | | 87,209 |
| Investment Earnings | | | | 13,787 |
| Miscellaneous | | | | 9,716 |
| Revenues: | | | | |
| Property and Other Local Taxes | | | | 10,512,421 |
| Rent | | | | 240 |
| Extracurricular Activities | | | | 36,545 |
| Total General Revenues and Property and Other Local Taxes | | | | 25,428,487 |
| Change in Net Position | | | | (1,190,380) |
| Net Position Beginning of Year - Restated | | | | 19,676,592 |
| Net Position End of Year | | | | \$18,486,212 |

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

| | <u>General Fund</u> | <u>Permanent Improvement</u> | <u>All Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|----------------------------------|---|---|
| Assets: | | | | |
| Current Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$3,811,794 | \$329,798 | \$1,194,029 | \$5,335,621 |
| Cash and Cash Equivalents in Segregated Accounts | | | 4,000 | 4,000 |
| Cash and Cash Equivalents with Fiscal Agents | | | 11,764 | 11,764 |
| Materials and Supplies Inventory | 97,967 | | 12,405 | 110,372 |
| Accrued Interest Receivable | 3,332 | | | 3,332 |
| Accounts Receivable | 67,725 | | 8,558 | 76,283 |
| Interfund Receivable | 58,934 | | | 58,934 |
| Intergovernmental Receivable | 294,841 | 1,378 | 143,925 | 440,144 |
| Prepaid Items | 2,378 | | | 2,378 |
| Property Taxes Receivable | 11,561,084 | 406,395 | 386,409 | 12,353,888 |
| Total Assets | <u>15,898,055</u> | <u>737,571</u> | <u>1,761,090</u> | <u>18,396,716</u> |
| Liabilities: | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | 77,851 | 1,939 | 28,779 | 108,569 |
| Accrued Wages | 2,360,935 | | 203,065 | 2,564,000 |
| Interfund Payable | | | 58,934 | 58,934 |
| Intergovernmental Payable | 669,430 | 235 | 40,811 | 710,476 |
| Matured Bonds Payable | | | 10,000 | 10,000 |
| Matured Interest Payable | | | 1,764 | 1,764 |
| Compensated Absences Payable | 213,207 | | 1,559 | 214,766 |
| Total Liabilities | <u>3,321,423</u> | <u>2,174</u> | <u>344,912</u> | <u>3,668,509</u> |
| Deferred Inflows of Resources: | | | | |
| Property Taxes Levied for the Next Fiscal Year | 8,703,035 | 366,191 | 296,855 | 9,366,081 |
| Delinquent Property Tax Revenue not Available | 811,536 | 17,596 | 16,835 | 845,967 |
| Unavailable Grant Revenues | 112,057 | 1,088 | 995 | 114,140 |
| Accrued Interest not Available | 2,004 | | | 2,004 |
| Total Deferred Inflows of Resources | <u>9,628,632</u> | <u>384,875</u> | <u>314,685</u> | <u>10,328,192</u> |
| Fund Balances: | | | | |
| Nonpendable | 100,345 | | 12,405 | 112,750 |
| Restricted | 11,000 | 350,522 | 1,061,624 | 1,423,146 |
| Assigned | 996,160 | | 133,264 | 1,129,424 |
| Unassigned | 1,840,495 | | (105,800) | 1,734,695 |
| Total Fund Balances | <u>2,948,000</u> | <u>350,522</u> | <u>1,101,493</u> | <u>4,400,015</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$15,898,055</u> | <u>\$737,571</u> | <u>\$1,761,090</u> | <u>\$18,396,716</u> |

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2013**

| | | |
|--|---------------------|----------------------------|
| Total Governmental Fund Balances | | \$4,400,015 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of: | | |
| Land | \$268,349 | |
| Depreciable capital assets | 33,479,415 | |
| Accumulated depreciation | <u>(16,327,883)</u> | |
| Total capital assets | | 17,419,881 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: | | |
| Property Taxes Receivable | 845,967 | |
| Intergovernmental Receivable | 114,140 | |
| Accrued Interest Receivable | <u>2,004</u> | |
| | | 962,111 |
| Unamortized premiums on bonds issued are not recognized in the funds | | (145,637) |
| Federal donated commodities are not reported in the funds. | | 4,738 |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. | | (8,849) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of: | | |
| Bonds and notes payable | (2,290,000) | |
| Compensated absences | (1,782,320) | |
| Capital leases | <u>(73,727)</u> | |
| Total liabilities | | <u>(4,146,047)</u> |
| Net Position of Governmental Activities | | <u><u>\$18,486,212</u></u> |

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

| | <u>General Fund</u> | <u>Permanent Improvement</u> | <u>Governmental Funds</u> | <u>Governmental Funds</u> |
|---|---------------------|----------------------------------|-------------------------------|-------------------------------|
| Revenues: | | | | |
| Property and Other Local Taxes | \$9,643,165 | \$345,638 | \$381,708 | \$10,370,511 |
| Intergovernmental | 14,678,314 | 67,946 | 2,129,768 | 16,876,028 |
| Interest | 11,953 | | 174 | 12,127 |
| Tuition and Fees | 2,266,269 | | | 2,266,269 |
| Rent | 240 | | | 240 |
| Extracurricular Activities | 64,194 | | 194,642 | 258,836 |
| Gifts and Donations | 32,490 | | 54,719 | 87,209 |
| Customer Sales and Services | | | 672,994 | 672,994 |
| Miscellaneous | 39,264 | | 16,567 | 55,831 |
| Total Revenues | <u>26,735,889</u> | <u>413,584</u> | <u>3,450,572</u> | <u>30,600,045</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 13,805,440 | 256,695 | 184,083 | 14,246,218 |
| Special | 2,301,517 | | 700,525 | 3,002,042 |
| Vocational | 653,914 | | | 653,914 |
| Student Intervention Services | 17,851 | | | 17,851 |
| Other | 16,328 | | | 16,328 |
| Support Services: | | | | |
| Pupils | 1,597,749 | | 177,849 | 1,775,598 |
| Instructional Staff | 1,277,518 | 5,040 | 159,887 | 1,442,445 |
| Board of Education | 49,315 | | | 49,315 |
| Administration | 2,518,022 | 10,047 | 64,833 | 2,592,902 |
| Fiscal | 696,381 | 10,115 | 7,753 | 714,249 |
| Operation and Maintenance of Plant | 2,377,008 | 138,760 | 6,071 | 2,521,839 |
| Pupil Transportation | 1,949,506 | 138,645 | 26,044 | 2,114,195 |
| Central | 10,397 | | 4,756 | 15,153 |
| Operation of Non-Instructional Services | 9,347 | 1,236 | 1,597,122 | 1,607,705 |
| Extracurricular Activities | 741,264 | 24,015 | 215,719 | 980,998 |
| Capital Outlay | | 31,582 | | 31,582 |
| Debt Service: | | | | |
| Principal | 48,012 | | 320,000 | 368,012 |
| Interest | | | 114,988 | 114,988 |
| Total Expenditures | <u>28,069,569</u> | <u>616,135</u> | <u>3,579,630</u> | <u>32,265,334</u> |
| Excess of Revenues (Under) Expenditures | <u>(1,333,680)</u> | <u>(202,551)</u> | <u>(129,058)</u> | <u>(1,665,289)</u> |
| Other Financing Sources: | | | | |
| Transfers In | | | 40,658 | 40,658 |
| Transfers Out | (40,658) | | | (40,658) |
| Total Other Financing Sources | <u>(40,658)</u> | | <u>40,658</u> | |
| Net Change in Fund Balances | (1,374,338) | (202,551) | (88,400) | (1,665,289) |
| Fund Balance at Beginning of Year | <u>4,322,338</u> | <u>553,073</u> | <u>1,189,893</u> | <u>6,065,304</u> |
| Fund Balance at End of Year | <u>\$2,948,000</u> | <u>\$350,522</u> | <u>\$1,101,493</u> | <u>\$4,400,015</u> |

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Net Change in Fund Balances - Total Governmental Funds (\$1,665,289)

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

Governmental funds report capital outlays as expenditures.

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

| | | |
|---------------------------|------------------|-----------|
| Fixed Asset Additions | \$531,409 | |
| Current Year Depreciation | (816,853) | |
| Fixed Asset Deletions | <u>(129,174)</u> | |
| | | (414,618) |

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

| | | |
|----------------|--------------|---------|
| Property Taxes | 141,910 | |
| Grants | 114,140 | |
| Interest | <u>2,004</u> | |
| | | 258,054 |

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

| | | |
|--------------------------------|---------------|---------|
| Bond principal retirement | 320,000 | |
| Capital lease payments | <u>48,012</u> | |
| Total long-term debt repayment | | 368,012 |

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

| | |
|---|--------|
| Current Year Impact of Long-Term Debt Premium | 24,272 |
|---|--------|

| | |
|--|-------|
| In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due. | 1,467 |
|--|-------|

| | |
|--|---------|
| Donated commodities received and used are not recognized in the funds. | (1,178) |
|--|---------|

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

| | |
|----------------------|----------------|
| Compensated Absences | <u>238,900</u> |
|----------------------|----------------|

| | |
|---|-----------------------------|
| Change in Net Position of Governmental Activities | <u><u>(\$1,190,380)</u></u> |
|---|-----------------------------|

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|--|-------------------------|--------------------|--------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues: | | | | |
| Property and Other Local Taxes | \$12,620,408 | \$10,383,016 | \$10,383,016 | |
| Intergovernmental | 11,429,220 | 14,498,402 | 14,498,402 | |
| Interest | 14,229 | 18,050 | 18,050 | |
| Tuition and Fees | 1,806,482 | 2,291,592 | 2,291,592 | |
| Gifts and Donations | 21,557 | 27,346 | 27,346 | |
| Miscellaneous | 79 | 100 | 100 | |
| Total Revenues | <u>25,891,975</u> | <u>27,218,506</u> | <u>27,218,506</u> | |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 14,128,836 | 13,795,959 | 13,795,959 | |
| Special | 2,308,144 | 2,300,832 | 2,300,832 | |
| Vocational | 743,644 | 655,252 | 655,252 | |
| Other | 42,616 | 34,818 | 34,818 | |
| Support Services: | | | | |
| Pupils | 1,503,842 | 1,629,231 | 1,629,231 | |
| Instructional Staff | 1,505,827 | 1,348,411 | 1,348,411 | |
| Board of Education | 90,826 | 74,605 | 74,605 | |
| Administration | 2,734,702 | 2,555,597 | 2,555,597 | |
| Fiscal | 723,058 | 770,219 | 770,219 | |
| Operation and Maintenance of Plant | 2,979,506 | 2,447,224 | 2,447,224 | |
| Pupil Transportation | 1,916,390 | 1,946,127 | 1,946,127 | |
| Central | 53,587 | 16,859 | 16,859 | |
| Operation of Non-Instructional Services | 3,878 | | | |
| Extracurricular Activities | 734,857 | 753,825 | 753,825 | |
| Total Expenditures | <u>29,469,713</u> | <u>28,328,959</u> | <u>28,328,959</u> | |
| Excess of Revenues Over (Under) Expenditures | <u>(3,577,738)</u> | <u>(1,110,453)</u> | <u>(1,110,453)</u> | |
| Other Financing Sources: | | | | |
| Transfers Out | (8,225) | (40,658) | (40,658) | |
| Refund of Prior Year Expenditures | 22,302 | 28,291 | 28,291 | |
| Advances In | 4,415 | 5,600 | 5,600 | |
| Advances Out | (2,867) | (61,667) | (61,667) | |
| Total Other Financing Sources | <u>15,625</u> | <u>(68,434)</u> | <u>(68,434)</u> | |
| Net Change in Fund Balances | (3,562,113) | (1,178,887) | (1,178,887) | |
| Fund Balance at Beginning of Year | 4,679,282 | 4,679,282 | 4,679,282 | |
| Prior Year Encumbrances Appropriated | <u>115,405</u> | <u>115,405</u> | <u>115,405</u> | |
| Fund Balance at End of Year | <u>\$1,232,574</u> | <u>\$3,615,800</u> | <u>\$3,615,800</u> | <u>\$0</u> |

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013**

| | Private Purpose Trust | |
|--|----------------------------------|---------------|
| | Scholarship | Agency |
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | \$20,835 | \$112,879 |
| Investments in Segregated Accounts | 10,000 | |
| Receivables: | | |
| Accrued Interest | 82 | |
| Total Assets | 30,917 | 112,879 |
| Liabilities | | |
| Undistributed Monies | | 3,455 |
| Due to Students | | 109,424 |
| Total Liabilities | | \$112,879 |
| Net Position | | |
| Held in Trust for Scholarships | \$30,917 | |

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF CHANGES IN FUND NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

| | <u>Private Purpose Trust</u> <u>Scholarship</u> |
|--|--|
| Additions: | |
| Gifts and Contributions | \$7,300 |
| Interest | 37 |
| Total Additions | <u>7,337</u> |
| Deductions: | |
| Payments in Accordance with Trust Agreements | <u>6,050</u> |
| Total Deductions | <u>6,050</u> |
| Change in Net Position | 1,287 |
| Net Position Beginning of Year | <u>29,630</u> |
| Net Position End of Year | <u><u>\$30,917</u></u> |

See accompanying notes to the basic financial statements.

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

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

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; (3) the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; (4) 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. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

The School District participates in the Miami Valley Educational Computer Association (MVECA), Springfield/Clark County Career Technical Center, and the Southwestern Ohio Educational Purchasing Council (SOEPC) which are defined as jointly governed organizations, and the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), which is defined as an insurance purchasing pool. These organizations are presented in Note 17 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Northeastern Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the School District's accounting policies are described below.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

1. Government-wide Financial Statements:

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

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

2. Fund Financial Statements:

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

B. Fund Accounting

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

1. Governmental Funds:

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

2. Fiduciary Fund Types:

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

C. Measurement Focus

1. Government-wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the Statement of Net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

2. Fund Financial Statements:

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred inflow of resources, and in the presentation of expenses versus expenditures.

1. Revenues - Exchange and Non-exchange Transactions:

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

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

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

2. Deferred Outflows/Inflows of Resources:

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes and unamortized premium on bonds. Property taxes represent amounts for which there is an enforceable legal claim as of

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

June 30, 2013, but which were levied to finance fiscal year 2014 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District unavailable revenue includes delinquent property taxes, accrued interest not available, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

3. Expenses/Expenditures:

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

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

E. Budgetary Data

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

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

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

During fiscal year 2013, investments were limited to certificates of deposit, which are reported at cost, First American Treasury Money Market funds, Toyota Motor Credit Commercial Paper, US Treasury Bills, Federal Home Loan Bank Notes, Federal National Mortgage Corporation Notes, and Federal Home Loan Mortgage Corporation (FHLMC) Notes.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2013 amounted to \$11,953 which includes \$3,594 assigned from other School District funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

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

I. Capital Assets

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

J. Compensated Absences

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

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net position

Net position represents the difference between asset and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets 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 position is 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 position are available. None of the restricted net position is restricted by enabling legislation.

M. Fund Balance

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

N. Interfund Activity

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

Interfund transfers for the year ended June 30, 2013, consisted of a transfer from the general fund to the District's food service fund, in the amount of \$40,658, as reported on the fund financial statements.

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2013.

P. Estimates

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

3. ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2013, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, *"Accounting and Financial Reporting for Service Concession Arrangements."*, GASB Statement No. 61, *"The Financial Reporting Entity: Omnibus"*, GASB Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements"*, GASB Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"*, GASB Statement No. 64, *"Derivative Instruments: Application of Hedge Accounting Termination Provisions"* – an amendment of GASB Statement No. 53, *"Fund Balance Reporting and Governmental Fund Type Definitions"* and GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities."*

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

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

GASB Statement No. 60 addresses how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local government are entering into. The provision of this statement is effective for reporting periods beginning after June 15, 2010. The implementation of GASB Statement No. 60 had no impact on these financial statements.

GASB Statement No. 61 improves financial reporting for governmental entities by amending the requirements of Statement No. 14, *“The Financial Reporting Entity”* and No. 34, *“Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of GASB Statement No. 61 had no impact on these financial statements.

GASB Statement No. 62, incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The implementation of GASB Statement No. 62 had no impact on these financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the School District’s fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of GASB Statement No. 64 had no impact on these financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the School District’s fiscal year 2013 financial statements. The implementation of GASB Statement No. 65 had the following effect on the financial statements of the District:

| Governmental Activities | |
|--|--------------|
| Net assets - June 30, 2012 | \$19,805,881 |
| Removal of unamortized bond issuance costs | (129,289) |
| Net position at July 1, 2012 | \$19,676,592 |

B. Fund Deficits

The School District had deficit fund balances in the following special revenue funds as of June 30, 2013:

| Fund | Amount |
|-----------------------|----------|
| Food Service | \$64,169 |
| Auxiliary Services | 8,356 |
| Race to the Top Grant | 20,622 |

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

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

4. BUDGETARY BASIS OF ACCOUNTING

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

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

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

| Net Change in Fund Balance | |
|---|---------------|
| GAAP Basis | (\$1,374,338) |
| Net Adjustment for Revenue Accruals | 516,508 |
| Net Adjustment for Expenditure Accruals | (66,319) |
| Advances | (61,667) |
| Encumbrances | (173,962) |
| Prepays | (856) |
| Funds Budgeted Elsewhere | (18,253) |
| Budget Basis | (\$1,178,887) |

5. DEPOSITS AND INVESTMENTS

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

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

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

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

5. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

5. DEPOSITS AND INVESTMENTS (Continued)

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.

A. Cash on Hand:

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

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

B. Deposits:

At year-end, the carrying amount of the School District's deposits was \$1,621,311 and the bank balance was \$3,765,631. \$273,644 of the bank balance was covered by federal depository insurance and \$3,491,987 was considered uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

C. Investments:

The District's investments at June 30, 2013 are summarized below:

| <u>Investment</u> | <u>0-1 Years Before Maturity</u> | <u>1-5 Years Before Maturity</u> | <u>Credit Rating</u> | <u>% of Portfolio</u> |
|---|--|--|--------------------------|---------------------------|
| First American Treasury Money Market | \$6,087 | | | 0.16% |
| Toyota Motor Credit Commercial Paper | 244,640 | | Aaa, AAA | 6.32 |
| US Treasury Bills | 440,290 | | | 11.38 |
| Federal Home Loan Bank Notes | 950,383 | \$225,106 | Aaa, AAA | 30.38 |
| Federal National Mortgage Association (FNMA) Notes | 225,659 | 1,253,881 | Aaa, AAA | 38.23 |
| Federal Home Loan Mortgage Corporation (FHLMC) | | 523,742 | Aaa, AAA | 13.53 |
| | <u>\$1,867,059</u> | <u>\$2,002,729</u> | | <u>100.00%</u> |

D. Custodial Credit Risk:

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

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

5. DEPOSITS AND INVESTMENTS (Continued)

E. Interest Rate Risk:

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

F. Credit Risk:

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

G. Concentration of Credit Risk:

The District's investment policy provides for diversification to avoid undue concentration in securities of one type or securities. This restriction does not apply to obligations guaranteed by the U.S. government. Of the District's total investments, .16 percent is invested in a money market fund; 6.32 percent is invested in Toyota Motor Credit Commercial Paper; 11.38 percent is invested US Treasury Bills; 30.38 percent are Federal Home Loan Bank Notes; 38.23 percent is invested in Federal National Mortgage Association Notes; and 13.53 percent is invested in Federal Home Loan Mortgage Corporation (FHMLC).

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

| | Cash and Cash Equivalents | Investments |
|---|--------------------------------------|--------------------|
| Cash and Cash Equivalent - Basic Financial Statements | \$5,485,099 | \$10,000 |
| Cash on Hand | (4,000) | |
| Investments: | | |
| CDARS Investments | 10,000 | (10,000) |
| First American Treasury Money Market | (6,087) | 6,087 |
| Toyota Motor Credit Commercial Paper | (244,640) | 244,640 |
| US Treasury Bills | (440,290) | 440,290 |
| Federal Home Loan Bank Notes | (1,175,489) | 1,175,489 |
| Federal National Mortgage Association (FNMA) Notes | (1,479,540) | 1,479,540 |
| Federal Home Loan Mortgage Corporation (FHLMC) | (523,742) | 523,742 |
| Total | \$1,621,311 | \$3,869,788 |

6. PROPERTY TAXES

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

6. PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2013 represent the collection of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed values as of January 1, 2012, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2013 represent the collection of calendar year 2012 taxes. Public utility real and personal property taxes received in calendar year 2013 became a lien on December 31, 2011, were levied after April 1, 2012, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

Tangible personal property tax revenues received in calendar year 2012 (other than public utility property) represent the collection of calendar year 2012 taxes levied against local and inter-change telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures are no longer levied and collected. The October 2011 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2012 were levied after October 1, 2012, on the value as of December 31, 2011. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

| | 2012 Second- Half Collections | | 2013 First- Half Collections | |
|--|--|----------------|---|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$448,888,990 | 98.12% | \$448,299,030 | 97.84% |
| Public Utility Personal | 9,095,990 | 1.88 | 9,910,010 | 2.16 |
| Total | <u>\$457,984,980</u> | <u>100.00%</u> | <u>\$458,209,040</u> | <u>100.00%</u> |
| Tax Rate per \$1,000 of Assessed Valuation | \$48.09 | | \$48.10 | |

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

6. PROPERTY TAXES (Continued)

Accrued property taxes receivable represents real property and public utility property taxes which are measurable as of June 30, 2013, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset to deferred inflows of resources. At June 30, 2013, \$2,046,513 was available as an advance to the general fund, \$72,719 in the permanent improvement fund, and \$22,608 in the non-major governmental funds.

On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources.

7. RECEIVABLES

Receivables at June 30, 2013, consisted of property taxes, accounts (tuition and student fees), intergovernmental grants and interest. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

| | |
|-------------------------------------|-----------|
| Governmental Activities: | |
| SERS Overcharge | \$114,140 |
| BWC Refund | 93,727 |
| Motor Fuel Tax Reimbursement | \$2,873 |
| Casino Tax Money | 90,568 |
| Title VI-B Grant | 105,779 |
| Title I | 33,057 |
| Total Intergovernmental Receivables | \$440,144 |

8. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

| | Balance 6/30/12 | Additions | Deductions | Balance 6/30/13 |
|--|--------------------|-----------|------------|--------------------|
| Governmental Activities: | | | | |
| Capital Asset, not being depreciated: | | | | |
| Land | \$268,349 | | | \$268,349 |
| Total Capital Assets, not being depreciated | 268,349 | | | 268,349 |
| Capital Assets, being depreciated: | | | | |
| Land Improvements | 673,727 | | | 673,727 |
| Buildings and Improvements | 26,515,561 | \$43,173 | | 26,558,734 |
| Furniture and Equipment | 3,701,060 | 371,601 | \$225,802 | 3,846,859 |
| Vehicles | 2,403,776 | 116,635 | 120,316 | 2,400,095 |
| Total Capital Assets, being depreciated | 33,294,124 | 531,409 | 346,118 | 33,479,415 |

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

| | <u>Balance 6/30/12</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance 6/30/13</u> |
|---|----------------------------|--------------------|-------------------|----------------------------|
| Governmental Activities: (Continued) | | | | |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | (371,044) | (58) | | (371,102) |
| Buildings and Improvements | (12,389,819) | (504,715) | | (12,894,534) |
| Furniture and Equipment | (1,621,431) | (201,531) | (157,099) | (1,665,863) |
| Vehicles | (1,345,680) | (110,549) | (59,845) | (1,396,384) |
| Total Accumulated Depreciation | <u>(15,727,974)</u> | <u>(816,853)</u> | <u>(216,944)</u> | <u>(16,327,883)</u> |
| Total Capital Assets being depreciated, net | <u>17,566,150</u> | <u>(285,444)</u> | <u>129,174</u> | <u>17,151,532</u> |
| Governmental Activities Capital Assets, Net | <u>\$17,834,499</u> | <u>(\$285,444)</u> | <u>\$129,174</u> | <u>\$17,419,881</u> |

* Depreciation expense was charged to governmental functions as follows:

| | |
|---|------------------|
| Instruction: | |
| Regular | \$310,409 |
| Special | 55,329 |
| Vocational | 39,457 |
| Support Services: | |
| Pupil | 33,653 |
| Instructional Staff | 31,595 |
| Administration | 53,326 |
| Fiscal | 15,731 |
| Operation and Maintenance of Plant | 46,210 |
| Pupil Transportation | 111,522 |
| Operation of Non-Instructional Services | 61,549 |
| Extracurricular Activities | 58,072 |
| Total Depreciation Expense | <u>\$816,853</u> |

9. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft or, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, the School District contracted with the Southwestern Ohio Educational Purchasing Council for property and fleet insurance, liability insurance, crime, terrorism, and automobile coverage. Coverage provided through this Council is as follows:

| | |
|---|---------------|
| Building and Contents - replacement cost; including Boiler and Machinery | \$350,000,000 |
| Certified Acts of Terrorism | 5,000,000 |
| Automobile Liability (\$0 deductible) | 1,000,000 |
| Uninsured Motorists (\$0 deductible) | 1,000,000 |
| General Liability | |
| Per Occurrence | 1,000,000 |
| Total Per Year | 3,000,000 |

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

9. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2013, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling fund" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Incorporated provides administrative, cost control, and actuarial services to the GRP.

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$622,743, \$586,752 and \$502,685, respectively; 69.96 percent has been contributed for fiscal year 2013 and 100 percent has been contributed for fiscal years 2012 and 2011.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

10. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

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

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2013, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012 and 2011 were \$1,851,237, \$1,907,322 and \$1,697,684, respectively; 84.59% has been contributed for fiscal year 2013 and 100 percent has been contributed for fiscal years 2012 and 2011.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2013, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

11. POST-EMPLOYMENT BENEFITS

A. School Employee Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2013, 0.16 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for fiscal years ended June 30, 2013, 2012, and 2011 were \$127,860, \$100,991, and \$139,949 respectively; 69.96 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2013, the actuarially required allocation is .74%. School District's contributions for the years ended June 30, 2013, 2012 and 2011 were \$35,178, \$34,651, \$32,349, respectively, 69.96 percent has been contributed for 2013 and 100 percent for fiscal years 2012 and 2011.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

11. POST-EMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011 were \$142,403, \$146,717, and \$130,591 respectively; 84.59% has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 280 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, unused sick leave up to the maximum of 280 days. Administrators retiring in fiscal year 2013 were eligible to receive payment of 40 percent of accrued, unused sick leave up to the maximum of 280 days.

B. Insurance Benefits

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

C. Special Termination Benefit

The School District offered a special termination benefit plan through fiscal year 2012. To participate in the plan, an employee must opt for this program the first time they are eligible to retire with 30 years of experience, or the first year eligible according to STRS. For certified staff, the special termination benefit amount is \$60,000, payable over four years after retirement in four equal payments beginning on June 1, 2012, and ending June 1, 2015. For classified employees, the amount is \$5,000, if full-time, \$2,500 if part-time, payable as a lump sum. For the School District, the liability as of June 30, 2013 is \$283,852.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

13. CAPITAL LEASES - LESSEE DISCLOSURE

The School District has entered into several lease agreements for copiers for the district. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the general purpose financial statements for governmental funds. During fiscal year 2011, the School District entered into three new lease agreements, replacing expired leases, for copiers for the district. The items are being capitalized as part of fixed assets. A corresponding liability is included in governmental activities general long term debt. Principal payments in fiscal year 2013 totaled \$48,012. Future minimum lease payments are as follows:

| Year | Amount |
|---|----------|
| 2014 | \$41,252 |
| 2015 | 25,980 |
| 2016 | 6,495 |
| Present Value of Net Minimum Lease Payments | \$73,727 |

14. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2013 were as follows:

| | Amount Outstanding June 30, 2012 | Additions | Deductions | Amount Outstanding June 30, 2013 | Amounts Due Within One Year |
|----------------------------------|--|-----------|------------|--|-----------------------------------|
| Governmental Activities: | | | | | |
| General Obligation Bonds: | | | | | |
| 2005 Refunding GO Bonds | | | | | |
| 3% to 5.75% 14 years | \$2,610,000 | | \$320,000 | \$2,290,000 | \$345,000 |
| Premium on 2005 Refunding | 169,909 | | 24,272 | 145,637 | |
| Total Bond Debt | 2,779,909 | | 344,272 | 2,435,637 | 345,000 |
| Capital Leases | 121,739 | | 48,012 | 73,727 | 41,252 |
| Compensated Absences | 1,468,442 | \$143,851 | 202,369 | 1,409,924 | 207,380 |
| Termination Benefits | 461,523 | | 177,671 | 283,852 | 121,899 |
| Total Governmental Activities | \$4,831,613 | \$143,851 | \$772,324 | 4,203,140 | 715,531 |
| Unamortized Premium | | | | (145,637) | |
| Total Long-Term Liabilities | | | | \$4,057,503 | \$715,531 |

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

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

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

The School District's overall legal debt margin was \$39,838,123 with an un-voted debt margin of \$458,209, and an energy conservation debt margin of \$4,123,881 at June 30, 2013.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

14. LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2013, are as follows:

2005 Refunding GO Bonds

| Fiscal year Ending June 30, | Principal | Interest | Totals |
|--|--------------------|------------------|--------------------|
| 2014 | \$345,000 | \$96,268 | \$441,268 |
| 2015 | 370,000 | 75,714 | 445,714 |
| 2016 | 390,000 | 53,853 | 443,853 |
| 2017 | 395,000 | 35,738 | 430,738 |
| 2018 | 400,000 | 21,725 | 421,725 |
| 2019 | 390,000 | 7,312 | 397,312 |
| Total | <u>\$2,290,000</u> | <u>\$290,610</u> | <u>\$2,580,610</u> |

15. ISSUANCE OF GENERAL OBLIGATION REFUNDING BONDS

On September 15, 2005, the Northeastern Local School District issued \$3,765,000 of General Obligation refunding bonds to provide resources to purchase United States Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$3,765,000 of General Obligation bonds. The School District used the new bonds, previously funded debt service payments, plus \$339,813, to defease the outstanding liability. The refunded portion of the 1996 bonds will be called at the first call date of December 1, 2007. As a result, the in-substance defeasance is considered to be defeased and the liability has been removed from the statement of net position. Until the bonds are called the information will be presented as a note to the financial statements (See Note 16).

16. IN-SUBSTANCE DEFEASANCE OF GENERAL OBLIGATION BONDS

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

| Original Amount | Amount Defeased | Outstanding Amount at 6/30/13 |
|------------------------|------------------------|--------------------------------------|
| \$5,300,000 | \$3,765,000 | \$0 |

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

17. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

A. Jointly Governed Organizations

Miami Valley Educational Computer Association - The School District is a participant in the Miami Valley Educational Computer System (MVECA), which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene, Madison, and Highland Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The School District paid MVECA \$121,180 for services provided during the year. Financial information can be obtained from Thor Sage, Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

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

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

Payments to SOEPC are made from the general fund. During fiscal year 2013, the School District paid \$1,662 to the SOEPC for membership fees. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

B. Insurance Purchasing Pool

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

18. SET-ASIDE CALCULATION

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

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

| | Capital Acquisition |
|--|--------------------------------|
| Set-aside Reserve Balance as of June 30, 2012 | |
| Current Year Set-aside Requirement | \$604,108 |
| Current Year Offsets | (442,442) |
| Qualifying Disbursements | (365,971) |
| Totals | (204,305) |
| Set-aside Balance Carried Forward to Future Fiscal Years | \$0 |

19. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2013.

B. Litigation

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

20. SIGNIFICANT COMMITMENTS

A. Commitments

The School District had the following significant contractual commitments as of June 30, 2013:

| Contractor | Job Description | Amount |
|---------------------------|---|---------------|
| Renaissance Learning Inc. | Provide on-site training for STARS reading and mathematics assessment program | \$25,377 |
| Excel Sports Medicine | Provide athletic training services | \$18,000 |

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

20. SIGNIFICANT COMMITMENTS (Continued)

B. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in governmental funds. Encumbrances are reported as a component of assigned, restricted, or committed fund balances since they do not constitute expenditure or liabilities. Outstanding encumbrances in governmental funds as of June 30, 2013 were as follows:

| Fund Type | Encumbrances |
|-----------------------|--------------|
| General | \$173,692 |
| Permanent Improvement | 38,602 |
| Other Governmental | 69,403 |
| Total | \$281,697 |

21. INTERFUND RECEIVABLES/PAYABLES

An interfund receivable and payable of \$58,934 reported within the General Fund and Other Governmental Funds respectively, represents the amount due to the General Fund from the Title VI B and Race to the Top Special Revenue funds for negative cash balances before fiscal year end. The amounts payable from each fund are \$10,370 and \$48,564 respectively. The negative cash balances reported within these funds is due to the timing of the receipts of federal grant cash requests.

22. FUND BALANCE

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

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

| | General Fund | Permanent Improvement | Other Governmental Funds | Total |
|-------------------------------------|--------------|-----------------------|--------------------------|-----------|
| Non-spendable: | | | | |
| Inventory | \$97,967 | | \$12,405 | \$110,372 |
| Prepaid Items | 2,378 | | | 2,378 |
| Total Non-spendable | 100,345 | | 12,405 | 112,750 |
| Restricted for: | | | | |
| Underground Storage Tank | 11,000 | | | 11,000 |
| Permanent Improvements | | \$350,522 | | 350,522 |
| Building Fund | | | 3,367 | \$3,367 |
| Debt Retirement | | | 962,027 | 962,027 |
| Union Club Scholarship | | | 14,000 | 14,000 |
| Special Trust | | | 44,634 | 44,634 |
| District Managed Student Activities | | | 26,919 | 26,919 |

(Continued)

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

22. FUND BALANCE (Continued)

| | General Fund | Permanent Improvement | Other Governmental Funds | Total |
|------------------------------------|---------------------|----------------------------------|---|--------------------|
| Restricted for: (Continued) | | | | |
| South Vienna Phonics | | | 1,000 | 1,000 |
| Title VI-B | | | 5,508 | 5,508 |
| Preschool | | | 248 | 248 |
| Reducing Class Sizes | | | 3 | 3 |
| Title I | | | 3,918 | 3,918 |
| Total Restricted | 11,000 | 350,522 | 1,061,624 | 1,423,146 |
| Assigned for: | | | | |
| Future Appropriations | 893,777 | | | 893,777 |
| Public School Support | 71,471 | | | 71,471 |
| District 5K Fund | | | 6,020 | 6,020 |
| Hattie Farrell Memorial Fund | | | 2,845 | 2,845 |
| Latchkey | | | 124,399 | 124,399 |
| Other Purposes | 30,912 | | | 30,912 |
| Total Assigned | 996,160 | | 133,264 | 1,129,424 |
| Unassigned | 1,840,495 | | (105,800) | 1,734,695 |
| Total Fund Balance | <u>\$2,948,000</u> | <u>\$350,522</u> | <u>\$1,101,493</u> | <u>\$4,400,015</u> |

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

| FEDERAL GRANTOR Pass Through Grantor Program Title | Federal CFDA Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|---|------------------------------------|--------------------|------------------------------|----------------------|-----------------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | | |
| Child Nutrition Cluster: | | | | | |
| School Breakfast Program | 10.553 | \$42,382 | | \$42,382 | |
| National School lunch Program | | | | | |
| Cash Assistance | 10.555 | 348,011 | | 348,011 | |
| Non-Cash Assistance | 10.555 | | \$ 98,927 | | \$98,927 |
| Total National School Lunch Program | | <u>348,011</u> | <u>98,927</u> | <u>348,011</u> | <u>98,927</u> |
| Total Child Nutrition Cluster | | <u>390,393</u> | <u>98,927</u> | <u>390,393</u> | <u>98,927</u> |
| Total U.S. Department of Agriculture | | <u>390,393</u> | <u>98,927</u> | <u>390,393</u> | <u>98,927</u> |
| U.S. DEPARTMENT OF EDUCATION | | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 396,856 | | 401,983 | |
| Special Education Cluster: | | | | | |
| Special Education Grants to States | 84.027 | 626,305 | | 645,747 | |
| Special Education Preschool Grant | 84.173 | 17,451 | | 17,451 | |
| Total Special Education Cluster | | <u>643,756</u> | | <u>663,198</u> | |
| Education Technology State Grants | 84.318 | 2,093 | | 1,771 | |
| Improving Teacher Quality State Grants | 84.367 | 61,467 | | 61,263 | |
| ARRA- Race to the Top, Incentive Grants, Recovery Act | 84.395 | 95,453 | | 97,950 | |
| Total U.S. Department of Education | | <u>1,199,625</u> | | <u>1,226,165</u> | |
| Total Federal Assistance | | <u>\$1,590,018</u> | <u>\$98,927</u> | <u>\$1,616,558</u> | <u>\$98,927</u> |

The accompanying notes are an integral part of this schedule.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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

NOTE D - MATCHING REQUIREMENTS

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



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Local School District, Clark County, (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 5, 2014, wherein we noted the District adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

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

Dave Yost
Auditor of State

Columbus, Ohio

March 5, 2014



Dave Yost • Auditor of State

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

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

To the Board of Education:

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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



Dave Yost
Auditor of State

Columbus, Ohio

March 5, 2014

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|--|---|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unmodified |
| <i>(d)(1)(ii)</i> | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material internal control weaknesses reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any significant deficiencies in internal control reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unmodified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under § .510(a)? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | CFDA 84.010 - Title I Grants to Local Educational Agencies Special Education Cluster: <ul style="list-style-type: none"> • CFDA 84.027 - Special Education Grants to States • CFDA 84.173 - Special Education Preschool Grant |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | Yes |

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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NORTHEASTERN LOCAL SCHOOL DISTRICT

CLARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 27, 2014**