



**Auditor of State  
Betty Montgomery**



**SOUTHEAST LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	12
Statement of Activities.....	13
Fund Financial Statements:	
Balance Sheet	
Governmental Funds .....	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds .....	16
Reconciliation to the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities .....	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund.....	18
Statement of Net Assets – Proprietary Fund .....	19
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund .....	20
Statement of Cash Flows – Proprietary Fund .....	21
Statement of Fiduciary Assets and Liabilities – Agency Funds.....	22
Notes to the Basic Financial Statements .....	23
Schedule of Receipts and Expenditures of Federal Awards.....	51
Notes to the Schedule of Receipts and Expenditures of Federal Awards .....	52
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	53
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	55
Schedule of Findings.....	57
Schedule of Prior Audit Findings.....	61

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Southeast Local School District  
Wayne County  
9048 Dover Road  
Apple Creek, Ohio 44606

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Southeast Local School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information, of Southeast Local School District, Wayne County, Ohio, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis and is not a required part of the basic financial statements. We subjected the Schedule of Receipts and Expenditures of Federal Awards to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Betty Montgomery**  
Auditor of State

May 21, 2004

**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

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The discussion and analysis of Southeast Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2003 are as follows:

- ❑ Net assets of governmental activities decreased \$533,249, which represents a 40 percent decrease from 2002. The District has no business-type activities.
- ❑ For governmental activities general revenues accounted for \$12.1 million in revenue or 83 percent of all revenues. Program specific revenues in the form of charges for service, sales, rents and contributions accounted for \$2.47 million or 17 percent of total revenues of \$14.6 million.
- ❑ The District had \$15.1 million in expenses related to governmental activities; \$2.47 million of these expenses were offset by program specific charges for services, grants, or contributions. General revenues (primarily state foundation and taxes) of \$12.1 million were adequate to provide for these programs.
- ❑ The general fund, the only major fund, had \$11.3 million in revenues and \$11.6 million in expenditures. The general fund's balance decreased \$247,012 to \$3.2 million.

**Using this Annual Financial Report (AFR)**

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide 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 District's most significant fund with all nonmajor funds presented in total in one column. The District had one major governmental fund, the general fund.

**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

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***Reporting the School District as a Whole***

*Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially in 2003?" The Statement of Net Assets and the Statement of Activities answers 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 District's *net assets* and changes in those assets. This change in net assets is important because it tells the user that, for the District as a whole, the *financial position* of the District has improved or diminished. Changes to our net assets are a direct result of property tax laws in Ohio restricting revenue growth, facility conditions, mandated educational programs, state funding, student enrollment, and general inflation.

In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

- ❑ Governmental Activities – All of District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities and food service.
- ❑ Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District does not currently have any business-type activities.

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

*Fund Financial Statements*

The analysis of the District's major fund begins on page 8. Fund financial reports provide detailed information about the District's major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the school's most significant fund, the General Fund.

***Governmental Funds*** All of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances at year-end available for spending in 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 District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.



**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

*Reporting the District's Fiduciary Responsibilities*

The District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities on page 22. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**The School District as a Whole**

Recall that the Statement of Net Assets provides the perspectives of the District as a whole.

Table 1 provides a summary of the District's net assets for 2003 compared to 2002:

Table 1  
Net Assets

	Governmental Activities	
	2003	2002
<b>Assets</b>		
Current and Other Assets	\$ 11,684,209	\$ 11,955,063
Capital Assets	4,099,459	4,379,330
Total Assets	15,783,668	16,334,393
<b>Liabilities</b>		
Long-Term Liabilities	1,579,985	1,622,433
Other Liabilities	7,676,076	7,575,075
Total Liabilities	9,256,061	9,197,508
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	3,320,202	3,423,925
Restricted	759,451	806,882
Unrestricted	2,447,954	2,901,278
Total Net Assets	\$ 6,527,607	\$ 7,132,085

Net assets of the District's governmental activities remained fairly constant.

**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

Table 2 shows the changes in net assets for fiscal year 2003 compared to 2002.

Table 2  
Changes in Net Assets

	Governmental Activities	
	2003	2002
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$ 599,188	\$ 608,181
Operating Grants	1,837,044	1,798,192
Capital Grants	30,376	97,125
<b>Total Program Revenues</b>	<b>2,466,608</b>	<b>2,503,498</b>
General Revenues:		
Property Taxes	6,287,511	5,976,027
Grants and Entitlements	5,422,295	5,131,122
Other	435,624	394,356
<b>Total General Revenues</b>	<b>12,145,430</b>	<b>11,501,505</b>
<b>Total Revenues</b>	<b>14,612,038</b>	<b>14,005,003</b>
<b>Expenses</b>		
Instruction	8,841,392	8,669,118
Support Services:		
Pupil and Instructional Staff	1,257,967	1,136,827
Board of Education, Administration, and Fiscal	1,834,988	1,876,108
Operation and Maintenance of Plant	1,045,691	987,523
Pupil Transportation and Central	854,441	862,933
Community Service	121,295	118,785
Extracurricular Activities	374,591	393,241
Facilities Acquisition and Construction	221,159	684,686
Interest and Fiscal Charges	53,391	70,333
Food Service	540,372	543,769
<b>Total Expenses</b>	<b>15,145,287</b>	<b>15,343,323</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ (533,249)</b>	<b>\$ (1,338,320)</b>

**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

**Governmental Activities**

The unusual nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As a result of legislation enacted in 1976, the overall revenue generated by a vote does not increase as a result of inflation. As an example, a homeowner with a home value of \$100,000 (Assessed value of \$35,000) and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (assessed value of \$70,000) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Several revenue sources fund our governmental activities with property taxes and state foundation being the largest contributors. Property tax levies generated \$6.3 million in 2003. General revenues from grants and entitlements, such as the school foundation program, generated \$5.4 million. With the combination of taxes and intergovernmental funding over 80 percent of all expenses, the District monitors both of these revenue sources very closely for fluctuations.

Instruction comprises 58 percent of governmental program expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, 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.

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2003	2002	2003	2002
Instruction	\$ 8,841,392	\$ 8,669,118	\$ 7,722,473	\$ 7,337,846
Support Services:				
Pupil and Instructional Staff	1,257,967	1,136,827	729,977	787,689
Board of Education, Administration, Fiscal and Business	1,834,988	1,876,108	1,766,567	1,808,158
Operation and Maintenance of Plant	1,045,691	987,523	1,045,691	987,523
Pupil Transportation and Central	854,441	862,933	847,916	856,601
Community Service	121,295	118,785	(8,348)	(135)
Extracurricular Activities	374,591	393,241	313,861	317,301
Facilities Acquisition and Construction	221,159	684,686	195,947	655,413
Interest and Fiscal Charges	53,391	70,333	53,391	49,336
Food Service	540,372	543,769	11,204	40,093
Total	\$ 15,145,287	\$ 15,343,323	\$ 12,678,679	\$ 12,839,825

**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

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**The District's Funds**

Information about the District's major fund starts on page 14. This fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$14.3 million and expenditures of \$14.8 million.

**General Fund**

The District's general fund balance decreased by \$247,012. The decrease in fund balance can be attributed to expenditures such as payroll and benefits increasing more than property tax and intergovernmental revenues.

***General Fund Budgeting Highlights***

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

During the course of fiscal 2003, the District amended its general fund budget numerous times to allow for the loan to the self-funded insurance fund and other less significant amendments.

For the General Fund, final budget basis revenue was \$11.1 million, above original budget estimates of \$9.9 million. Of this \$1.2 million difference, most was due to an increase in amount of taxes and intergovernmental revenues available to the District. Actual revenue was \$11.4 million, a difference of \$0.3 million from the final budget. This was primarily due to the timing of when property tax and intergovernmental revenues were received.

The original appropriations of \$11.7 million increased to \$11.9 million. Expenditures, however, were only \$11.6 million or \$0.3 million less than anticipated.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2003, the District had \$4.09 million invested in land, infrastructure, buildings, equipment and vehicles all used for governmental activities. Table 4 shows fiscal year 2003 balances compared to 2002:

**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

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

	Governmental Activities	
	2003	2002
Land	\$ 590,040	\$ 590,040
Land Improvements	143,237	460,466
Infrastructure	29,998	-
Buildings and Improvements	1,676,949	1,749,543
Furniture and Equipment	1,008,134	1,045,080
Vehicles	651,101	534,200
	<u>\$ 4,099,459</u>	<u>\$ 4,379,329</u>
Totals	<u>\$ 4,099,459</u>	<u>\$ 4,379,329</u>

The primary increase occurred with infrastructure. The District operates its own sewer plant to process sewage at the High School and Junior High complex. For more information on capital assets, refer to Note 7 in the Basic Financial Statements.

A change in Ohio law requires school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks. For fiscal year 2003, this amounted to \$232,330 for each set aside. For fiscal year 2003, the District had qualifying disbursements or offsets exceeding these requirements with permanent improvement funds covering the capital improvements requirement. The District had budgeted to meet these requirements.

***Debt***

At June 30, 2003 the District had \$ 779,257 in debt outstanding with \$188,146 due within one year. See Note 8 to the basic financial statement for detail. Table 5 summarizes the outstanding debt:

Table 5  
 Outstanding Debt, at Year End

	Governmental Activities 2003	Governmental Activities 2002
	General Obligation Bonds	\$ 310,000
General Obligation Notes	469,257	505,405
	<u>\$ 779,257</u>	<u>\$ 955,405</u>
Total	<u>\$ 779,257</u>	<u>\$ 955,405</u>

**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
*Unaudited*

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The electors of the District approved the issuance of bonds in the amount of \$1.5 million at the election held on November 8, 1988, and the bonds were issued pursuant to such voted authority. The bonds were issued for the addition, renovation, improvements, furnishing and equipping elementary buildings and improving their sites. The Board of Education for the District issued general obligation notes in the amount of \$640,609 under House Bill 264 Energy Conservation Program on March 3, 1998. The District is eligible for funding from the Ohio School Facilities Commission in 2008 under which the State will fund 36% of the District's future facility needs after the issuance of bonds.

### **Current Issues Affecting Financial Condition**

State law fixes the amount of tax revenue, forcing it to remain constant except for new valuations in the District. Management must plan expenses accordingly, staying within the District's five-year plan.

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school-funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General assembly to enact a school-funding scheme that is thorough and efficient...".

The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

Due to the unsettled issues in the school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

### **Contacting the District's Financial Management**

This financial report is designed to provide our parents, citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for money it receives. If you have questions about this report or need additional financial information, contact Eric Koehler, Treasurer at Southeast Local School District, 9048 Dover Road, Apple Creek, Ohio 44606.

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**Southeast Local School District**  
*Wayne County*  
*Statement of Net Assets*  
*For the Fiscal Year Ended June 30, 2003*

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	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 5,131,506
Receivables:	
Taxes - Current	6,325,802
Taxes - Delinquent	192,363
Accounts	6,654
Prepaid Items	8,730
Inventory Held for Resale	19,154
Nondepreciable Capital Assets	590,040
Depreciable Capital Assets, Net	3,509,419
<i>Total Assets</i>	15,783,668
<b>Liabilities</b>	
Accounts Payable	136,093
Accrued Wages and Benefits	1,363,167
Intergovernmental Payable	230,905
Deferred Revenue	5,932,119
Claims Payable	13,792
Long-Term Liabilities:	
Due Within One Year	299,438
Due In More Than One Year	1,280,547
<i>Total Liabilities</i>	9,256,061
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	3,320,202
Restricted for:	
Capital Projects	163,221
Debt Service	385,538
Other Purposes	210,692
Unrestricted	2,447,954
<i>Total Net Assets</i>	\$ 6,527,607

The notes to the basic financial statements are an integral part of this statement.



**Southeast Local School District**  
*Wayne County*  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2003

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$ 6,380,141	\$ 37,461	\$ 26,674	\$ 4,556	\$ (6,311,450)
Special	2,016,003	-	1,050,228	-	(965,775)
Vocational	290,078	-	-	-	(290,078)
Other	155,170	-	-	-	(155,170)
Support Services:					
Pupils	785,262	152,473	262,884	-	(369,905)
Instructional Staff	472,705	-	112,633	-	(360,072)
Board of Education	33,512	-	-	-	(33,512)
Administration	1,457,279	-	67,813	-	(1,389,466)
Fiscal	344,197	-	-	608	(343,589)
Operation and Maintenance					
of Plant	1,045,691	-	-	-	(1,045,691)
Pupil Transportation	821,716	-	-	-	(821,716)
Central	32,725	-	6,525	-	(26,200)
Operation of Non-Instructional					
Services:					
Food Service	540,372	348,524	180,644	-	(11,204)
Community Service	121,295	-	129,643	-	8,348
Extracurricular Activities	374,591	60,730	-	-	(313,861)
Facilities Acquisition and					
Construction Services	221,159	-	-	25,212	(195,947)
Interest and Fiscal Charges	53,391	-	-	-	(53,391)
<i>Total Governmental Activities</i>	<u>15,145,287</u>	<u>599,188</u>	<u>1,837,044</u>	<u>30,376</u>	<u>(12,678,679)</u>
<b>General Revenues</b>					
Property Taxes Levied for:					
					5,880,107
					98,261
					309,143
Grants and Entitlements not Restricted to					
					5,422,295
					80,902
					<u>354,722</u>
					<u>12,145,430</u>
					(533,249)
					<u>7,060,856</u>
					<u>\$ 6,527,607</u>

The notes to the basic financial statements are an integral part of this statement.

**Southeast Local School District**  
*Wayne County*  
*Balance Sheet*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2003*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 4,161,454	\$ 885,127	\$ 5,046,581
Accounts Receivable	6,654	-	6,654
Prepaid Items	8,730	-	8,730
Taxes Receivable	6,099,854	418,311	6,518,165
Interfund Receivable	8,188	-	8,188
Inventory Held for Resale	-	19,154	19,154
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	55,070	-	55,070
<b>Total Assets</b>	<b>\$ 10,339,950</b>	<b>\$ 1,322,592</b>	<b>\$ 11,662,542</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 60,537	\$ 75,556	\$ 136,093
Accrued Wages and Benefits	1,170,316	192,853	1,363,169
Compensated Absences Payable	574	16,753	17,327
Intergovernmental Payable	187,217	43,687	230,904
Deferred Revenue	5,730,863	393,615	6,124,478
Interfund Payable	-	8,188	8,188
<b>Total Liabilities</b>	<b>7,149,507</b>	<b>730,652</b>	<b>7,880,159</b>
<b>Fund Balances</b>			
Reserved for Prepaid Items	8,730	-	8,730
Reserved for Property Taxes	368,991	24,706	393,697
Reserved for Budget Stabilization	55,070	-	55,070
Unreserved - Undesignated, Reported in:			
General Fund	2,757,652	-	2,757,652
Special Revenue Funds	-	55,275	55,275
Debt Service Funds	-	376,713	376,713
Capital Projects Fund	-	135,246	135,246
<b>Total Fund Balances</b>	<b>3,190,443</b>	<b>591,940</b>	<b>3,782,383</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 10,339,950</b>	<b>\$ 1,322,592</b>	<b>\$ 11,662,542</b>

The notes to the basic financial statements are an integral part of this statement.

**Southeast Local School District**  
*Wayne County*  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Assets of Governmental Activities*  
*June 30, 2003*

<b>Total Governmental Funds Balances</b>	\$	3,782,383
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		4,099,459
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds: Property Taxes		192,360
 An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in the statement of net assets.		 16,063
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.		(110,717)
 Long-term liabilities including bonds payable and notes payable, are not due and payable in the current period and therefore are not reported in the funds:		
General Obligations Bonds	(310,000)	
General Obligations Notes	(469,257)	
Compensated Absences	(672,684)	
	<u>                    </u>	
Total		<u>(1,451,941)</u>
		<u><b>\$ 6,527,607</b></u>
 <i>Net Assets of Governmental Activities</i>		

**Southeast Local School District**  
*Wayne County*  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2003*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$ 5,699,853	\$ 385,999	\$ 6,085,852
Intergovernmental	5,422,295	1,873,904	7,296,199
Interest	75,078	10,017	85,095
Tuition and Fees	26,562	-	26,562
Extracurricular Activities	-	211,822	211,822
Classroom Materials and Supplies	10,899	-	10,899
Food Service	-	348,524	348,524
Miscellaneous	73,239	133,296	206,535
<i>Total Revenues</i>	<b><u>11,307,926</u></b>	<b><u>2,963,562</u></b>	<b><u>14,271,488</u></b>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	5,657,705	164,407	5,822,112
Special	812,657	1,163,739	1,976,396
Vocational	289,435	-	289,435
Other	155,170	-	155,170
Support Services			
Pupils	336,133	457,997	794,130
Instructional Staff	307,963	129,934	437,897
Board of Education	33,512	-	33,512
Administration	1,390,608	76,024	1,466,632
Fiscal	318,767	23,272	342,039
Operation and Maintenance of Plant	990,801	1,230	992,031
Pupil Transportation	933,750	-	933,750
Central	28,194	4,531	32,725
Operation of Non-Instructional Services			
Community Service	-	121,295	121,295
Food Service	-	537,989	537,989
Extracurricular Activities	235,408	139,144	374,552
Facilities Acquisition and Construction Services	21,446	199,713	221,159
Debt Service:			
Principal Retirement	36,148	140,000	176,148
Interest and Fiscal Charges	19,710	28,525	48,235
<i>Total Expenditures</i>	<b><u>11,567,407</u></b>	<b><u>3,187,800</u></b>	<b><u>14,755,207</u></b>
<i>Excess of Revenues (Under) Expenditures</i>	<i>(259,481)</i>	<i>(224,238)</i>	<i>(483,719)</i>
<b>Other Financing Sources (Uses)</b>			
Proceeds From the Sale of Assets	8	-	8
Other Miscellaneous Use of Funds	-	(5,980)	(5,980)
Refund of Prior Year Expenditures	12,461	-	12,461
<i>Total Other Financing Sources (Uses)</i>	<b><u>12,469</u></b>	<b><u>(5,980)</u></b>	<b><u>6,489</u></b>
<i>Net Change in Fund Balances</i>	<i>(247,012)</i>	<i>(230,218)</i>	<i>(477,230)</i>
<i>Fund Balances Beginning of Year -     Restated (See Note 3)</i>	<b><u>3,437,455</u></b>	<b><u>822,158</u></b>	<b><u>4,259,613</u></b>
<i>Fund Balances End of Year</i>	<b><u>\$ 3,190,443</u></b>	<b><u>\$ 591,940</u></b>	<b><u>\$ 3,782,383</u></b>

The notes to the basic financial statements are an integral part of this statement.

**Southeast Local School District**  
*Wayne County*  
*Reconciliation of the Statement of Revenues, Expenditures and Changes*  
*in Fund Balances of Governmental Funds to the Statement of Activities*  
*For the year ended June 30, 2003*

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	(477,230)
 <i>Amounts reported for governmental activities in the statement of activities are different because</i>		
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.		
Capital Assets Additions		391,609
Current Year Depreciation		<u>(668,597)</u>
Total		(276,988)
Governmental funds only report the gain from the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
		(2,882)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent Property Taxes		192,363
Repayment of school improvement bonds, notes and capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
General Obligations Bonds		140,000
General Obligations Notes		36,148
Capital Leases		<u>3,682</u>
Total		179,830
Some expenses 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		(158,488)
Pension Obligations		<u>(17,079)</u>
Total		(175,567)
The net revenue of the internal service fund used by management to charge the costs of health insurance is included in the statement of activities and not on the governmental fund expenditures.		
		<u>27,225</u>
 <i>Change in Net Assets of Governmental Activities</i>	 <b>\$</b>	 <b><u>(533,249)</u></b>

**Southeast Local School District**  
*Wayne 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, 2003*

	General Fund			
	Original Budget	Revised Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>				
Taxes	\$ 5,037,935	\$ 5,644,700	\$ 5,833,736	\$ 189,036
Tuition and Fees	22,313	25,000	26,562	1,562
Earnings on Investments	111,563	125,000	75,078	(49,922)
Intergovernmental	4,695,479	5,261,000	5,422,294	161,294
Classroom Materials and Fees	9,818	11,000	10,899	(101)
Miscellaneous	17,850	20,000	66,585	46,585
<i>Total Revenues</i>	<b>9,894,958</b>	<b>11,086,700</b>	<b>11,435,154</b>	<b>348,454</b>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	5,647,288	5,755,398	5,692,745	62,653
Special	780,725	795,671	786,839	8,832
Vocational	300,591	306,345	292,605	13,740
Other	151,164	154,058	155,170	(1,112)
Support Services:				
Pupils	339,905	346,412	332,497	13,915
Instructional Staff	329,597	335,907	311,936	23,971
Board of Education	34,607	35,270	34,560	710
School Administration	1,434,891	1,462,360	1,421,429	40,931
Fiscal	324,287	330,495	318,543	11,952
Operations and Maintenance	977,881	996,601	980,652	15,949
Pupil Transportation	999,849	1,018,990	989,796	29,194
Central	28,872	29,425	28,194	1,231
Extracurricular Activities	246,244	250,958	234,128	16,830
Facilities and Acquisition	10,693	10,898	10,995	(97)
Debt Service:				
Principal Retirement	35,968	36,657	36,148	509
Interest and Fiscal Charges	24,303	24,768	24,866	(98)
<i>Total Expenditures</i>	<b>\$ 11,666,865</b>	<b>\$ 11,890,213</b>	<b>\$ 11,651,103</b>	<b>\$ 239,110</b>
<i>Excess (Deficit) of Revenues Over (Under) Expenditures</i>	<b>\$ (1,771,907)</b>	<b>\$ (803,513)</b>	<b>\$ (215,949)</b>	<b>\$ 587,564</b>
<b>Other Financing Sources (Uses)</b>				
Sale of Assets	-	2,500	8	(2,492)
Advances Out	-	(8,200)	(8,188)	12
Refund of Prior Year Expenditures	-	-	12,461	12,461
<i>Total Other Sources/ (Uses)</i>	<b>-</b>	<b>(5,700)</b>	<b>4,281</b>	<b>9,981</b>
<i>Net Change in Fund Balance</i>	(1,771,907)	(809,213)	(211,668)	597,545
<i>Fund Balance Beginning of Year</i>	4,239,084	4,239,084	4,239,084	-
Prior Year Encumbrances Appropriated	(232,543)	(232,543)	(232,543)	-
<b>Fund Balances - June 30, 2003</b>	<b>\$ 2,234,634</b>	<b>\$ 3,197,328</b>	<b>\$ 3,794,873</b>	<b>\$ 597,545</b>

The notes to the basic financial statements are an integral part of this statement.

**Southeast Local School District**  
*Wayne County*  
*Statement of Net Assets*  
*Proprietary Funds*  
*For the Fiscal Year Ended June 30, 2003*

	Governmental Activity - Insurance Internal Service Fund
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 29,855
<i>Total Assets</i>	29,855
<b>Liabilities</b>	
Current Liabilities	
Claims Payable	13,792
<i>Total Liabilities</i>	13,792
<b>Net Assets</b>	
Unrestricted	16,063
<i>Total Net Assets</i>	\$ 16,063

The notes to the basic financial statements are an integral part of this statement.

**Southeast Local School District**  
*Wayne County*  
*Statement of Revenues,*  
*Expenses and Changes in Fund Net Assets*  
*Proprietary Funds*  
*For the Fiscal Year Ended June 30, 2003*

	Governmental Activity Insurance Internal Service Fund
<b>Operating Revenues</b>	
Charges for Services	\$ 141,698
<i>Total Operating Revenues</i>	141,698
<b>Operating Expenses</b>	
Claims	114,473
<i>Total Operating Expenses</i>	114,473
<i>Change in Net Assets</i>	27,225
<i>Net Assets Beginning of Year</i>	(11,162)
<i>Net Assets End of Year</i>	\$ 16,063

The notes to the basic financial statements are an integral part of this statement.



**Southeast Local School District**  
*Wayne County*  
*Statement of Cash Flows*  
*Proprietary Funds*  
*For the Fiscal Year Ended June 30, 2003*

	Governmental Activity - Insurance Internal Service Fund
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Transactions With Other Funds	\$ 141,698
Cash payments for Claims	(116,190)
<i>Net cash provided by operating activities</i>	25,508
<i>Net increase in cash and cash equivalents</i>	25,508
<i>Cash &amp; Cash Equivalents Beginning of Year</i>	4,347
<i>Cash &amp; Cash Equivalents End of Year</i>	\$ 29,855
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Income	\$ 27,225
Adjustments:	
(Decrease) in Liabilities:	
Claims Payable	(1,717)
<i>Net Cash Provided by Operating Activities</i>	\$ 25,508

The notes to the basic financial statements are an integral part of this statement.

**Southeast Local School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*For the Fiscal Year Ended June 30, 2003*

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	<u>Student Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 33,805</u>
<b>Liabilities</b>	
Due to Students	<u>\$ 33,805</u>

The notes to the basic financial statements are an integral part of this statement.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**1. Description of the School District and Reporting Entity**

The Southeast Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is governed by a five-member Board of Education (the Board) elected by its citizens and is responsible for the provision of public education to residents of the District. The board oversees the operations of the District's six instructional and support facilities. Average daily membership as of June 30, 2003 was 1,730. The District employed 147 certified and 102 non-certified employees.

*The Reporting Entity*

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

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

*Joint Venture*

The District participates in a joint venture to operate the Midland Council of Governments (COG), a regional council of governments established to provide efficient and cost effective computer and data processing services to each member. Other participants in the COG include school districts in Ashland, Holmes, and Wayne Counties, and the Wadsworth City School District.

The COG was established in July of 1993 and is governed by a seven-member Executive Committee, appointed by the COG. The Tri-County Educational Service Center serves as fiscal agent for the COG and is responsible for all financial reporting for the COG.

The COG is funded by member fees and state grants. The Executive Committee determines and sets the member fees for all services to the COG. Fees are billed to member districts annually around July 1<sup>st</sup>. The District paid \$25,155 in fees for 2001-02 and \$75,352 in fees for 2002-03. The District has no equity interest in the COG.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**1. Description of the School District and Reporting Entity (Continued)**

*Joint Venture (Continued)*

Upon dissolution of the COG, any unclaimed assets remaining on the COG's books shall be distributed as follows:

1. All tangible personal property previously loaned or given to the COG that is clearly identified as to ownership shall be returned to the owner member.
2. All remaining tangible personal property shall be sold at public sale in accordance with the ORC 307.12 by sealed bid. The cash proceeds and all remaining assets and other intangibles, including moneys, shall be distributed to the member districts in proportion to the ADM of the district.

Upon withdrawal from the COG, a member shall be released from all obligations and liabilities of the COG except those for which it was a contracting party or for pending claims. The withdrawing member district shall receive any tangible personal property it individually owns and which is housed remotely. Any and all other moneys, grants, and property housed at the data center shall remain that of the COG.

Upon termination/suspension from the COG, a member shall return all equipment or assets owned by the Executive Committee and will be responsible for any loss in state funding to the COG as a result of the termination.

Complete financial statements for the COG can be obtained from the Tri-County Educational Service Center, 741 Winkler Drive, Wooster, Ohio 44691.

*Jointly Governed Organizations*

*Wayne County Career Center*

The Wayne County Career Center (the Career Center) is a separate body politic and corporate, established by the Ohio Revised Code. The Board of Education is comprised of representatives from the Board of each participating school district independent of the Southeast Local School District. The Board is responsible for approving its own budgets, appointing personnel, and accounting and financing related activities. Students from the Southeast Local School District may attend the Career Center for vocational training.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**1. Description of the School District and Reporting Entity (Continued)**

*Jointly Governed Organizations (Continued)*

*Wayne County Schools Council*

The District, in conjunction with four other Wayne County school districts, has created the Wayne County Schools Council (the Council) for the purpose of providing a Health Care Benefits program. Other school districts participating in the Council are Dalton Local, Green Local, Northwestern Local, and North Central Local.

The Board of Directors is comprised of one representative from each school district. Northwestern Local School District serves as fiscal agent for the Council.

Through the Council, the District offers its employees a health care program through Medical Mutual of Ohio (MMO). Insurance rates are set by MMO, and payment is made to MMO, through the Council's fiscal agent.

Administrative costs are determined annually by the Board of Directors. The fees are paid out of the reserve balance fund, for administrative and consultant fees.

*Tri-County Computer Service Association*

The District is a member of the Tri-County Computer Service Association (TCSSA), a jointly governed organization which provides computer services to the school districts within the boundaries of Wayne, Holmes, and Ashland Counties. Each District's superintendent serves as a representative on the Board, which consists of 20 member districts. However, TCSSA is primarily governed by a five-member executive Board that meets monthly to address any current issues.

**2. Summary of Significant Accounting Policies**

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as it applies to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under the guidelines of Governmental Accounting Standards Board (GASB) Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Units That Use Proprietary Fund Accounting*, the District has elected not to apply Financial Accounting Standards Board (FASB) Statements and interpretations issued after November 30, 1989, to its proprietary activities. The adoption of this approach to accounting for proprietary activities by the District has required no change from prior years. The District applies FASB Statements and Interpretation issued on or before November 30, 1989 to its governmental activities, unless those pronouncements conflict with or contradict GASB pronouncements.

The District's significant accounting policies are described below.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**2. Summary of Significant Accounting Policies (Continued)**

***A. Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the 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 support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental activity is self-financing or draws from the general revenues of the District.

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

***B. Fund Accounting***

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

***Governmental Funds*** Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following is the District's major governmental fund:

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**2. Summary of Significant Accounting Policies (Continued)**

***B. Fund Accounting (Continued)***

*General Fund*

The General Fund is the operating fund of the 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 District for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

***Proprietary Fund Types*** Proprietary Funds are used to account for the District's ongoing activities that are similar to those found in the private sector. The following is the District's Proprietary Fund type:

*Internal Service Funds*

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides dental benefits to employees.

***Fiduciary Fund Type*** Fiduciary Funds are used to account for assets held by the District, in a trustee capacity or as an agent on behalf of others. The following is the District's Fiduciary Fund Type:

*Agency Funds*

Agency Funds are used to account for assets held by the District as an agent. Agency Funds are custodial in nature (Assets equal Liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**2. Summary of Significant Accounting Policies (Continued)**

**C. Measurement Focus**

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

**Fund Financial Statements** All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. 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.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statements of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

**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. Governmental funds use a modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Difference in the accrual and modified accrual of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.



**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**2. Summary of Significant Accounting Policies (Continued)**

***D. Basis of Accounting (Continued)***

***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 when 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 District, available means expected to be received within 60 days of year-end.

Nonexchange transactions, in which the 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. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

***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 the governmental funds.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**2. Summary of Significant Accounting Policies (Continued)**

***E. Cash and Cash Equivalents***

To improve cash management, all cash received by the District is pooled at various banks. Monies for all funds, including proprietary funds, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements. During fiscal year 2003, investments were limited to STAR Ohio.

STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

***F. Inventory***

Inventories are valued at cost (first in, first out) and are determined by physical count. Inventories consist of expendable supplies held for consumption and food service items held for resale. The cost has been recorded as an expense at the time individual inventory items were consumed. Donated commodities which are still on hand at year-end are recorded as deferred revenue.

***G. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2003 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

***H. Capital Assets***

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000. 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.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

**2. Summary of Significant Accounting Policies (Continued)**

***H. Capital Assets (Continued)***

All reported capital assets except land 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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land Improvements	5 – 50 years
Buildings and Improvements	8 – 50 years
Furniture and Equipment	5 – 20 years
Vehicles	7 – 10 years
Infrastructure	50 years

***I. Restricted Assets***

Restricted assets in the General Fund represents cash and cash equivalents set aside to establish a budget stabilization reserve. This reserve is required by State statute. Fund balance reserve has also been established.

***J. Intergovernmental Revenues***

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. The District currently participates in various state and federal programs categorized as follows:

Entitlements

General Fund

*State Foundation Program*

Nonreimbursable Grants

Special Revenue Funds

- Title I
- Title VI
- Title VI-R
- Title VI-B Flow Through Grant
- Eisenhower Grant
- Auxiliary Services Flow Through
- Ohio Reads
- Summer Intervention
- Career Development
- Drug Free Schools Grant

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**2. Summary of Significant Accounting Policies (Continued)**

***J. Intergovernmental Revenues (Continued)***

Capital Projects Funds  
SchoolNet Plus  
Long Distance Learning Grant (IVDL)

Reimbursable Grants

Special Revenue Funds  
National School Lunch Program  
Government Donated Commodities

***K. 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 District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future, in accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, Accounting for Compensated Absences. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**2. Summary of Significant Accounting Policies (Continued)**

***L. Accrued Liabilities and Long-Term Obligations***

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

In general, governmental fund 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 funds. However, claims and judgments, compensated absences, contractually required pension contributions, and special termination benefits 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 year. Bonds are recognized as a liability on the fund financial statements when due.

***M. Interfund Transactions***

On fund financial statements receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated on the Statement of Net Assets.

***N. Fund Balance Reserves***

The District records reservations for portions of fund equity which are legally segregated for specific future use of which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves are established for prepaid items, property taxes, and budget stabilization. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

***O. Estimates***

The preparation of the basic 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.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**2. Summary of Significant Accounting Policies (Continued)**

***P. Net Assets***

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

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

***Q. 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 established 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 the level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

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 amended certificate in effect at the time the final appropriations were passed.

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 during the year, including all supplemental appropriations.

***R. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide services that are the primary activity of the fund.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**3. Accountability and Compliance**

*A. Changes in Accounting Principles and Restatement of Fund Balance*

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule – Perspective Differences" and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements 37, 38 and 41 and GASB Interpretation No. 6.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the District not being able to present budgetary comparison for the general fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB Statement No. 34 creates new basic financial statements for reporting on the District’s financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements that present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements show the District’s programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

***Governmental Activities – Fund Reclassification and Restatement of Fund Balance*** – Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. Two funds previously reported as enterprise funds were reclassified and are now part of the other nonmajor governmental funds.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2003

**3. Accountability and Compliance (Continued)**

**A. Changes in Accounting Principles and Restatement of Fund Balance (Continued)**

The fund reclassification had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2002	\$ 3,437,455	\$ 774,856	\$ 4,212,311
Fund reclassifications	<u>          -</u>	<u>      47,302</u>	<u>      47,302</u>
Restated fund balance June 30, 2002	<u>\$ 3,437,455</u>	<u>\$ 822,158</u>	<u>\$ 4,259,613</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Restated fund balance, June 30, 2002	\$ 4,259,613
GASB 34 adjustments:	
Long-term (deferred) assets	(611,520)
Capital assets	4,379,330
Long-term liabilities	(955,405)
Internal Service	<u>      (11,162)</u>
Governmental activities net assets, June 30, 2002	<u>\$ 7,060,856</u>

**B. Deficit Fund Balances/Net Assets**

Fund balances/net assets at June 30, 2003 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Title I	\$153,190
Title VI R	9,083

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

**C. Compliance**

Contrary to Ohio Rev. Code Section 5705.41(D), the District did not certify the availability of funds for certain expenditures prior to incurring the obligation.



**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2003

**4. Budgetary Basis of Accounting**

While the 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 that:

1. Revenues and other sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures and other uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an accounts payable (GAAP Basis).

The adjustments necessary to convert the results of operations for the year on a budget basis to the GAAP basis for the general fund is as follows:

<u>Net Change in Fund Balances</u>	
Budget Basis	\$ (211,668)
Net Adjustment for Revenue	
Accruals	(127,228)
Net Adjustment for Expenditure	
Accruals	5,844
Net Adjustment for Other	
Financing Sources	8,188
Adjustment for Encumbrances	<u>77,852</u>
GAAP Basis	<u>\$ (247,012)</u>

**5. Deposits and Investments**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Cash Equivalents". State statutes classify monies held by the 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 District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**5. Deposits and Investments (Continued)**

Inactive deposits are public deposits that the Board has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing no later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (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 may be deposited or invested in the following obligations:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by 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 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 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);

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**5. Deposits and Investments (Continued)**

7. Certain bankers' acceptance and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% 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 District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, *Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*.

**Deposits** At year end, the carrying amount of the District's deposits was \$1,032,301 and the bank balance was \$1,168,020. Of the bank balance,

1. \$112,407 was covered by federal depository insurance; and
2. \$1,055,613 was uninsured and unregistered as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2003

**5. Deposits and Investments (Continued)**

**Investments** The District's Investments are categorized below to give an indication of the level of custodial credit risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name. The District's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is unclassified as it is not evidenced by securities that exist in physical or book entry form.

	<u>Carrying Value</u>	<u>Fair Value</u>
STAR Ohio Investments	\$4,133,010	\$4,133,010

**6. Property Taxes**

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied after April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2002 taxes were collected was \$231,053,870. Agricultural/residential and public utility/minerals real estate represented 73.47% or \$169,754,880 of this total; commercial and industrial real estate represented 10.53% or \$24,323,330 of this total; public utility tangible represented 3.34% or \$7,713,060 of this total; and general tangible property represented 12.66% or \$29,262,600 of this total.

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

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2003

**6. Property Taxes (Continued)**

The District receives property taxes from Wayne, Holmes, and Stark County. These County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2003. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to a deferred revenue for that portion not intended to finance current year operations. The amounts available to the District as an advance at June 30 are recognized as revenue.

The amount available as an advance at June 30, 2003 was \$393,697. \$368,991 was available to the general fund, \$5,918 to the bond retirement debt service fund and \$18,788 to the permanent improvement capital projects fund.

**7. Capital Assets**

A. The capital asset balances of the governmental activities have been restated due to fund reclassifications, and to separate out land from Land Improvements:

<b>Governmental Activities</b>	Balance <u>7/1/02</u>	<u>Adjustments</u>	Restated Balance <u>6/30/02</u>
Capital assets, not being depreciated:			
Land	\$ -	\$ 590,040	\$ 590,040
Total capital assets, not being depreciated	<u>\$ -</u>	<u>590,040</u>	<u>590,040</u>
Capital assets, being depreciated:			
Land Improvements	1,050,506	(590,040)	460,466
Buildings and Improvements	4,243,958	-	4,243,958
Furniture and equipment	2,420,250	232,942	2,653,192
Vehicles	1,377,135	3,317	1,380,452
Infrastructure	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, being depreciated	<u>9,091,849</u>	<u>(353,781)</u>	<u>8,738,068</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(4,948,779)</u>	<u>(4,948,779)</u>
Governmental activities capital assets, net	<u>\$ 9,091,849</u>	<u>\$ (4,712,520)</u>	<u>\$ 4,379,329</u>

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2003

**7. Capital Assets (Continued)**

B. Capital Asset activity during the fiscal year ended June 30, 2003 was as follows:

<b>Governmental Activities</b>	Restated Balance 7/1/02	Additions	Disposals	Balance 6/30/03
<b><i>Non-Depreciable Assets</i></b>				
Land	\$ 590,040	\$ -	\$ -	\$ 590,040
<b><i>Depreciable Assets</i></b>				
Land Improvements	460,466	-	-	460,466
Infrastructure	-	30,301	-	30,301
Buildings and Improvements	4,243,958	5,298	-	4,249,256
Furniture and Equipment	2,653,192	137,618	(13,778)	2,777,032
Vehicles	<u>1,380,452</u>	<u>218,392</u>	<u>-</u>	<u>1,598,844</u>
<b><i>Total Depreciable Assets</i></b>	<b><u>8,738,068</u></b>	<b><u>391,609</u></b>	<b><u>(13,778)</u></b>	<b><u>9,115,899</u></b>
<b><i>Less Accumulated Depreciation</i></b>				
Land Improvements	-	(317,229)	-	(317,229)
Infrastructure	-	(303)	-	(303)
Buildings and Improvements	(2,494,415)	(77,892)	-	(2,572,307)
Furniture and Equipment	(1,608,112)	(171,682)	10,896	(1,768,898)
Vehicles	<u>( 846,252)</u>	<u>(101,491)</u>	<u>-</u>	<u>(947,743)</u>
<b><i>Total Accumulated Depreciation</i></b>	<b><u>(4,948,779)</u></b>	<b><u>(668,597)*</u></b>	<b><u>10,896</u></b>	<b><u>(5,606,480)</u></b>
<b><i>Depreciable Capital Assets, Net</i></b>	<b><u>3,789,289</u></b>	<b><u>(276,988)</u></b>	<b><u>(2,882)</u></b>	<b><u>3,509,419</u></b>
<b>Governmental Activities Capital Assets, Net</b>	<b><u>\$4,379,329</u></b>	<b><u>\$(276,988)</u></b>	<b><u>\$ (2,882)</u></b>	<b><u>\$4,099,459</u></b>

\* Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$488,911
Support Services	
Operation and Maintenance	
Of Plant	78,195
Pupil Transportation	<u>101,491</u>
<b>Total Depreciation Expense</b>	<b><u>\$668,597</u></b>

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2003

**8. Long-Term Debt and Other Obligations**

Debt outstanding at June 30, 2003 consisted of the following:

<u>General Obligation Bonds</u>		<u>General Obligation Notes</u>	
Principal Outstanding	\$310,000	Principal Outstanding	\$469,257
Interest Rate	7.35%	Interest Rate	5.05 %

The annual requirements to amortize all debt outstanding as of June 30, 2003 including interest payments of \$148,859 are as follows:

Year Ending June 30	<u>General Obligation Bonds</u>			<u>General Obligation Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$150,000	\$16,616	\$166,616	\$38,146	\$22,868	\$61,014
2005	160,000	6,616	166,616	40,180	20,834	61,014
2006	-	-	-	42,257	18,757	61,014
2007	-	-	-	44,441	16,573	61,014
2008	-	-	-	46,699	14,315	61,014
2009-2013	-	-	-	257,534	32,280	289,814
Total	<u>\$310,000</u>	<u>\$23,232</u>	<u>\$333,232</u>	<u>469,257</u>	<u>125,627</u>	<u>594,884</u>

Long-term debt and other obligations at June 30, 2003 and the related transactions for the year are summarized as follows:

	Balance 7/1/02	Additions	Reductions	Balance 6/30/03	Amount Due Within 1 Year
G.O. Bonds Payable	\$ 450,000	\$ -	\$ 140,000	\$ 310,000	\$ 150,000
G.O. Notes Payable	505,405	-	36,148	469,257	38,146
Compensated Absences Payable	587,764	102,246	-	690,010	574
Intergovernmental Payable	105,488	5,230	-	110,718	110,718
Capital Lease Payable	<u>3,682</u>	<u>-</u>	<u>3,682</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,652,339</u>	<u>\$ 107,476</u>	<u>\$ 179,830</u>	<u>\$1,579,985</u>	<u>\$ 299,438</u>

All obligations outstanding are general obligations of the District for which the full faith and credit of the District is pledged for repayment. General obligation bonds are retired through the debt service fund. General obligation notes are retired through the general fund. Compensated absences and Intergovernmental payable are paid by the funds through which payroll is being paid.

**9. Receivables**

Receivables at June 30, 2003, consisted of taxes and accounts (billings for user charged services and student fees). All receivables are considered collectable in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of Federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**9. Receivables (Continued)**

Property taxes	\$6,518,165
Accounts	<u>6,654</u>
	<u>\$6,524,819</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

**10. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn 10 to 20 days of vacation per fiscal year, depending upon the 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 a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 250 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 60 days for both classified and certified employees.

**11. Risk Management**

*Comprehensive* - The 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 2003, the District contracted with private carriers for property and fleet insurance, liability insurance, and inland marine coverage. Coverage provided by these carriers is as follows:

Building and Contents-replacement cost - \$28,910,297 (\$1,000 deductible)

Inland Marine Coverage - \$924,536 (\$250 deductible)

Automobile Liability - \$2,000,000 (\$500 - \$1,000 deductible)

Uninsured Motorists - \$1,000,000

General Liability - \$5,000,000 aggregate/\$1,000,000 per occurrence

Settled claims have not exceeded this commercial coverage nor has there been any significant reduction in coverage in any of the past three years.



**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2003

**11. Risk Management (Continued)**

*Workers Compensation* - The District participates in the Ohio School Board Association Workers' Compensation Program (GRP), an insurance purchasing pool. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the GRP. The GRP is intended to achieve the benefit of a reduced premium by virtue of its grouping and representation with other participants 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. The total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant, will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP. Each year, the District pays an enrollment fee to the GRP to cover the costs of administering the program.

*Self-Insurance* - The District is self-insured only for its dental insurance program. Premiums are paid into the Self-Insurance Fund by all other funds and are available to pay claims, claims reserves, and administrative costs of the program. A stop loss insurance contract with a private insurance carrier, covers aggregate stop loss in excess of 120% of expected claims. Interfund premiums are based primarily upon the insured funds' claims experience and are reported as expenditures in the funds.

	<u>July 1</u>	<u>Claims</u>	<u>Payments</u>	<u>June 30</u>
2002	\$ 26,478	\$104,825	\$115,794	\$ 15,509
2003	\$ 15,509	\$114,473	\$116,190	\$ 13,792

**12. Defined Benefit Pension Plans**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan, administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is established 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 for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**12. Defined Benefit Pension Plans (Continued)**

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The contribution rate is 14% of the 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 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$272,973, \$259,792, and \$210,992, respectively. 45% has been contributed for fiscal year 2003 and 100% for fiscal years 2002 and 2001. \$134,832 represents the unpaid contributions for fiscal year 2003.

***B State Teachers Retirement System***

The District also contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available stand-alone financial report that may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contribution and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**12. Defined Benefit Pension Plans (Continued)**

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

For the fiscal year ended June 30, 2003, plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5%. Contribution rates are established by STRS Ohio, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

The District's required contributions to STRS Ohio for the fiscal years ended June 30, 2003, 2002, and 2001 were \$978,582, \$865,439, and \$818,584, respectively. 82% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$173,220 represents the unpaid contributions for fiscal year 2003.

**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 have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, three members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

**13. Post Employment Benefits**

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

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**13. Post Employment Benefits (Continued)**

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the District, this amount equaled \$69,899 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve Fund was \$2.8 billion at June 30, 2003, and eligible benefit recipients totaled 108,294 and net health care costs paid by STRS were \$352,301,000.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service, up to a maximum of 75% of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 were \$204.931 million and the target level was \$307.4 million. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$147,243. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. The number of participants currently receiving health care benefits is approximately 50,000.

**14. Interfund Transactions**

Interfund balances at June 30, 2003 as reported on the fund statements, consist of the following individual interfund receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 8,188

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**14. Interfund Transactions (Continued)**

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2003 are reported on the statement of net assets.

**15. Contingencies and Commitments**

Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2003.

School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school-funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General assembly to enact a school-funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**16. Statutory Reserves**

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside money for budget stabilization. At June 30, 2003, only the unspent portion of certain workers' compensation funds continues to be set-aside.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2003

**16. Statutory Reserves (Continued)**

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

	Textbooks	Capital Acquisition	Budget Stabilization
Set-aside Cash Balance as of June 30, 2002	\$ -	\$ -	\$55,070
Current Year Set-aside Requirement	232,330	232,330	-
Qualifying Disbursements	<u>(346,610)</u>	<u>(319,060)</u>	<u>-</u>
Total	<u>\$(114,280)</u>	<u>\$(86,730)</u>	<u>\$ 55,070</u>
Set-aside Balance Carried Forward to FY 2004	<u>\$(114,280)</u>		<u>\$ 55,070</u>
Set-aside Reserve Balance/Restricted Cash as of June 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,070</u>

The District had qualifying disbursements during the fiscal year that reduced the set-aside amounts below zero for the textbook set-aside. This extra amount may be used to reduce the set-aside requirement of future years. Although the District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future years. The negative balance is, therefore, not presented as being carried forward to future years. The total reserve balance/restricted cash for the three set-aside at the end of the fiscal year was \$55,070.

**SOUTHEAST LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b><u>U. S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed through the Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	C1-S1-2003 C1-S1-2002	84.010	\$968,755 45,170		\$1,009,484 228,619	
Total Title I Grants to Local Educational Agencies			1,013,925		1,238,103	
Special Education Cluster: Special Education: Grants to States	6B-SF-2003P 6B-SF-2002P 6B-SD-2003P	84.027	177,006 1,440 6,104		180,618 38,660 606	
Total Special Education Cluster			184,550		219,884	
School Renovation Grant	AT-S1-2003 AT-S1-2002	84.352	2,616 2,920		2,616 3,392	
Total School Renovation Grant			5,536		6,008	
Safe and Drug-Free Schools and Communities: State Grants	DR-S1-2002	84.186	25,582 1,362		25,582 3,631	
Total Safe and Drug-Free Schools and Communities State Grants			26,944		29,213	
Innovative Education Program Strategies	C2-S1-2003 C2-S1-2002	84.298	10,533		20,424 1,096	
Total Innovative Education Program Strategies			10,533		21,520	
Improving Teacher Quality State Grants	TR-S1-2003	84.367	246,738		158,505	
Technology Literacy Challenge Fund Grants	TJ-S1-2003	84.318	26,526		26,526	
Rural Education Achievement Program	RU-S1-2003	84.358	34,371		34,371	
Class Size Reduction	CR-S1-2002	84.340	18,823		18,875	
Total U. S. Department of Education			1,567,946		1,753,005	
<b><u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	N/A	93.778	14,415		14,415	
<b><u>U. S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed through the Ohio Department of Education</i>						
Child Nutrition Cluster:						
Food Donation Program	N/A	10.550	0	\$53,488	0	\$53,488
National School Lunch Program	N/A	10.555	172,661	0	172,661	0
Total U.S. Department of Agriculture - Child Nutrition Cluster			172,661	53,488	172,661	53,488
<b>Totals</b>			<u>\$1,755,022</u>	<u>\$53,488</u>	<u>\$1,940,081</u>	<u>\$53,488</u>

*The Notes to Schedule of Receipts and Expenditures of Federal Awards are an integral part of this statement.*

**SOUTHEAST LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Receipts and Expenditures of Federal Awards (Schedule) is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE B – CHILD NUTRITION CLUSTER**

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

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





**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Southeast Local School District  
Wayne County  
9048 Dover Road  
Apple Creek, Ohio 44606

To the Board of Education:

We have audited the financial statements of the Southeast Local School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated May 21, 2004 wherein we noted the District implemented Government Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001.

We also noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated May 21, 2004.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2003-002.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is not considered to be a material weakness.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated May 21, 2004.

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



**Betty Montgomery**  
Auditor of State

May 21, 2004



## Auditor of State Betty Montgomery

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

Southeast Local School District  
Wayne County  
9048 Dover Road  
Apple Creek, Ohio 44606

To the Board of Education:

#### Compliance

We have audited the compliance of the Southeast Local School District, Wayne County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budgets (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

#### Internal Control Over Compliance

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

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

We noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated May 21, 2004.

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



**Betty Montgomery**  
Auditor of State

May 21, 2004

**SOUTHEAST LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505  
JUNE 30, 2003**

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

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(iii)</i>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	CFDA # 84.027, Special Education Grants to States and CFDA #84.010, Title I Grants to Local Educational Agencies
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	Yes

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

**FINDING NUMBER 2003-001**

**Noncompliance Citation**

**Ohio Rev. Code Section 5705.41(D)** requires that no subdivision or taxing unit make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

### **FINDING NUMBER 2003-001 (Continued)**

This section also provides for two “exceptions” to the above requirements:

- a) Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board of Education may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate
- b) If the amount involved is less than \$1,000 (\$3,000 effective April 7, 2003), the Treasurer may authorize payment through a Then and Now Certificate without affirmation of Board of Education, if such expenditure is otherwise valid.

During our non-payroll testing, 41% of the expenditures tested were not certified by the Treasurer prior to incurring the obligation. It was also found that neither of the two exceptions above were utilized for the items found to be in non-compliance. The District should certify the availability of funds prior to incurring the obligation for expenditures. The District should also implement the use of Then and Now certificates and Blanket Certificates as further permitted by Ohio Rev. Code Section 5705.41.

### **FINDING NUMBER 2003-002**

#### **Reportable Condition**

#### **GAAP Conversion Plan**

The District hired an independent public accountant (IPA) firm to prepare the District’s annual basic financial statements and GASB 34 conversion. We noted the District and the IPA do not have a Generally Accepted Accounting Principles (GAAP) conversion plan to ensure the basic financial statements are completed in a consistent fashion and in accordance with GAAP.

Within the District’s compiled financial statements, various accounting and disclosure issues from prior audits continued to exist in the current audit. These issues required unnecessary time and effort on the part of the auditors. For example:

- Certain prior year adjustments for capital assets were not posted to the trial balances even though these matters were discussed in advance with the District’s GAAP Conversion Firm.
- In the prior year, the District decided to remove the library and textbook category from their capital assets. However, this category was still included during the current year by the District’s GAAP Conversion Firm. As a result, audit staff had to spend additional time to correct these errors.
- In the prior year, the District decided to combine the General Fund and Emergency Levy Fund for external reporting purposes. Even though this matter was discussed in advance with the District’s GAAP Conversion Firm, the original presentation did not have these funds combined and when they were combined, the Emergency Levy Fund was added twice.
- The fund balance at the beginning of the year for the General Fund budgetary statement did not agree to the ending balance of the prior year.

**FINDING NUMBER 2003-002 (Continued)**

- The Change in Net Assets amount as presented on the government-wide financial statements did not agree to the fund statement reconciliation as required.
- The year end Net Assets amount as presented on the government-wide financial statements did not agree to the fund statement reconciliation as required.
- After certain adjustments were made to the financial report, documentation was not provided by the District's GAAP Conversion Firm for certain footnotes to the financial statements. Audit staff had to spend additional time to document and audit these changes.
- Support was not provided by the District's GAAP Conversion Firm for the Compensated Absences Payable amount in the footnotes.
- Documentation was not provided by the District's GAAP Conversion Firm to support the Governmental Reconciliations in the District's financial statements until requested by the audit staff, even though it was discussed in advance. In addition, once provided, the documentation was not in the requested format. As a result, audit personnel spent additional time to audit and support the amounts on the reconciliations.
- Cash amounts, as presented in the GAAP Trial Balances, did not agree to the cash basis financial statement for several of the District's funds ranging from \$1 to \$630.
- Governmental Accounting Standards Board (GASB) Statement No. 34 paragraph 44 and GASB Comprehensive Implementation Guide questions 7.163 and 7.164 state that depreciation expense for capital assets that can specifically be identified with a function should be included in its direct expenses. Depreciation expense for "shared" capital assets (for example, a school building that houses administrative, athletic, food service, various instructional departments, etc.) should be ratably included in the direct expenses of the appropriate functions. For school districts, this is normally determined based on square footage of buildings or number of personnel. The District did not allocate depreciation expense to all of the appropriate functions. Rather all building depreciation was allocated to operation and maintenance of plant, all vehicle depreciation was allocated to pupil transportation, all remaining depreciation was allocated to regular instruction.

The District should allocate depreciation expense to appropriate functions based on actual usage and a reasonable method such as square footage or number of personnel.

The notes to the Financial Statements included the following deficiencies:

- The District's GAAP Conversion Firm did not provide support for the restated Capital Assets footnote. As a result, audit personnel spent additional time to audit and support the amounts.
- A schedule of Long-Term Debt was not presented in the proper footnote format as required by GASB Statement No. 38.

**FINDING NUMBER 2003-002 (Continued)**

- The June 30, 2002 fund balance in the Restatement footnote did not agree to the ending balance as presented in the District's June 30, 2002 audited financial statements.
- An Interfund Transactions footnote was not included as required.

A GAAP conversion plan should be drafted to help ensure the annual compilation is completed accurately. This plan should be comprehensive and agreed upon by the District and the GAAP converter. If the GAAP conversion firm is unable to provide accurate and complete financial statement and note disclosures, the District should consider exploring other alternatives for the GAAP conversion.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None.



**SOUTHEAST LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FISCAL YEAR END JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2002-10985-001	Ohio Rev. Code Section 5705.41 (D), expenditures were not properly certified by the Treasurer prior to incurring the obligation.	No	Not corrected. Finding repeated for the 2003 fiscal year as Finding Number 2003-001.





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Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**SOUTHEAST LOCAL SCHOOL DISTRICT**

**WAYNE 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  
JUNE 22, 2004**