

SOUTHEAST LOCAL SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

Board of Education
Southeast Local School District
8245 Tallmadge Rd.
Ravenna, OH 44266

We have reviewed the *Independent Auditor's Report* of the Southeast Local School District, Portage County, prepared by Varney, Fink & Associates, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

May 18, 2006

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**SOUTHEAST LOCAL SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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CERTIFIED PUBLIC ACCOUNTANTS
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Wadsworth, Ohio 44281
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INDEPENDENT AUDITOR'S REPORT

Board of Education
Southeast Local School District
8423 Tallmadge Road
Ravenna, OH 44266

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Southeast Local School District (the District), as of and for the year ended June 30, 2005, 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 an opinion 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 opinion.

As described in Note 1 (a), during the year ended June 30, 2005, the District adopted Governmental Accounting Standards Board (GASB) statement No. 40, "Deposit and Investment Risk Disclosure" and GASB Technical Bulletin 2004-2 "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers."

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District, as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT (continued)

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

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

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

March 7, 2006

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005 Unaudited

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, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2005 are as follows:

- Net assets increased \$769,695 which represents a 2.6 percent increase from 2004.
- General revenues accounted for \$16,362,978 in revenue or 89 percent of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,939,374 or 11 percent of total revenues of \$18,302,352.
- The District had \$17,532,657 in expenses related to governmental activities; \$1,939,374 of these expenses was offset by program specific charges for services, grants or contributions. General revenues of \$16,362,978 were adequate to provide for these programs.
- Among major funds, the general fund had \$15,720,792 in revenues and \$15,078,140 in expenditures. The general fund's fund balance increased \$556,531 to a deficit of \$1,341,870.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

These statements are as follows:

1. The Government-Wide Financial Statements – These statements provide both long-term and short-term information about the District's overall financial status.
2. The Fund Financial Statements – These statements focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005 Unaudited

The two government-wide statements report the District's net assets and how they have changed. Net-assets (the difference between the District's assets and liabilities) is one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District you need to consider additional nonfinancial factors such as the property tax base, current property tax laws, student enrollment growth and facility conditions.

The government-wide financial statements of the District reflect the following category for its activities:

Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

Governmental Funds – Most 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 left 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.

Proprietary Funds – The District uses an internal service fund to report activities that provide services for the District's other programs and activities. Proprietary funds are reported in the same manner that all activities are reported in the statement of net assets and the statement of activities.

Fiduciary Funds – The District is the trustee, or fiduciary, for various student managed activity programs listed as agency. All of the District's fiduciary activities are reported in a separate statements of fiduciary net assets. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited***

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The following table provides a summary of the District's net assets for 2005 compared to 2004.

	Governmental Activities	
	2005	2004
	<u> </u>	<u> </u>
Current and other assets	\$ 7,761,726	\$ 11,361,731
Capital assets, net	<u>37,265,419</u>	<u>37,871,260</u>
Total assets	45,027,145	49,232,991
Long-term debt outstanding	8,013,346	8,218,705
Other liabilities	<u>6,830,544</u>	<u>11,600,726</u>
Total liabilities	14,843,890	19,819,431
Net assets		
Invested in capital assets, net of related debt	30,843,419	31,201,086
Restricted	1,536,979	1,314,779
Restricted - nonspendable	10,001	10,000
Unrestricted	<u>(2,207,144)</u>	<u>(3,112,305)</u>
Total net assets	<u><u>\$ 30,183,255</u></u>	<u><u>\$ 29,413,560</u></u>

Total assets decreased \$4,205,846, with a large portion (\$3,600,005) from current and other assets. The overall decrease in assets was primarily attributed to the use of cash to retire the 2004 outstanding contracts payable of \$4.4 million, which also explains the large decrease in liabilities.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited***

Changes in Net Assets - The following table shows the changes in net assets for the fiscal year 2005 compared to 2004. See Note 16 for the details on the 2004 restatement of net assets.

	2005	2004
Revenues		
Program Revenues:		
Charges for Sales and Services	\$ 822,302	\$ 721,496
Operating Grants and Contributions	1,117,072	782,340
Capital Grants and Contributions	0	5,238,168
General Revenues:		
Property Taxes	5,082,034	4,649,501
Grants and Entitlements	11,189,798	10,830,264
Miscellaneous and Investment Earnings	91,146	188,447
Total Revenues	18,302,352	22,410,216
Program Expenses:		
Instruction	8,250,120	9,374,284
Support Services:		
Pupils	738,569	890,702
Instructional Staff	595,659	644,570
Board of Education	48,337	37,617
Administration	1,427,968	1,370,225
Fiscal Services	363,618	391,514
Business	105,525	134,390
Operation and Maintenance of Plant	1,306,176	932,662
Pupil Transportation	1,165,291	1,325,845
Central	1,894,150	2,212,518
Operation of Non-Instructional Services	695,784	627,319
Extracurricular Activities	548,232	519,509
Interest and Fiscal Charges	393,228	314,240
Total Expenses	17,532,657	18,775,395
Change in Net Assets	769,695	3,634,821
Beginning Net Assets-Restated See Note 16	29,413,560	25,778,739
Ending Net Assets	\$ 30,183,255	\$ 29,413,560

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited***

Governmental Activities

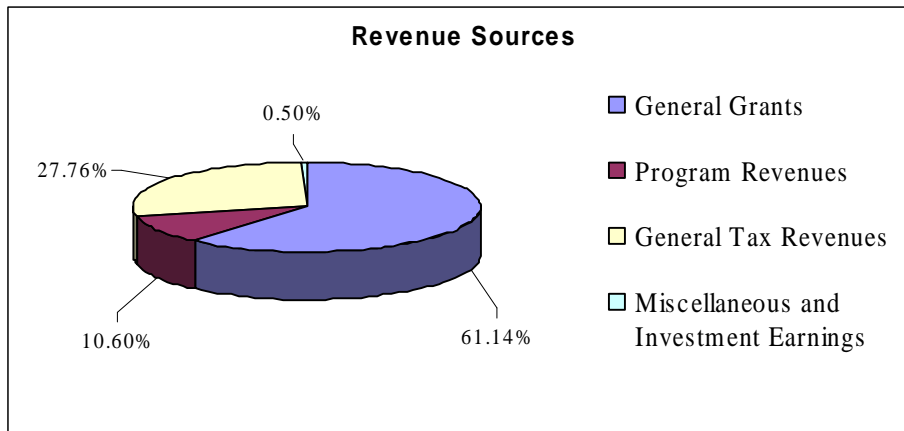
Net assets of the District's governmental activities increased by \$769,695.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 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 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Property taxes made up 27.76 percent of revenues for governmental activities for Southeast Local Schools in fiscal year 2005.

Revenue Sources	2005	Percent of Total
General Grants	\$ 11,189,798	61.14%
Program Revenues	1,939,374	10.60%
General Tax Revenues	5,082,034	27.76%
Miscellaneous and Investment Earnings	91,146	0.50%
Total Revenue	<u>\$ 18,302,352</u>	<u>100.00%</u>

The District's reliance upon tax revenues is demonstrated by the following graph:



SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited***

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$218,328, which is below last year's total of \$3,855,842. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2005 and 2004.

	<u>Fund Balance</u> <u>June 30, 2005</u>	<u>Fund Balance</u> <u>June 30, 2004</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ (1,341,870)	\$ (1,898,401)	\$ 556,531
Bond Retirement	332,692	296,170	36,522
Classroom Facilities	410,024	406,933	3,091
Other Governmental	817,482	633,874	183,608
Total	<u>\$ 218,328</u>	<u>\$ (561,424)</u>	<u>\$ 779,752</u>

General Fund –The tables that follows assists in illustrating the financial activities and balance of the General Fund:

	<u>2005</u> <u>Revenues</u>	<u>2004</u> <u>Revenues</u>	<u>Increase</u> <u>(Decrease)</u>
Taxes	\$ 4,422,401	\$ 4,057,540	\$ 364,861
Tuition and Fees	58,765	40,078	18,687
Investment Earnings	18,631	16,372	2,259
Intergovernmental	11,199,969	10,772,505	427,464
Other Revenue Types	21,865	8,923	12,942
Total	<u>\$ 15,721,631</u>	<u>\$ 14,895,418</u>	<u>\$ 826,213</u>

General Fund revenues in 2005 increased approximately 5.5 percent compared to revenues in fiscal year 2004. The primary factor contributing to this increase included an increase in school foundation grants and entitlements.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited***

	2005 Expenditures	2004 Expenditures	Increase (Decrease)
Instruction	\$ 7,235,820	\$ 7,858,913	\$ (623,093)
Supporting Services:			
Pupils	668,337	726,816	(58,479)
Instructional Staff	476,968	484,469	(7,501)
Board of Education	48,337	37,617	10,720
Administration	1,282,219	1,108,983	173,236
Fiscal Services	350,543	332,631	17,912
Business	106,288	126,891	(20,603)
Operation and Maintenance of Plant	1,196,530	846,440	350,090
Pupil Transportation	996,418	1,046,510	(50,092)
Central	2,265,833	2,211,338	54,495
Operational of Non- Instructional Services	26,307	0	26,307
Extracurricular Activities	410,824	373,175	37,649
Debt Service:			
Principal Retirement	13,174	0	13,174
Interest and Fiscal Charges	542	0	542
Total	\$ 15,078,140	\$ 15,153,783	\$ (75,643)

The District's general fund expenditures remained fairly stable, decreasing \$75,643, or about .50 percent.

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.

For the general fund, the actual revenue was \$15,304,755 representing a \$567,749 decrease from the final budget estimates of \$15,872,504. Most of this difference was in the areas of taxes and intergovernmental revenue. The School District's general unencumbered fund balance deficit at end of year was \$589,817.

The District revises its appropriations throughout the fiscal year. During fiscal year 2005, no significant fluctuations between actual and final budget were noted. Final expenditures plus outstanding encumbrances went over the final appropriated amounts by \$142,932. There were no individually significant events that caused this variance. The District has adopted a fund level of budgeting.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2005 the District had \$37,265,419 net of accumulated depreciation invested in land, construction in progress, land improvements, buildings, equipment and vehicles. The following table shows fiscal year 2004 and 2005 balances:

	Governmental Activities		Increase (Decrease)
	2005	2004	
Land	\$ 1,475,065	\$ 1,475,065	\$ 0
Land Improvements	1,415,533	1,415,533	0
Buildings and Improvements	38,533,344	15,652,496	22,880,848
Machinery and Equipment	1,885,211	1,833,209	52,002
Vehicles	1,776,244	1,776,244	0
Construction in Progress	0	22,186,140	(22,186,140)
Less: Accumulated Depreciation	(7,819,978)	(6,467,427)	(1,352,551)
Total	\$ 37,265,419	\$ 37,871,260	\$ (605,841)

The primary cause for this decrease in capital assets is due to depreciation on the assets.

Additional information on the District's capital assets can be found in Note 6.

Debt

At June 30, 2005, the District had \$6,534,538 in bonds outstanding, \$250,000 of which is due within one year. The following table summarizes the District's debt outstanding as of June 30.

	2005	2004
Governmental Activities:		
General Obligation Bonds:		
Classroom Facilities	\$ 6,534,538	\$ 6,657,000
Capital Leases Payable	0	13,174
Compensated Absences	1,478,808	1,548,531
Total	\$ 8,013,346	\$ 8,218,705

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2005, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Note 9.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited***

ECONOMIC FACTORS

The Southeast Local School District has operated without the passage of any new local operating revenue through a voted operating levy since 1995. Since then the District has been able to build some reserves that it has relied on for a number of years. However, due to major changes in state funding the District's expenditures have exceeded its revenues since fiscal year 1999. Due to the District's reliance upon state funding (70.50% of general fund revenues) the cuts that the State made over the last few of years have had a tremendous impact on the operation of this District. In addition to State cuts the District's enrollment has been declining over the past several years. This has further eroded the revenue from the State. Therefore the District has decided to put an 8.9 mill, 4 year emergency levy on the May, 2005 ballot for current expenses.

The District's tax base has grown steadily over the years with some new construction but primarily due to the 3-year triennial updates and re-appraisals. But due to the HB 920 effect there has been a reduction of our effective millage, which now stands at 20.47 effective mills. The tax base now stands at \$201,667,000, with 84% of that coming from residential/agricultural. Fortunately, the District is not heavily dependent upon personal property taxes as only 1.5% of the tax valuation is made up of personal property.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. The district changed Treasurers as of January 3, 2005 when Paul L. Wulff took over for former Treasurer Jeff Hostetler. If you have any questions about this report or need additional financial information contact Paul L. Wulff, Treasurer of Southeast Local School District, 8245 Tallmadge Road, Ravenna, Ohio 44266.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Net Assets
June 30, 2005

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 2,324,391
Receivables:	
Taxes	5,204,802
Intergovernmental	228,027
Inventory of Supplies at Cost	4,506
Nondepreciable Capital Assets	1,475,065
Depreciable Capital Assets, Net	35,790,354
Total Assets	<u>45,027,145</u>
Liabilities:	
Accounts Payable	65,273
Contracts Payable	34,510
Accrued Wages and Benefits	1,529,519
Intergovernmental Payable	454,123
Claims Payable	385,372
Unearned Revenue	4,316,989
Accrued Vacations Payable	44,758
Long -Term Liabilities:	
Due Within One Year	313,601
Due Within More Than One Year	7,699,745
Total Liabilities	<u>14,843,890</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	30,843,419
Restricted for:	
Capital Projects	641,529
Debt Service	374,481
Other Purposes	520,969
Restricted - Non-Expendable	10,001
Unrestricted (Deficit)	(2,207,144)
Total Net Assets	<u>\$ 30,183,255</u>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:				
Instruction:				
Regular	\$ 6,108,769	\$ 58,764	\$ 225,882	\$ (5,824,123)
Special	1,404,318	0	633,269	(771,049)
Vocational	48,353	7,115	0	(41,238)
Other	688,680	0	8,853	(679,827)
Support Services:				
Pupils	738,569	0	0	(738,569)
Instructional Staff	595,659	0	21,640	(574,019)
Board of Education	48,337	0	0	(48,337)
Administration	1,427,968	0	30,670	(1,397,298)
Fiscal	363,618	0	0	(363,618)
Business	105,525	0	0	(105,525)
Operation and Maintenance of Plant	1,306,176	67,663	0	(1,238,513)
Pupil Transportation	1,165,291	0	24,723	(1,140,568)
Central	1,894,150	0	0	(1,894,150)
Operation of Non-Instructional Services	40,596	0	0	(40,596)
Operation of Food Services	655,188	505,953	172,035	22,800
Extracurricular Activities	548,232	182,807	0	(365,425)
Interest and Fiscal Charges	393,228	0	0	(393,228)
Total Governmental Activities	\$ 17,532,657	\$ 822,302	\$ 1,117,072	(15,593,283)

General Revenues

Property Taxes Levied for:	
General Purposes	4,468,486
Debt Service	530,459
Other Purposes	83,089
Grants and Entitlements not Restricted to Specific Programs	11,189,798
Investment Earnings	67,003
Miscellaneous	24,143
Total General Revenues	16,362,978

Change in Net Assets 769,695

<i>Net Assets Beginning of Year, restated (See Note 16)</i>	29,413,560
<i>Net Assets End of Year</i>	\$ 30,183,255

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

**Balance Sheet
Governmental Funds
June 30, 2005**

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and Cash Equivalents	\$ 4,978	\$ 284,849	\$ 444,534	\$ 922,596	\$ 1,656,957
Receivables:					
Taxes	4,571,585	543,852	0	89,365	5,204,802
Intergovernmental	200,347	0	0	27,680	228,027
Inventory Held for Resale	0	0	0	4,506	4,506
Total Assets	<u>\$ 4,776,910</u>	<u>\$ 828,701</u>	<u>\$ 444,534</u>	<u>\$ 1,044,147</u>	<u>\$ 7,094,292</u>
Liabilities:					
Accounts Payable	\$ 38,121	\$ 0	\$ 0	\$ 27,152	\$ 65,273
Contracts Payable	0	0	34,510	0	34,510
Accrued Wages and Benefits	1,427,551	0	0	101,968	1,529,519
Interfund Payable	10,000	0	0	0	10,000
Intergovernmental Payable	438,202	0	0	15,921	454,123
Deferred Revenue	4,204,906	496,009	0	81,624	4,782,539
Total Liabilities	<u>6,118,780</u>	<u>496,009</u>	<u>34,510</u>	<u>226,665</u>	<u>6,875,964</u>
Fund Balances:					
Reserved for Encumbrances	556,674	0	577,164	54,285	1,188,123
Reserved for Property Taxes	366,679	47,843	0	7,741	422,263
Reserved for Textbooks and Instructional Materials	646,252	0	0	0	646,252
Reserved for Capital Improvement	349,766	0	0	0	349,766
Unreserved:					
Undesignated, Reported in:					
General Fund	(3,261,241)	0	0	0	(3,261,241)
Special Revenue Funds	0	0	0	517,905	517,905
Capital Projects Funds	0	0	(167,140)	227,550	60,410
Debt Service Funds	0	284,849	0	0	284,849
Permanent Funds	0	0	0	10,001	10,001
Total Fund Balances	<u>(1,341,870)</u>	<u>332,692</u>	<u>410,024</u>	<u>817,482</u>	<u>218,328</u>
Total Liabilities and Fund Balances	<u>\$ 4,776,910</u>	<u>\$ 828,701</u>	<u>\$ 444,534</u>	<u>\$ 1,044,147</u>	<u>\$ 7,094,292</u>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

**Reconciliation of Total Governmental Fund Balances
To Net Assets of Governmental Activities
June 30, 2005**

Total Governmental Fund Balances	\$	218,328
 <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.		37,265,419
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds: Delinquent Property Taxes		465,550
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds. Classroom Facilities Serial Bonds	\$ (6,165,000)	
Classroom Facilities Capital Appreciation Bonds	(257,000)	
Total		(6,422,000)
In statement of activities, interest is expensed on outstanding bonds when incurred, whereas in governmental funds, an interest expenditure is reported when due.		(112,538)
Some expenses reported in the statement of activities do not use the current financial resources and therefore, are not reported as expenditures in governmental funds. Compensated Absences	(1,478,808)	
Accrued Vacation Payable	(44,758)	
		(1,523,566)
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 governmental activities in the statement of net assets.		292,062
Net Assets of Governmental Activities	\$	30,183,255

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 4,422,401	\$ 524,916	\$ 0	\$ 75,945	\$ 5,023,262
Intergovernmental	11,199,969	59,477	0	1,440,660	12,700,106
Investment Earnings	18,631	2,115	39,005	1,719	61,470
Tuition and Fees	58,765	0	0	2,073	60,838
Rentals	1,976	0	0	0	1,976
Extracurricular Activities	10,577	0	0	158,755	169,332
Charges for Services	0	0	0	382,052	382,052
Gifts and Donations	79	0	0	18,306	18,385
Miscellaneous	9,233	0	0	12,633	21,866
Total Revenues	15,721,631	586,508	39,005	2,092,143	18,439,287
Expenditures:					
Current:					
Instruction:					
Regular	5,642,387	0	0	334,374	5,976,761
Special	853,759	0	0	560,366	1,414,125
Vocational	50,994	0	0	0	50,994
Other	688,680	0	0	0	688,680
Support Services:					
Pupils	668,337	0	0	86,545	754,882
Instructional Staff	476,968	0	0	33,319	510,287
Board of Education	48,337	0	0	0	48,337
Administration	1,282,219	0	42	132,766	1,415,027
Fiscal	350,543	9,288	0	1,519	361,350
Business	106,288	0	0	0	106,288
Operation and Maintenance of Plant	1,196,530	0	4,302	34,681	1,235,513
Pupil Transportation	996,418	0	0	2,002	998,420
Central	2,265,833	0	0	0	2,265,833
Operation of Non-Instructional Services:					
Food Service Operations	8,607	0	0	0	8,607
Community Service	17,700	0	0	679,207	696,907
Extracurricular Activities	410,824	0	0	130,756	541,580
Capital Outlay	0	0	31,570	0	31,570
Debt Service:					
Principal Retirement	13,174	235,000	0	0	248,174
Interest and Fiscal Charges	542	305,698	0	0	306,240
Total Expenditures	15,078,140	549,986	35,914	1,995,535	17,659,575
Excess of Revenues Over (Under) Expenditures	643,491	36,522	3,091	96,608	779,712
Other Financing Sources (Uses):					
Transfers In	0	0	0	87,000	87,000
Refund of Prior Year Expenditures	40	0	0	0	40
Transfers Out	(87,000)	0	0	0	(87,000)
Total Other Financing Sources and (Uses)	(86,960)	0	0	87,000	40
Net Change in Fund Balance	556,531	36,522	3,091	183,608	779,752
Fund Balance (Deficit) at Beginning of Year, restated (See Note 16)	(1,898,401)	296,170	406,933	633,874	(561,424)
Fund Balance (Deficit) at End of Year	\$ (1,341,870)	\$ 332,692	\$ 410,024	\$ 817,482	\$ 218,328

See accompanying notes to the basic financial statements.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2005**

Net Change in Fund Balances - Total Governmental Funds \$ 779,752

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

Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions exceeded depreciation in the current period.

Capital Asset Additions	\$ 746,710	
Current Year Depreciation	(1,352,551)	
Total		(605,841)

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

Delinquent Property Taxes		(144,875)
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Repayment of note and bond principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Capital Leases	13,174	
Bond Principal	235,000	
Total		248,174

Some expenses reported in the statement of net activities do not use the current financial resources and therefore, are not reported as expenditures in governmental funds.

Increase in Compensated Absences	69,723	
Increase in Vacation Payable	(44,758)	
Decrease in Pension Obligation	152,628	
Total		177,593

In statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.

Decrease in Accrued Interest Payable	25,550	
Current Year Bond Accretion	(112,538)	
Total		(86,988)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net revenue (expense) of internal service funds is reported with governmental activities.

401,880

Change in Net Assets of Governmental Activities **\$ 769,695**

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

**Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 4,517,423	\$ 4,517,673	\$ 4,216,449	\$ (301,224)
Intergovernmental	11,045,876	11,169,815	10,999,622	(170,193)
Investment Income	19,696	19,917	18,631	(1,286)
Tuition and Fees	145,027	146,654	58,765	(87,889)
Rent	1,715	1,734	1,976	242
Gifts and Donations	16,447	79	79	0
Charges for Services	78	0	0	0
Miscellaneous	0	16,632	9,233	(7,399)
Total Revenues	<u>15,746,262</u>	<u>15,872,504</u>	<u>15,304,755</u>	<u>(567,749)</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,997,138	5,874,057	5,864,543	9,514
Special	1,011,600	899,199	899,195	4
Vocational	49,300	52,106	52,106	0
Other	652,000	664,025	720,012	(55,987)
Support Services:				
Pupils	1,031,300	883,190	882,223	967
Instructional Staff	447,450	502,439	497,183	5,256
Board of Education	50,025	109,542	51,452	58,090
Administration	1,213,000	1,296,746	1,246,584	50,162
Fiscal	348,400	346,124	345,470	654
Business	131,050	117,743	117,352	391
Operation and Maintenance of Plant	1,220,161	1,299,941	1,286,976	12,965
Pupil Transportation	1,341,700	1,144,438	1,171,616	(27,178)
Central	2,351,000	2,339,002	2,339,002	0
Extracurricular Activities	62,300	388,623	387,529	1,094
Total Expenditures	<u>15,906,424</u>	<u>15,917,175</u>	<u>15,861,243</u>	<u>55,932</u>
Excess of Revenues Over (Under) Expenditures	(160,162)	(44,671)	(556,488)	(511,817)
Other Financing Sources (Uses):				
Proceeds from Sale of Assets	0	1,000	0	(1,000)
Refund of Prior Year Expenditures	0	40	40	0
Advance In	0	0	10,000	10,000
Transfers Out	0	0	(87,000)	(87,000)
Total Other Financing Sources (Uses)	<u>0</u>	<u>1,040</u>	<u>(76,960)</u>	<u>(78,000)</u>
Net Change in Fund Balance	(160,162)	(43,631)	(633,448)	(589,817)
Fund Balance (Deficit) at Beginning of Year	(659,793)	(659,793)	(659,793)	0
Prior Year Encumbrances Appropriated	703,424	703,424	703,424	0
Fund Balance (Deficit) at End of Year	<u>\$ (116,531)</u>	<u>\$ 0</u>	<u>\$ (589,817)</u>	<u>\$ (589,817)</u>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Fund Net Assets
Proprietary Fund
June 30, 2005

	Governmental Activities - Internal Service Funds
	<u> </u>
Assets:	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 667,434
Interfund Receivable	<u>10,000</u>
Total Assets	<u>677,434</u>
Liabilities:	
<i>Current Liabilities:</i>	
Claims Payable	<u>385,372</u>
Total Liabilities	<u>385,372</u>
Net Assets:	
Unrestricted	<u>292,062</u>
Total Net Assets	<u>\$ 292,062</u>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

*Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2005*

	Governmental Activities - Internal Service Funds
Operating Revenues:	
Charges for Services	\$ 3,778,831
Operating Expenses:	
Purchased Services	321,063
Claims	3,061,421
Total Operating Expenses	<u>3,382,484</u>
Operating Income	396,347
Non-Operating Revenue (Expenses):	
Investment Earnings	<u>5,533</u>
Change in Net Assets	401,880
Net Assets (Deficit) Beginning of Year	(109,818)
Net Assets (Deficit) End of Year	<u>\$ 292,062</u>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2005

	Governmental Activities Internal Service Fund
Cash Flows From Operating Activities:	
Cash Received for Charges for Services	\$ 3,782,434
Cash Paid for Goods and Services	(321,063)
Cash Paid for Claims	(2,955,926)
<i>Net Cash Provided By (Used For) Operating Activities</i>	505,445
Cash Flows From Noncapital Financing Activities:	
Cash Payments for Advances Out	(10,000)
<i>Net Cash Provided By (Used For) Noncapital Financing Activities</i>	(10,000)
Cash Flows From Investing Activities:	
Cash Receipts for Interest	5,533
<i>Net Cash Provided By (Used For) Investing Activities</i>	5,533
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	500,978
<i>Cash and Cash Equivalents at Beginning of Year</i>	166,456
<i>Cash and Cash Equivalents at End of Year</i>	\$ 667,434
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:	
Operating Income (Loss)	\$ 396,347
Changes in Assets and Liabilities:	
(Increase) decrease in assets:	
Accounts Receivable	3,603
Increase (Decrease) in Liabilities:	
Claims Payable	105,495
<i>Total Adjustments</i>	109,098
<i>Net Cash Provided By (Used For) Operating Activities</i>	\$ 505,445

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Assets & Liabilities
Fiduciary Funds
June 30, 2005

	<u>Agency Fund</u>
Assets:	
Cash and Cash Equivalents	\$ <u>36,453</u>
Liabilities:	
Due to Students	\$ <u>36,453</u>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Southeast Local School District, Ohio (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 locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by approximately 99 non-certified and approximately 143 certified teaching personnel and administrative employees providing education to 2,220 students.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, functions and component units for which the District (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either the District's ability to impose its will over the organization or the possibility that the organization will provide a financial benefit to, or impose a financial burden on, the District. There were no potential component units that met the criteria imposed by GASB Statement No. 14 to be included in the District's reporting entity. Based on the foregoing, the reporting entity of the District includes the following services: instructional (regular, special education, vocational), student guidance, extracurricular activities, food service, pupil transportation and care and upkeep of grounds and buildings.

Southeast Local School District participates in a jointly governed organization, the Stark-Portage Area Computer Consortium (SPARCC). SPARCC provides the data processing services needed by the participating Districts. Information regarding this organization is presented in Note 13.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District will apply Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, to any governmental activities provided they do not conflict with or contradict GASB pronouncements. For the year ended June 30, 2005, the District has implemented GASB Statement No. 40 "*Deposit and Investment Risk Disclosure*" and GASB Technical Bulletin 2004-2 "*Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*". There was no effect on beginning fund balances as a result of this implementation. The District's significant accounting policies are described below.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are grouped into the categories governmental, proprietary and fiduciary.

Governmental Funds - These are funds through which most governmental functions typically are financed. The acquisition, use and balances of the District's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is based upon determination of "current financial flow" (sources, uses and balances of current financial resources). The following are the District's major governmental funds:

General Fund - This fund is the general operating fund of the District and is used to account for all financial resources except those 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.

Bond Retirement Fund - This fund provides for the retirement of serial bonds and short term loans. All revenue derived from general or special levies, either within or exceeding the ten-mil limitation, which is levied for debt charges on bonds or loans, shall be paid into this fund.

Classroom Facilities Fund - The classroom facilities capital projects fund accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities.

Proprietary Funds - The proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of the proprietary funds are included on the balance sheet. The proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The District's only proprietary fund is an internal service fund.

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District or to other governments on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program that accounts for health and medical claims of District employees.

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private purpose trust, which accounts for a college scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds account for student managed activities.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

C. Basis of Presentation – Financial Statements

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 internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program 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 and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

Fiduciary funds are reported using the economic resources measurement focus.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

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 and the statements presented for the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues -Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal 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 the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 4). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified 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/Unearned Revenue Deferred/unearned 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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred/unearned revenue within the basic financial statements.

Grants and entitlements received before the eligibility requirements are met and receivables that will not be collected within the available period have been reported as deferred revenue in the governmental fund financial statements.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the statement of activities as an expense with a like amount reported within the “operating grants, contributions and interest” program revenue account. Unused donated commodities are reported in the account “Inventory held for resale” within the basic financial statements.

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

E. Budgetary Process

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

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the 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 that was in effect at the time the final appropriations were passed by the Board of Education.

The appropriation resolution is subject to amendment by the Board throughout the fiscal 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 fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

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

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

Excess (Deficiency) of Revenues and Other Financing Sources
Net Change in Fund Balance

	General Fund
GAAP Basis	\$ 556,531
Net adjustment for revenue accruals	(416,876)
Net adjustment for expenditure accruals	(188,308)
Advances in	10,000
Adjustment for encumbrances (budget basis)	(594,795)
Budget Basis	<u>\$ (633,448)</u>

F. Cash and Cash Equivalents

During fiscal year 2005, cash and cash equivalents included amounts in demand deposits and the State Treasury Asset Reserve (STAROhio). STAROhio is a very liquid investment account which is reported as cash equivalents in the basic financial statements.

The District pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and cash equivalents represents the balance on hand as if each fund maintained its own cash and investment account. See Note 3, for more detail on the District's Cash and Cash Equivalents.

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*", the District records all its investments at fair value. See Note 3, for more detail on the District's investments.

The District has invested funds in the State Treasury Asset Reserve of Ohio during 2005. 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. STAROhio 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 STAROhio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Investment earnings of \$18,229 earned by other funds were credited to the general fund as required by state statute.

H. Inventory

On the government-wide financial statements, inventories are presented at cost on a first-in, first-out basis and are expensed when consumed.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

Inventories of the food service special revenue fund are stated at cost, which is determined on a first-in, first-out basis. Inventory consists of donated food and purchased food held for resale held for resale and is expensed when consumed.

I. Prepaid Items

Payments to vendors for services that will benefit periods beyond June 30, 2005 are recorded as prepaid items using the consumption method. A current asset for the prepaid item is recorded at the time of purchase and expenditure is reported in the fiscal year in which the services are consumed.

J. Capital Assets and Depreciation

General capital assets are those assets related to activities reported in the governmental funds. All of the District's capital assets are classified as general capital assets. 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.

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

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

<u>Description</u>	<u>Estimated Lives (in years)</u>
Land Improvements	25
Building and Improvements	25 - 75
Machinery and Equipment	8 - 20
Vehicles	5 - 10

K. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
Capital Leases	General Fund
Compensated Absences	Fund from which employee is paid
Intergovernmental Payable	Fund from which employee is paid
General Obligation Bond	Bond Retirement Fund

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

L. Compensated Absences

In accordance with GASB Statement No. 16, “*Accounting for Compensated Absences*,” vacation benefits are accrued as a liability when an employee’s right to receive compensation is attributable to services already rendered, and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Administrators and classified staff who work twelve month contracts are granted vacation leave based on length of service and position. Sick leave benefits are accrued as a liability using the termination method. Employees earn one and one-fourth days of sick leave per month up to a maximum of 15 days per year. Upon retirement, a percentage of unused sick leave is paid based upon years of experience. The percentages are 15 percent for 0-5 years, 30 percent for 6-15 years and 35 percent for 16 years and up. Maintenance and custodial employees receive an additional 15 days of severance for 6-15 years of service and an additional 30 days of severance for 16 years of service at retirement. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account “matured compensated absences payable.”

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the 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 purposes for which both restricted and unrestricted net assets are available.

N. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred. For governmental funds, pension liabilities expected to be paid from current available financial resources are recorded as a fund liability.

O. Interfund Activity

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

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

P. Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets may include amounts required by statute to be set-aside for the purchase of textbooks and other instructional material or for the purchase and maintaining of capital assets of the District. See Note 11 for additional information regarding set asides.

Q. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for textbooks and instructional materials, property taxes, capital improvements and encumbered amounts which have not been accrued at year end. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles, but not available for appropriation under State statute.

R. Estimates

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

S. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are interfund charges for the internal service funds. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of

Education and that are either unusual in nature or infrequent in occurrence. The District had no extraordinary or special items during fiscal year 2005.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

The fund deficits at June 30, 2005 of \$1,341,870 in the general fund and \$31,108 in the food service fund and the net asset deficits of \$2,416,829 in the general fund and \$31,108 in the food service fund arise from the recognition of expenditures on the modified accrual basis of accounting which are greater than expenditures recognized on the budgetary basis.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

Contrary to Ohio Revised Code Section 5705.10, the District had negative fund balances at January 31, 2005 in the general fund, food service fund, school net fund, IDEA grant part-B fund, title I fund, and title II fund by \$495,270, \$102,916, \$4,508, \$2,992, \$17,953 and \$4,653, respectively.

Contrary to Ohio Revised Code Section 5705.41(B), budgetary expenditures exceeded the appropriation authority on March 31, 2005 in the district managed activities fund, class size reduction grant fund and food service fund by \$6,502, \$48,156 and \$97,069, respectively and on June 30, 2005 in the general fund by \$31,701.

Contrary to Ohio Revised Code Section 5705.41(D), the District ordered or entered into contracts involving the expenditure of money prior to the certificate of the fiscal officer in thirty of the ninety-eight expenditures tested during the annual audit.

NOTE 3 - DEPOSITS AND INVESTMENTS

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.

Inactive deposits are public deposits that the Board of Education 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 that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing no more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of 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 securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, 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 securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of District cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

Undeposited Cash At year-end, the District had \$2,500 in undeposited cash on hand which is included as part of “equity in pooled cash and cash equivalents.”

Deposits At fiscal year end, the carrying amount of the District's deposits was \$2,218,718 and the bank balance was \$2,233,600. Of the bank balance:

1. \$201,080 was covered by federal depository insurance; and
2. \$2,032,520 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The District’s policy indicates that investments must mature within five years, unless matched to a specific obligation or debt of the District. During the year, the District’s only investment was in STAROhio.

Ending Investments in STAROhio are valued at STAROhio’s share price, which is the price the investment could be sold for on June 30, 2005. This value as of June 30, 2005 was \$139,626.

Credit Risk – The District’s only investment at June 30, 2005 in STAROhio, which is rated AAAM by Standard & Poor’s.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer. During the year, the District’s only investment was in STAROhio.

NOTE 4 - PROPERTY TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the District. Real property taxes (other than public utility) collected during 2005 were levied after October 1, 2004 on assessed values as of January 1, 2004, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made the third year following reappraisal. The last revaluation was completed in 2000, and equalization adjustments were made in 2003. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of true value for capital assets and 23 percent of true value for inventory. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually, the first payment is due April 30; with the remainder payable by September 20.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year proceeding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including Southeast Local District. The County Auditor periodically remits to the District its portion of the taxes collected. The assessed value upon which the fiscal year 2005 receipts were based is:

	2004 Second Half Collections	2005 First Half Collections
Agricultural/Residential and Other Real Estate	\$ 188,032,665	\$ 193,219,821
Public Utility Personal	10,707,930	10,368,860
Tangible Personal Property	2,926,415	3,241,213
Total Assessed Value	\$ 201,667,010	\$ 206,829,894
 Tax rate per \$1,000 of assessed valuation	\$ 46.19	\$ 46.13

NOTE 5 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, interfund loans and intergovernmental receivables. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
General Fund	\$ 200,347
<u>Other governmental funds:</u>	
Food Service	26,971
Student Intervention	709
Total Intergovernmental Receivable	\$ 228,027

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance (Restated) June 30, 2004	Additions	Deletions	Balance June 30, 2005
Governmental Activities				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$ 1,475,065	\$ 0	\$ 0	\$ 1,475,065
Construction In Progress	22,186,140	0	(22,186,140)	0
<i>Total Capital Assets, not being depreciated</i>	<u>23,661,205</u>	<u>0</u>	<u>(22,186,140)</u>	<u>1,475,065</u>
<i>Capital Assets, Being Depreciated</i>				
Land Improvements	1,415,533	0	0	1,415,533
Building and Improvements	15,652,496	22,880,848	0	38,533,344
Machinery and Equipment	1,833,209	52,002	0	1,885,211
Vehicles	1,776,244	0	0	1,776,244
<i>Total Capital Assets, being depreciated</i>	<u>20,677,482</u>	<u>22,932,850</u>	<u>0</u>	<u>43,610,332</u>
<i>Accumulated Depreciation</i>				
Land Improvements	(978,587)	(114,376)	0	(1,092,963)
Building and Improvements	(3,319,071)	(883,866)	0	(4,202,937)
Machinery and Equipment	(966,845)	(191,560)	0	(1,158,405)
Vehicles	(1,202,924)	(162,749)	0	(1,365,673)
<i>Total Accumulated Depreciation</i>	<u>(6,467,427)</u>	<u>(1,352,551)</u>	<u>0</u>	<u>(7,819,978)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>14,210,055</u>	<u>21,580,299</u>	<u>0</u>	<u>35,790,354</u>
<i>Governmental Activities, Capital Assets, net</i>	<u>\$ 37,871,260</u>	<u>\$ 21,580,299</u>	<u>\$ (22,186,140)</u>	<u>\$ 37,265,419</u>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

Depreciation expenses were charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,032,472
Support Services:	
Instructional Staff	91,425
Administration	3,404
Operation and Maintenance of Plant	30,171
Pupil Transportation	176,176
Central	2,360
Operation of Food Services	11,220
Extracurricular Activities	<u>5,323</u>
Total Depreciation	<u>\$ 1,352,551</u>

NOTE 7- 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 pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$231,049, \$206,944, and \$182,437, 82 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. \$42,513 represents the unpaid contributions for fiscal year 2005, and is recorded as a liability within the respective funds.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand alone financial report that may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years 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, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal year ended June 30, 2005, were \$960,173. Contributions to the DC and Combined Plans for fiscal year 2005 were \$18,784 made by the District and \$1,751 made by the plan members.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

For fiscal years ended June 30, 2004 and 2003, the District's contributions to STRS were \$1,053,492 and \$1,083,418, respectively. 83 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$163,768 represents the unpaid contribution for fiscal year 2005, and is recorded as a liability within the respective funds.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

NOTE 8 - POST EMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District this amount equaled \$73,859 for fiscal year 2005.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. Premiums are reduced by 50 percent for those retirees whose household income falls below poverty levels.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established as \$27,400. For the District, the amount to fund health care benefits, including surcharge, during the 2005 fiscal year equaled \$108,545.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123.

NOTE 9 – LONG-TERM DEBT AND OTHER OBLIGATIONS

Detail of the changes in the long-term general obligation bonds, capital leases and compensated absences of the District for the year ended June 30, 2005, is as follows:

	(Restated) Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005	Amount Due Within One Year
<i>General Obligation Bonds:</i>					
School Improvement					
Classroom Facilities Improvement Serial Bonds	\$6,400,000	\$0	(\$235,000)	\$6,165,000	\$250,000
Classroom Facilities Improvement Capital Appreciation Bonds	257,000	0	0	257,000	0
Accretion on Capital Appreciation Bonds	0	112,538	0	112,538	0
Total General Obligation Bonds	6,657,000	112,538	(235,000)	6,534,538	250,000
<i>Other Long-term Liabilities:</i>					
Capital Lease Payable	13,174	0	(13,174)	0	0
Compensated Absences, restated	1,548,531	0	(69,723)	1,478,808	63,601
Total Other Long-term Liabilities	1,561,705	0	(82,897)	1,478,808	63,601
Total Governmental Long-term Obligations	\$ 8,218,705	112,538	(317,897)	\$ 8,013,346	\$ 313,601

Classroom Facilities Improvement Bonds- On May 15, 2001, the District issued \$7,212,000 in bonds for school construction. The bonds mature on December 1, 2023 and bear an interest rate between 4 and 5.1 percent.

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2005, follows:

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005**

Fiscal Year Ending June 30,	General Obligation Bond			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 250,000	\$ 295,998	\$ 545,998	\$ 0	\$ 0	\$ 0
2007	250,000	285,873	535,873	0	0	0
2008	275,000	274,973	549,973	0	0	0
2009	275,000	263,217	538,217	0	0	0
2010	0	257,236	257,236	134,303	155,698	290,001
2011-2015	1,250,000	1,164,930	2,414,930	122,697	167,304	290,001
2016-2020	1,935,000	741,055	2,676,055	0	0	0
2021-2025	1,930,000	203,015	2,133,015	0	0	0
Totals	<u>\$ 6,165,000</u>	<u>\$ 3,486,297</u>	<u>\$ 9,651,297</u>	<u>\$ 257,000</u>	<u>\$ 323,002</u>	<u>\$ 580,002</u>

NOTE 10 - CAPITAL LEASE

In prior years, the District has entered into capitalized leases for the acquisition of copier equipment. The terms of each agreement provide options to purchase the equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service in the basic financial statements for the governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis. Capital assets acquired by lease have been capitalized in the amount of \$41,148 this amount is equal to the present value of the future minimum lease payments at the time of acquisition in the government-wide financial statements.

Principal payments in the current fiscal year totaled \$13,174, which represent the final payments for these leases.

NOTE 11 – STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves for the purpose of textbooks and other instructional materials and an additional amount for capital improvements. During the fiscal year ended June 30, 2005, the reserve activity (cash-basis) was as follows:

	Capital Improvement	Textbook Instructional Materials	Total
Set-Aside Carry Over Balance as of June 30, 2004	\$ 537,288	\$ 189,160	\$ 726,448
Current Year Set-Aside Requirement	248,964	248,964	497,928
Qualifying Disbursements	(140,000)	(88,358)	(228,358)
Total	<u>\$ 646,252</u>	<u>\$ 349,766</u>	<u>\$ 996,018</u>
Cash Balance Carried Forward to FY 2006	<u>\$ 646,252</u>	<u>\$ 349,766</u>	<u>\$ 996,018</u>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

The District may use any negative amount in the textbooks set-aside to reduce set-aside requirements of future fiscal years. Amounts remaining at the fiscal year-end are represented by a reserve fund balance presented on the balance sheet. The corresponding amounts that should be reported as “cash and cash equivalents – restricted” were not reported in the current year. This was due to the general fund only reporting \$4,978 in cash and cash equivalents at year-end.

NOTE 12 - RISK MANAGEMENT

A. Public Entity Risk Pools

The District participates in the Ohio Association of School Business Officials (OASBO) Workers’ Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. 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.

Each participant pays its workers’ compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant’s individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the “Equity Pooling Fund.” This “equity pooling” arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to Districts that can meet the GRP’s selection criteria. The Sheakley Group provides administrative, cost control and actuarial services to the GRP.

B. Other Insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2005, the District contracted for various insurance coverages, as follows:

<u>Insurance Provider</u>	<u>Coverage</u>	<u>Deductible</u>
Marsh Insurance	Automobile/Fleet	\$ 0
Marsh Insurance	Property	1,000
Marsh Insurance	Inland Marine	0
Marsh Insurance	General Liability	1,000

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005***

The District also maintains a self-funded health insurance program for employee health coverage. The plan was started in July of 2003. The claims are processed by the third party administrator, Benefit Services Inc. An internal service fund is presented in the financial statements and reflects premiums paid into the self-insurance fund by other funds which are available to pay claims and administrative costs, and establish claims reserves. Claims are paid weekly through the third party administrator and fixed costs for administrative and stop loss costs are paid on a monthly basis. The District purchases stop-loss coverage through Sun Life Insurance Company to protect the plan in the occurrence of catastrophic claims. The outstanding claims at June 30, 2005 for the self-insurance program amounted to \$385,372.

The claims liability reported in the fund at June 30, 2005 is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the fund's claims liability amount in 2004 and 2005 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims	Claims Payments	Balance at Fiscal Year End
2004	\$ 157,934	\$ 2,721,577	\$ (2,599,634)	\$ 279,877
2005	279,877	3,061,421	(2,955,926)	385,372

NOTE 13 - JOINTLY GOVERNED ORGANIZATION

Stark Portage Area Computer Consortium

The Stark Portage Area Computer Consortium (SPARCC) is the computer service organization used by the Southeast Local District. SPARCC is an association of public Districts in a geographic area determined by the Ohio Department of Education. The Stark County Educational Service Center acts as the fiscal agent for the consortium.

The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All districts in the consortium are required to pay fees, charges and assessments as charged. SPARCC is governed by a board made up of superintendents from all of the participating districts. An elected Executive Board consisting of five members of the governing board is the managerial body of the consortium and meets on a monthly basis. The Southeast Local School District does not maintain an ongoing financial interest or an ongoing financial responsibility. Payments to SPARCC are made from the general fund. Financial information can be obtained from Gene Feucht, who serves as director, at 2100 38th Street, NW, Canton, Ohio 44709.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 14 - CONTINGENCIES

A. Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement 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, 2005.

B. Litigation

The District is not a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2005.

C. State School Funding

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.

NOTE 15 – INTERFUND LOANS AND TRANSFERS

- A. All interfund loans made during the year from the general fund to the employee health benefit self-insurance fund were to cover cash deficits. As of June 30, 2005, all interfund loans outstanding (\$10,000) are anticipated to be repaid in fiscal year 2006.
- B. During the fiscal year the general fund transferred \$87,000 to the food service special revenue fund. This transfer was made to move unrestricted balances to support the food service program in accordance with budgetary authorization.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005***

NOTE 16 – RESTATEMENT OF NET ASSETS

Due to errors in the use of information in the prior year, adjustments to the net asset balance as of June 30, 2004 were needed. Due to these errors, the estimated compensated absences liability was understated as was the amount of construction in progress for costs associated with the construction of new school buildings within the District. The following table summarizes the amounts associated with each adjustment:

	Classroom Facilities	Total Governmental Funds
Fund Balances, June 30, 2004	\$ 4,824,199	\$ 3,855,842
Adjustment for contracts payable	(4,417,266)	(4,417,266)
Fund Balances, June 30, 2004, restated	<u>\$ 406,933</u>	<u>\$ (561,424)</u>

	Governmental Activities
Net Assets, June 30, 2004	\$ 27,988,540
Adjustment for compensated absences	(554,478)
Adjustment for construction in progress	6,221,644
Adjustment for contract payable	(4,417,266)
Adjustment for capital assets	175,120
Net Assets June 30, 2004, restated	<u>\$ 29,413,560</u>

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

Board of Education
Southeast Local School District
8423 Tallmadge Road
Ravenna, OH 44266

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Southeast Local School District (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-01 through 2005-03.

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

We also noted certain additional matters that we reported to management of the District in a separate letter dated March 7, 2006.

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

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

March 7, 2006

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

Board of Education
Southeast Local School District
8423 Tallmadge Road
Ravenna, OH 44266

Compliance

We have audited the compliance of the Southeast Local School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal program are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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.

As described in items 2005-04 through 2005-07 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding financial reporting, special tests and provisions, activities allowed or unallowed, allowable costs/cost principles and reporting that are applicable to its Special Education-Grants to State program. Compliance with such requirements is necessary, in our opinion, for the District, to comply with requirements applicable to that program.

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

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the 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 the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2005-08.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable condition that are also considered to be material weaknesses. However, we consider item 2005-08 to be material weakness.

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

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

March 7, 2006

**Southeast Local School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2005**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Receipts	Disbursements
<u>U.S. Department of Agriculture</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
National School Lunch Program	10.555	049221-LLP4-2005	\$129,950	\$129,950
National School Lunch Program	10.555	049221-LLP4-2004	36,111	36,111
Total National School Lunch Program			166,061	166,061
Food Donation	10.550	----	172,850	172,850
Total U.S. Department of Agriculture - Child Nutrition Cluster			338,911	338,911
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
State Grants for Innovative Programs	84.298	049221-C2S1	17,495	9,234
Title I Grants to Local Educational Agencies	84.010	049221-C1S1	287,484	219,980
Safe and Drug-Free Schools and Communities - State Grants	84.186	049221-DRS1	15,672	10,571
Special Education Cluster:				
Special Education-Grants to States	84.027	049221-6BSF	526,314	470,481
Improving Teacher Quality State Grants	84.367	049221-TRS1	158,913	157,866
Education Technology State Grants	84.318	049221-TJS1	8,698	4,000
Total U.S. Department of Education			1,014,576	872,132
Total Federal Assistance			\$1,353,487	\$1,211,043

The notes to this Schedule are an integral part of this Schedule.

SOUTHEAST LOCAL SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - FOOD DISTRIBUTION

Non monetary assistance such as food received from the U.S. Department of Agriculture, is reported in the schedule at the fair market value of the commodities received and disbursed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2005, the District had no significant food commodities in inventory.

SOUTHEAST LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of auditor's report issued on the basic financial statements	Unqualified Opinion
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the basic financial statement level?	No
(d)(1)(ii)	Were there any other reportable conditions in internal control reported at the basic financial statement level?	No
(d)(1)(iii)	Was there any material noncompliance reported at the basic financial statement level?	Yes
(d)(1)(iv)	Were there any material weaknesses in internal control over major programs reported?	Yes
(d)(1)(iv)	Were there any other reportable conditions in internal control over major programs reported?	No
(d)(1)(v)	Type of auditor's report issued on compliance for major programs	Qualified Opinion
(d)(1)(vi)	Were there any reportable audit findings under §510?	Yes

SOUTHEAST LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

(d)(1)(vii)	Major Program:	Special Education - Grants to States, CFDA #84.027; National School Lunch Program, CFDA # 10.555; and Food Donation, CFDA # 10.550
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

2005-01

Section 5705.10, Revised Code, states, in part, money that is paid into a fund must be used only for the purpose for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

Negative fund balances did not occur as of June 30, 2005, however as of January 31, 2005, the following funds had negative fund balances:

General	\$495,270
Food Service	102,916
School Net	4,508
Title IDEA-B	2,992
Title I	17,953
Title II-A	4,653

Fund activity should be monitored to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code.

Corrective Action:

Each month the balances will be checked to make sure they are in the black. Since the district is short on cash the district might not be able to advance money to cover the deficits. The Treasurer will monitor this situation. This situation should be rectified by FY 2006.

2005-02

Section 5705.41 (B), Revised Code, requires that no subdivision or taxing unit is to expend money unless it has been properly appropriated.

District expenditures, plus outstanding encumbrances, exceeded appropriations at the fund level in the following instances at March 31, 2005 and June 30, 2005

<u>Fund Type – Fund</u>	<u>March 31, 2005</u>	<u>June 30, 2005</u>
General Fund		\$31,701
Food Service	\$ 97,069	
District Managed Activities	6,502	
Class Size Reduction Grant	48,156	

The District Treasurer should frequently compare actual expenditures plus encumbrances to appropriations at the fund level to avoid overspending.

Corrective Action:

Each month the appropriations will be compared to actual expenditures and modified by board action to be in compliance with 5705 ORC. This is monitored by the Treasurer and should be rectified in FY 2006.

2005-03

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

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

- Then and Now Certificates – If the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrances, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.
- If the amount is less than \$3,000, the Treasurer may authorize payment through a Then and Now Certificate without affirmation of the Board of Education, if such expenditure is otherwise valid.

During fiscal year 2005, thirty out of ninety-eight expenditures tested, a contract order was made prior to the fiscal officer certification. The Treasurer should certify the availability of funds prior to incurring the obligation for expenditures. In addition, the District should implement the use of Then and Now Certificates and Blanket Certificates as further permitted by Ohio Revised Code Section 5705.41.

Corrective Action:

Every purchase order will be reviewed for compliance. No order will be made without a purchase order. This is the responsibility of the Treasurer and will be rectified in FY 2006.

3. FINDINGS FOR FEDERAL AWARDS

Federal Program: Special Education, Part B-IDEA-Fiscal Year 2005

Identification Number: 049221-6BSF

CFDA Number: 84.027

Federal Agency: U.S. Department of Education

Pass Through Entity: Ohio Department of Education

2005-04

Criteria: 34CFR 300.347 contents of the Individualized Education Program (IEP) for each child should include the following:

1. A statement of the child's present level of educational achievements;
2. A statement of the annual goals;
3. A statement of the special education and related services to be provided;
4. The projected dates for initiation of the service and the anticipated duration of the services; and
5. Appropriate objective criteria and evaluation procedures.

Condition Found: The following results were found from the 50 IEP selected for testing:

- Three instances in which there was no IEP.
- One instance in which the IEP did not contain the statement of annual goals.
- Two instances in which the IEP did not contain the appropriate objective criteria and evaluation procedures.

Recommendation: The District needs to make sure the IEP includes the five required elements. The District should put in place, a monitoring system whereby IEP's are reviewed at least on a sample basis to make sure IEP's are being properly completed.

Corrective Action:

IEP work is the responsibility of the Director of Special Education. The Superintendent is in the process of putting together a plan to make this work more effective and should be rectified in FY 2006.

Federal Program: Special Education, Part B-IDEA-Fiscal Year 2005
 Identification Number: 049221-6BSF
 CFDA Number: 84.027
 Federal Agency: U.S. Department of Education
 Pass Through Entity: Ohio Department of Education

2005-05

Criteria: The final expenditure report is to be submitted for each project immediately after all financial obligations have been liquidated. The report is due no later than 90 days after the end of the project period. Actual expenditures authorized by the approved project application and charges to the project special cost center are to be reported (report amounts actually expended, not encumbered).

Condition Found:

The amounts reported in the final expenditure report did not agree with the amounts recorded in the expenditure ledger as follows:

	<u>Final Expenditure Report</u>	<u>Expenditure Ledger</u>	<u>Over/(Under) Stated</u>
Salaries	\$289,000.00	\$ 236,062.26	\$ 52,937.74
Retirement Fringe Benefits	38,249.46	0.00	38,249.46
Purchased Services	66,630.00	167,089.88	(100,459.88)
Supplies	20,000.00	5,848.29	14,151.71
Capital Outlay	6,370.00	753.00	5,617.00

Questioned Costs: The amounts spent on salaries, retirement fringe benefits, supplies, and capital outlay were overstated in the final expenditure report by \$52,937.74, \$38,249.46, \$14,151.71, and \$5,617.00, respectively.

Recommendation: The District is to report the actual expenditures authorized. Any expenditures in excess of these authorized should not be recorded in the Special Education Fund. The expenditures in excess of those authorized should be reported in the local funds (General). The Special Education Funds are intended to supplement local funds and should be accounted for accordingly.

Corrective Action:

The former treasurer commingled Federal Grants on the books of the District in years prior to FY 2006. The Superintendent does the budgeting and the CCIP reports and the Treasurer sets up the budgets on the books based on those budgets. In FY 2006, separate special cost centers were set up to properly track Federal Grant revenues and expenditures.

Federal Program: Special Education, Part B-IDEA-Fiscal Year 2005
 Identification Number: 049221-6BSF
 CFDA Number: 84.027
 Federal Agency: U.S. Department of Education
 Pass Through Entity: Ohio Department of Education

2005-06

Criteria: 34CFR, Subpart C, Section 80.20(b)(1) Financial Reporting requires accurate, current and complete disclosure of the financial results of financially assisted activities.

Condition Found: The District commingled the activity of the fiscal year 2004 and fiscal year 2005 activity which prohibited tracing activity reported on two of four project cash requests to the financial ledgers of the District.

Recommendation: The District needs to have a separate cost center for each grant within the Special Education Fund.

Corrective Action:

The former treasurer commingled Federal Grants on the books of the District in years prior to FY 2006. The Superintendent does the budgeting and the CCIP reports and the Treasurer sets up the budgets on the books based on those budgets. In FY 2006, separate special cost centers were set up to properly track Federal Grant revenues and expenditures.

Federal Program: Special Education, Part B-IDEA-Fiscal Year 2005

Identification Number: 049221-6BSF

CFDA Number: 84.027

Federal Agency: U.S. Department of Education

Pass Through Entity: Ohio Department of Education

2005-07

Criteria: 34CFR80.20(6) source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Condition: The District was unable to provide supporting documentation for two expenditures charged to the Special Education Fund.

Questioned Costs:	Adjustments	\$ 55,823.00
	Adjustments	<u>(2,600.00)</u>
	Total	<u>53,223.00</u>

Recommendation: All direct costs that are allowable under the program need to be charged to the appropriate fund/program and be adequately documented.

Corrective Action:

The former treasurer commingled Federal Grants on the books of the District in years prior to FY 2006. The Superintendent does the budgeting and the CCIP reports and the Treasurer sets up the budgets on the books based on those budgets. In FY 2006, separate special cost centers were set up to properly track Federal Grant revenues and expenditures.

Federal Program: Special Education, Part B-IDEA-Fiscal Year 2005
Identification Number: 049221-6BSF
CFDA Number: 84.027
Federal Agency: U.S. Department of Education
Pass Through Entity: Ohio Department of Education

2005-08

Criteria: Standards for Financial Management Systems 34CFR, subpart C, Section 80.20 requires, in part, that grantees meet the following requirements:

1. Financial Reporting: Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant.
2. Accounting Records: Grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures and income.
3. Internal Control: Effective control and accountability must be maintained for all grant cash, real and personal property and other assets. Grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
4. Budget Control: Actual expenditures or outlays must be compared with budgeted amounts for each grant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate.
5. Applicable OMB cost principles, agency program regulations and the term of grant and subgrant agreements will be followed in determining the reasonableness, allowability and allocability of costs.
6. Source documentation: Accounting records must be supported by such source documentation as cancelled checks, paid bills, payroll reports, time and attendance records, contract award documents, etc.
7. Cash Management: Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursements by grantees and subgrantees must be followed whenever advance payment procedures are used.

Condition Found: The following weaknesses were noted during our audit relating to the Standards for Financial Management Systems:

1. Financial Reporting – amounts presented on the Project Cash Request and Final Expenditure Reports did not match amounts reported in the receipt and disbursement ledgers of the District.

2. Accounting records – the ledger did not adequately identify the application of funds provided for financially assisted activities. The financial ledgers of the District for the Special Education Fund contains fiscal year 2004 and fiscal year 2005 grants under one cost center.
3. Internal Control – effective monitoring of Project Cash Requests and Final Expenditure Reports were not being performed.
4. Budgetary Control – comparisons of actual expenditures to authorized budgets were not performed.
5. Source Documentation – source documentation for costs being charged to the Special Education Fund, Improving Teacher Quality Fund, and General Fund and later corrected by an adjustment to the financial ledgers was not maintained.
6. Cash Management – the District’s revenue and expenditure ledgers do not have separate cost centers for funds made up of more than one grant. Based on this, the revenues and expenditures on the project cash requests to the District’s financial ledgers were untraceable in two out of the four tested.

Recommendation:

The following procedures should be put in place:

1. Financial Reporting – reports submitted by the Treasurer need to be reviewed to verify that information being presented is accurate.
2. Accounting Records – all costs to be paid for by grant funds need to be recorded in the appropriate grant fund at the time of payment. This will allow for an audit trail and provide accurate information for preparing reports.
3. Internal Control – effective monitoring of reports prepared by the Treasurer and the allocation of expenditures should be performed. Those individuals monitoring reports and allocation of costs need to have familiarity with the reporting requirements along with what costs are allowable and unallowable for the Federal program
4. Budget Control – a comparison of actual costs being incurred to the approved budget for the Federal program should be done on a regular basis. This will identify potential problems (i.e. costs greater than budgeted amounts or insufficient costs being charged to the program) in a timely manner and enable management to correct prior to rather than after the fact.
5. Source Documentation – all costs need to be supported by source documentation. Payroll reports should allocate individual employees being charged to the Federal program at the time of payment. Purchase requisitions and purchase orders should have the proper account to be charged. Those individuals responsible for approving payroll and purchases need to be familiar with where charges can be charged.

6. Cash Requests – projected cash received and total expenditure amounts need to be traced to the accounting records supporting the audited financial statements.

Corrective Action:

The former treasurer commingled Federal Grants on the books of the District in years prior to FY 2006. The Superintendent does the budgeting and the CCIP reports and the Treasurer sets up the budgets on the books based on those budgets. In FY 2006, separate special cost centers were set up to properly track Federal Grant revenues and expenditures.

**SOUTHEAST LOCAL SCHOOL DISTRICT
PORTAGE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-01	Ohio Revised Code Section 5705.39, total appropriation from each fund shall not exceed the total estimated revenue.	Yes	No
2004-02	Ohio Revised Code Section 5705.41(B), several funds had expenditures and encumbrances which exceeded appropriations.	No	Not corrected. Reissued as finding number 2005-02
2004-03	Ohio Revised Code Section 5705.10, negative fund balance indicates that money from one fund was used to cover the expenses of another fund.	No	Not corrected. Reissued as finding number 2005-01
2004-04	34CFR 300.347, several instances where Individual Education Program did not exist or did not have proper documentation	No	Not corrected. Reissued as finding number 2005-04
2004-05	34CFR, Subpart C, Section 80.20 (b)(1), the District commingled the activity of fiscal year 2003 and 2004	No	Not corrected. Reissued as finding number 2005-06
2004-06	34CFR80.20(6), the District was unable to provide supporting documentation for expenditures charged to the program	No	Not corrected. Reissued as finding number 2005-07
2004-07	Amounts reported in the final expenditure report did not agree with the amounts recorded in the expenditure ledger.	No	Not corrected. Reissued as finding number 2005-05
2004-08	Weaknesses were noted in the financial management system	No	Not corrected. Reissued as finding number 2005-08



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SOUTHEAST LOCAL SCHOOL DISTRICT

PORTAGE 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
MAY 30, 2006**