



**Auditor of State
Betty Montgomery**

**SOUTHEASTERN LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Southeastern Local School District
Ross County
2003 Lancaster Road
Chillicothe, Ohio 45601

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southeastern Local School District, Ross County, Ohio, (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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southeastern Local School District, Ross County, Ohio, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the 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 April 24, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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Our audit was performed to form opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of federal awards receipts and expenditures provides additional information as required by OMB Circular A-133 and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

April 24, 2006

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

The discussion and analysis of the Southeastern Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2005 are as follows:

- Net assets of governmental activities decreased \$349,428.
- General revenues accounted for \$8,991,760 in revenue or 81% of all revenues. Program specific revenues in the form of charges for services, operating and capital grants, and contributions, accounted for \$2,044,532 or 19% of total revenues of \$11,036,292.
- The School District had \$11,385,720 in expenses related to governmental activities; only \$2,044,532 of these expenses were offset by program specific charges for services, operating and capital grants and contributions.

USING THIS ANNUAL FINANCIAL REPORT

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

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

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

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

- In the Statement of Net Assets and the Statement of Activities, all of the School District's programs and services are reported as governmental activities including instruction, support services, operation of non instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, the Bond Retirement Debt Service Fund, and the Classroom Facilities Capital Projects Fund.

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal 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 School District's general governmental 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 maintains a proprietary fund. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical and dental self insurance.

Fiduciary Funds The School District's only fiduciary fund is an agency fund. All of the School District's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. We excluded these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

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

THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2005 compared to 2004.

Table 1
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Current and Other Assets	\$5,670,508	\$6,581,436
Capital Assets	27,588,678	27,830,173
Total Assets	<u>33,259,186</u>	<u>34,411,609</u>
Liabilities		
Current and Other Liabilities	3,331,348	3,581,217
Long-term Liabilities	5,694,654	6,247,780
Total Liabilities	<u>9,026,002</u>	<u>9,828,997</u>
Net Assets		
Invested in Capital Assets, Net of Debt	22,387,324	22,495,759
Restricted	1,496,354	2,334,881
Unrestricted	349,506	(248,028)
Total Net Assets	<u>\$24,233,184</u>	<u>\$24,582,612</u>

Total net assets of the District as a whole decreased \$349,428. The most significant decrease in current and other assets affecting unrestricted net assets was most noticeable in cash which was largely due in part to increases in wages and benefits and decrease in tuition receipts.

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

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2005 and June 30, 2004.

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
Revenues		
Program Revenues		
Charges for Services and Sales	\$282,430	\$266,423
Operating Grants and Contributions	1,741,907	1,772,353
Capital Grants and Contributions	20,195	21,255
Total Program Revenues	<u>2,044,532</u>	<u>2,060,031</u>
General Revenues		
Property Taxes	1,860,877	1,876,872
Income Taxes	506,810	340,517
Grants and Entitlements Not Restricted to Specific Programs	6,070,679	5,961,706
Investment Earnings	69,563	35,266
Miscellaneous	483,831	125,443
Total General Revenues	<u>8,991,760</u>	<u>8,339,804</u>
Total Revenues	<u>11,036,292</u>	<u>10,399,835</u>
Program Expenses		
Instruction:		
Regular	4,885,608	5,213,219
Special	974,489	900,793
Vocational	10,445	0
Support Services:		
Pupils	542,708	675,073
Instructional Staff	346,663	387,033
Board of Education	29,056	24,448
Administration	499,340	675,115
Fiscal	220,476	215,880
Business	556,377	206,778
Operation and Maintenance of Plant	1,129,756	978,245
Pupil Transportation	846,297	656,191
Central	94,098	0
Operation of Non-Instructional Services	399,800	309,929
Extracurricular Activities	555,418	285,944
Interest and Fiscal Charges	295,189	350,362
Total Expenses	<u>11,385,720</u>	<u>10,879,010</u>
Decrease in Net Assets	(349,428)	(479,175)
Net Assets, Beginning of Year - (As Restated See Note 3)	<u>24,582,612</u>	<u>25,061,787</u>
Net Assets, End of Year	<u>\$ 24,233,184</u>	<u>\$ 24,582,612</u>

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

The most significant program expenses for the District are Regular Instruction, Operation and Maintenance of Plant and Special Instruction. These programs account for 61.39 percent of the total governmental activities. Regular Instruction, which accounts for 42.91 percent of the total, represents costs associated with providing general educational services. Operation and Maintenance of Plant, which represents 9.92 percent of the total, represents costs associated with operating and maintaining the District's facilities. Special Instruction, which represents 8.56 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students.

The majority of the funding for the most significant programs indicated above is from program revenue operating grants, property taxes, and grants and entitlements not restricted for specific programs. Program revenue operating grants, property taxes, and grants and entitlements not restricted for specific programs account for 87.65 percent of total revenues for governmental activities.

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

Table 3
 Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2005		2004	
Program Expenses				
Instruction:				
Regular	\$4,885,608	\$4,455,240	\$5,213,219	\$4,679,718
Special	974,489	184,478	900,793	490,778
Vocational	10,445	8,048	0	0
Support Services:				
Pupils	542,708	420,827	675,073	528,374
Instructional Staff	346,663	158,452	387,033	214,735
Board of Education	29,056	28,905	24,448	23,892
Administration	499,340	495,567	675,115	655,008
Fiscal	220,476	218,963	215,880	210,756
Business	556,377	549,268	206,778	201,631
Operation and Maintenance of Plant	1,129,756	1,123,043	978,245	954,239
Pupil Transportation	846,297	814,105	656,191	275,337
Central	94,098	94,098	0	0
Operation of Non-Instructional Services	399,800	45,677	309,929	51,033
Extracurricular Activities	555,418	449,328	285,944	201,780
Interest and Fiscal Charges	295,189	295,189	350,362	331,698
Total	<u>\$11,385,720</u>	<u>\$9,341,188</u>	<u>\$10,879,010</u>	<u>\$8,818,979</u>

It should be noted that 17.96 percent of the costs of services are derived from program revenues including charges for services, sales, operating grants and contributions.

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

THE SCHOOL DISTRICT'S FUNDS

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$11,036,132 and expenditures and other financing uses of \$12,078,739.

The School District has three major funds; the General Fund, the Bond Retirement Debt Service Fund, and the Classroom Facilities Capital Projects Fund. The General Fund had \$8,688,330 in revenues and \$8,718,412 in expenditures and other financing uses. The General Fund's balance decreased \$30,082. The Bond Retirement Debt Service Fund had \$470,979 in revenues and \$524,745 in expenditures. The Classroom Facilities Capital Projects Fund had \$17,955 in revenues and \$6,408 in expenditures. The Classroom Facilities Capital Projects Fund's balance increased by \$11,547. The decrease in fund balances in the General Fund was \$30,082 due to increased instruction costs.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2005, the School District amended its General Fund budget.

For the General Fund, final budget basis revenue was \$8,700,824, which decreased from the original estimates of \$9,226,553. Of this \$525,729 difference, most was due to receiving less property tax revenue than expected. For the General Fund, there was no change between final and original budget basis expenditures which were \$9,191,242.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005, the School District had \$27,588,678 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, library and textbooks and construction in progress. For additional information on capital assets, see Note 10 to the basic financial statements. Table 4 shows fiscal year 2005 balances compared to 2004.

Table 4
 Capital Assets
 (Net of Depreciation)

	Governmental Activities	
	2005	2004
Land	\$705,000	\$705,000
Construction in Progress	1,767,146	1,575,604
Land Improvements	2,673,725	2,230,066
Buildings and Improvements	21,040,270	21,749,859
Furniture and Equipment	493,416	524,499
Vehicles	568,754	661,016
Library and Textbooks	340,367	384,129
Totals	\$27,588,678	\$27,830,173

The overall decrease in capital assets of \$241,495 is due to depreciation expense of \$1,042,009 exceeding capital outlay of \$608,972 in the current period.

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

Debt

At June 30, 2005, the School District had \$5,163,304 in bonds, and capital leases outstanding with \$145,000 due within one year. Table 5 summarizes the bond and notes outstanding. The bonds were issued for school construction.

Table 5
Outstanding Debt at Year End

	2005	2004
1995 Energy Conservation Loan	0	30,000
2000 General Obligation Bonds	3,654,304	3,741,191
Capital Leases	1,509,000	1,525,000

The Energy Conservation Notes were issued in 1995 in the amount of \$233,000 for the purpose of providing energy conservation measures for the School District under the authority of Ohio Revised Code Sections 133.06(G) and 3313.372. The final payment was made in 2005.

The General Obligation Bonds were issued in 2000 in the amount of \$3,982,000 for the purpose of constructing a new K-12 facility. The final payment is due in 2022.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Phil Hartman, Treasurer at Southeastern Local School District, 2003 Lancaster Road, Chillicothe, Ohio 45601.

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Southeastern Local School District
Statement of Net Assets
June 30, 2005

	Governmental Activities
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$3,477,984
Equity in Pooled Cash and Cash Equivalents with Trustee	3,364
Investment with Trustee	225,481
Intergovernmental Receivable	133,031
Taxes Receivable	1,830,648
Noncurrent Assets:	
Nondepreciable Capital Assets	2,472,146
Depreciable Capital Assets, Net	25,116,532
<i>Total Assets</i>	33,259,186
Liabilities	
Current Liabilities:	
Accounts Payable	128,818
Accrued Wages and Benefits Payable	875,211
Intergovernmental Payable	503,063
Accrued Interest Payable	38,050
Matured Compensated Absences Payable	12,312
Deferred Revenue	1,584,088
Claims Payable	189,806
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	171,422
Due In More Than One Year	5,523,232
<i>Total Liabilities</i>	9,026,002
Net Assets	
Invested in Capital Assets, Net of Related Debt	22,387,324
Restricted for:	
Debt Service	317,945
Capital Outlay	1,164,488
Other Purposes	13,921
Unrestricted	349,506
<i>Total Net Assets</i>	\$24,233,184

See accompanying notes to the basic financial statements.

Southeastern Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions		
Governmental Activities					
Instruction:					
Regular	\$4,885,608	\$19,630	\$410,738	\$0	(\$4,455,240)
Special	974,489	3,277	786,734	-	(184,478)
Vocational	10,445	54	2,343	-	(8,048)
Support Services:					
Pupils	542,708	2,321	119,560	-	(420,827)
Instructional Staff	346,663	566	187,645	-	(158,452)
Board of Education	29,056	151	0	-	(28,905)
Administration	499,340	2,596	1,177	-	(495,567)
Fiscal	220,476	1,086	427	-	(218,963)
Business	556,377	1,600	5,509	-	(549,268)
Operation and Maintenance of Plant	1,129,756	5,744	969	-	(1,123,043)
Pupil Transportation	846,297	4,257	7,740	20,195	(814,105)
Central	94,098	-	-	-	(94,098)
Operation of Non-Instructional Services	399,800	135,058	219,065	-	(45,677)
Extracurricular Activities	555,418	106,090	-	-	(449,328)
Interest and Fiscal Charges	295,189	-	-	-	(295,189)
Totals	<u>\$11,385,720</u>	<u>\$282,430</u>	<u>\$1,741,907</u>	<u>\$20,195</u>	<u>(9,341,188)</u>
General Revenues					
Property Taxes Levied for:					
					1,484,619
					345,566
					30,692
					506,810
					6,070,679
					69,563
					483,831
					<u>8,991,760</u>
					(349,428)
					<u>24,582,612</u>
					<u>\$24,233,184</u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
Balance Sheet
Governmental Funds
June 30, 2005

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 1,816,436	\$ 274,360	\$ 783,286	\$ 483,852	\$ 3,357,934
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents with Trustee	-	-	-	3,364	3,364
Investment with Trustee	-	-	-	225,481	225,481
Interfund Receivable	89,540	-	-	-	89,540
Receivables:					
Intergovernmental	-	-	-	133,031	133,031
Taxes	1,492,097	308,441	-	30,110	1,830,648
<i>Total Assets</i>	<u>\$ 3,398,073</u>	<u>\$ 582,801</u>	<u>\$ 783,286</u>	<u>\$ 875,838</u>	<u>\$ 5,639,998</u>
Liabilities					
Accounts Payable	\$ 77,443	\$ -	\$ -	\$ 51,375	\$ 128,818
Accrued Wages and Benefits Payable	752,044	-	-	123,167	875,211
Interfund Payable	-	-	-	89,540	89,540
Intergovernmental Payable	313,764	-	-	110,591	424,355
Matured Compensated Absences Payable	12,312	-	-	-	12,312
Deferred Revenue	1,329,454	272,400	-	102,687	1,704,541
<i>Total Liabilities</i>	<u>2,485,017</u>	<u>272,400</u>	<u>-</u>	<u>477,360</u>	<u>3,234,777</u>
Fund Balances					
Reserved:					
Reserved for Encumbrances	189,838	-	159,578	151,872	501,288
Reserved for Property Taxes	148,134	32,783	-	3,123	184,040
Reserved for Athletic Complex	-	-	-	228,845	228,845
Unreserved, Undesignated, Reported in:					
General Fund	575,084	-	-	-	575,084
Special Revenue Funds	-	-	-	(18,571)	(18,571)
Debt Service Funds	-	277,618	-	-	277,618
Capital Projects Funds	-	-	623,708	33,209	656,917
<i>Total Fund Balances</i>	<u>913,056</u>	<u>310,401</u>	<u>783,286</u>	<u>398,478</u>	<u>2,405,221</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,398,073</u>	<u>\$ 582,801</u>	<u>\$ 783,286</u>	<u>\$ 875,838</u>	<u>\$ 5,639,998</u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 For the Fiscal Year Ended June 30, 2005*

Total Governmental Fund Balances		\$ 2,405,221
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		27,588,678
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	44,449	
Intergovernmental	76,004	
Total		120,453
An internal service fund is used by management to charge the cost of insurance to individuals. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		(148,464)
<p>Long-Term Liabilities, including bonds, capital lease obligations and the long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.</p>		
Accrued Interest Payable	(38,050)	
Compensated Absences	(531,350)	
Capital Lease Obligations	(1,509,000)	
General Obligation Bonds	(3,654,304)	
Total		(5,732,704)
Net Assets of Governmental Activities		\$24,233,184

See accompanying notes to the basic financial statements.

Southeastern Local School District
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					
Property Taxes	\$1,480,841	\$345,635	\$0	\$30,681	\$1,857,157
Income Taxes	506,810	0	0	0	506,810
Intergovernmental	5,820,624	34,379	0	1,356,479	7,211,482
Interest	51,525	0	17,955	83	69,563
Tuition and Fees	591,773	0	0	0	591,773
Rent	15,732	0	0	0	15,732
Extracurricular Activities	0	0	0	105,342	105,342
Gifts and Donations	2,500	0	0	1,000	3,500
Customer Sales and Services	0	0	0	135,058	135,058
Miscellaneous	218,525	90,965	0	3,594	313,084
<i>Total Revenues</i>	<u>8,688,330</u>	<u>470,979</u>	<u>17,955</u>	<u>1,632,237</u>	<u>10,809,501</u>
Expenditures					
Current:					
Instruction:					
Regular	3,915,504	0	6,408	432,117	4,354,029
Special	660,815	0	0	370,608	1,031,423
Support Services:					
Pupils	481,937	0	0	99,418	581,355
Instructional Staff	127,319	0	0	229,353	356,672
Board of Education	29,056	0	0	0	29,056
Administration	590,481	0	0	1,199	591,680
Fiscal	222,343	0	0	12,792	235,135
Business	309,962	190,274	0	60,153	560,389
Operation and Maintenance of Plant	1,154,763	0	0	31,275	1,186,038
Pupil Transportation	909,357	0	0	24,241	933,598
Operation of Non-Instructional Services	0	0	0	424,478	424,478
Extracurricular Activities	163,713	0	0	121,140	284,853
Capital Outlay	0	0	0	1,022,400	1,022,400
Debt Service:					
Principal	16,000	135,000	0	0	151,000
Interest	77,778	199,471	0	0	277,249
<i>Total Expenditures</i>	<u>8,659,028</u>	<u>524,745</u>	<u>6,408</u>	<u>2,829,174</u>	<u>12,019,355</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>29,302</u>	<u>(53,766)</u>	<u>11,547</u>	<u>(1,196,937)</u>	<u>(1,209,854)</u>
Other Financing Sources and Uses:					
Transfers In	0	0	0	59,384	59,384
Proceeds from Sale of Land	0	0	0	167,247	167,247
Transfers Out	(59,384)	0	0	0	(59,384)
<i>Total Other Financing Sources and Uses</i>	<u>(59,384)</u>	<u>0</u>	<u>0</u>	<u>226,631</u>	<u>167,247</u>
<i>Net Change in Fund Balances</i>	(30,082)	(53,766)	11,547	(970,306)	(1,042,607)
<i>Fund Balances at Beginning of Year , As Restated (See Note 3)</i>	<u>943,138</u>	<u>364,167</u>	<u>771,739</u>	<u>1,368,784</u>	<u>3,447,828</u>
<i>Fund Balances at End of Year</i>	<u>\$913,056</u>	<u>\$310,401</u>	<u>\$783,286</u>	<u>\$398,478</u>	<u>\$2,405,221</u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balances-Total Governmental Funds	\$ (1,042,607)
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 depreciation exceeded capital outlays in the current period.	
Capital Asset Additions	800,514
Depreciation Expense	<u>(1,042,009)</u>
Total	(241,495)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Taxes	(16,460)
Intergovernmental	<u>76,004</u>
Total	59,544
Repayment of bond and note principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.	
	135,000
Repayment of capital leases obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.	
	16,000
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. Governmental fund expenditures and the related internal service fund revenues are eliminated. The expense of the internal service fund is allocated among the governmental activities.	
	96,814
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Decrease in Compensated Absences	420,239
Decrease in Interest Payable	173
Increase in Accreted Interest	(18,113)
Decrease in Intergovernmental Payable	<u>225,017</u>
Total	<u>627,316</u>
Net Change in Net Assets of Governmental Activities	<u><u>\$ (349,428)</u></u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Budgetary Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Total Revenues and Other Financing Sources	\$ 9,226,553	\$ 8,700,824	\$ 8,694,210	\$ (6,614)
Total Expenditures and Other Financing Uses	<u>9,191,242</u>	<u>9,191,242</u>	<u>8,591,957</u>	<u>599,285</u>
Net Change in Fund Balance	35,311	(490,418)	102,253	592,671
Fund Balance at Beginning of Year	1,202,252	1,202,252	1,202,252	-
Prior Year Encumbrances Appropriated	<u>286,857</u>	<u>286,857</u>	<u>286,857</u>	<u>-</u>
Fund Balance (Deficit) at End of Year	<u>\$ 1,524,420</u>	<u>\$ 998,691</u>	<u>\$ 1,591,362</u>	<u>\$ 592,671</u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
Statement of Fund Net Assets
Governmental Activities
Internal Service Fund
June 30, 2005

ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 120,050
	<u>120,050</u>
<i>Total Current Assets</i>	<u>120,050</u>
<i>Total Assets</i>	<u>120,050</u>
LIABILITIES:	
Current Liabilities:	
Intergovernmental Payable	78,708
Claims Payable	189,806
	<u>268,514</u>
<i>Total Current Liabilities</i>	<u>268,514</u>
<i>Total Liabilities</i>	<u>268,514</u>
NET ASSETS:	
Unrestricted	<u>(148,464)</u>
<i>Total Net Assets</i>	<u><u>(\$148,464)</u></u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
*Statement of Revenues, Expenses and
Changes In Fund Net Assets
Governmental Activities
Internal Service Fund
For the Fiscal Year Ended June 30, 2005*

Operating Revenues:	
Charges for Services	<u>\$995,130</u>
<i>Total Operating Revenue</i>	<u>995,130</u>
Operating Expenses:	
Purchased Services	142,107
Claims Expense	<u>756,209</u>
<i>Total Operating Expenses</i>	<u>898,316</u>
Net Change in Net Assets	96,814
Net Assets (Deficit) at Beginning of Year	<u>(245,278)</u>
Net Assets (Deficit) at End of Year	<u><u>(\$148,464)</u></u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
Statement of Cash Flows
Governmental Activities
Internal Service Fund
For the Fiscal Year Ended June 30, 2005

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Customers	\$995,130
Cash Payments for Purchased Services	(142,107)
Cash Payments for Claims	<u>(719,107)</u>

Net Cash Provided by Operating Activities 133,916

Cash Flows from Noncapital Financing Activities:

Loan from Other Governments	<u>(143,638)</u>
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Net Cash Used for Noncapital Financing Activities (143,638)

Cash and Cash Equivalents at Beginning of Year 129,772

Cash and Cash Equivalents at End of Year \$120,050

***Reconciliation of Operating Income to Net Cash
Provided by Operating Activities***

Operating Income \$96,814

Changes in Assets and Liabilities:

Increase in Claims Payable	<u>37,102</u>
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Net Cash Provided by Operating Activities \$133,916

See accompanying notes to the basic financial statements.

Southeastern Local School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2005

	<u>Agency Fund</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$24,974</u>
<i>Total Assets</i>	<u><u>24,974</u></u>
LIABILITIES:	
Current Liabilities:	
Undistributed Monies	<u>24,974</u>
<i>Total Liabilities</i>	<u><u>\$24,974</u></u>

See accompanying notes to the basic financial statements.

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Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1938 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 140 square miles. It is located in Ross County, and includes the Hamlets of Londonderry, Higby, Harrison and Richmond Dale, and portions of Liberty, Jefferson, Harrison, Springfield, Franklin and Scioto Townships. It is staffed by 72 non-certificated employees, and 78 certificated full-time teaching personnel who provide services to 1,182 students and other community members. The School District currently operates a k-12 instructional building.

Reporting Entity:

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

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

The following entities which perform activities within the School District’s boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District.

- Parent Teacher Organization
- Ross County Educational Service Center

The School District participates in six organizations, five of which are defined as jointly governed organizations, and one as an insurance purchasing pool. These organizations are the South Central Ohio Computer Association, the Pickaway-Ross Career and Technology Center, the Great Seal Education Network of Tomorrow, School Study Council of Ohio, the Ross County School Employees Insurance Consortium, and the Ohio School Boards Association Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 18 and 19 to the basic financial statements.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Southeastern Local School District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and proprietary funds provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds used by this School District can be classified using three categories, governmental, proprietary, and fiduciary.

Governmental Funds

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

General Fund

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

Bond Retirement Fund

The Bond Retirement fund is a fund provided to account for the payment of long term bonds of the District.

Classroom Facilities Fund

The Classroom Facilities fund is a fund provided to account for monies received and expended in connection with contracts entered into by the school district and the Ohio Department of Education for the building and equipping of classroom facilities.

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

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no Enterprise Funds. The following is a description of the School District's internal service fund:

Internal Service Fund

The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the self-insurance program for employee medical and dental benefits.

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. The School District's only fiduciary fund is an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements. The District uses their agency fund to account for student activity programs.

Measurement Focus

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The 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 School District finances and meets the cash flow needs of the proprietary activity.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The fund financial statements are prepared using either the modified accrual basis of accounting for governmental funds or the accrual basis of accounting for proprietary and fiduciary funds. Differences in the accrual and 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. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities as payments come due each period upon the occurrence of employee resignations and retirements. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

C. Budgetary Process

All funds, other than the agency fund, 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 set 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 maintains budgetary information at the fund and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement are based on estimates made. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

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.

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

During fiscal year 2005, the School District's investments were limited to money market funds, a certificate of deposit, and the State Treasury Assets Reserve of Ohio (STAROhio). 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 STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund amounted to \$51,525, which includes \$41,053 assigned from other funds.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For purposes of the statement of cash flows and for presentation on the balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

E. Capital Assets and Depreciation

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000 dollars. The School District does not have any infrastructure.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. All reported capital assets except land and construction in progress, are depreciated. Depreciable capital assets are depreciated using the straight-line method over an estimated useful life of 20 to 50 years for buildings and improvements, 5 to 20 years for furniture and equipment, 10 to 25 years for land improvements, 5 to 15 years for textbooks and library books and 10 years for vehicles.

F. Interfund Activity

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

G. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after 10 years of current service with the School District.

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

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

H. Accrued Liabilities and Long-Term Obligations

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

All payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In general, governmental fund payables and accrued liabilities, that once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds are recognized as a liability on the government-wide financial statements when due.

I. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances and property taxes and capital improvements.

The reserve for property taxes represents taxes recognized as revenue under accounting principles generally accepted in the United States of America but not available for appropriations under State statute.

J. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

K. Net Assets

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

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

L. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

M. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or law of other governments or imposed by enabling legislation. Restricted assets include the amount of unspent capital lease proceeds held by Trustee.

N. Operating Revenues and Expenses

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. For fiscal year 2005, the School District reported no such items.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE/NET ASSETS

For fiscal year 2005, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, “Deposit and Investment Risk Disclosures”. GASB 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. This statement applies to all state and local governments. The implementation of this bulletin and GASB Statement No. 40 had no effect on the District’s financial statements.

Restatements: Restatements made to correct the retainage payable within the Classroom Facilities Fund. A restatement was also made to properly report proceeds of capital lease in the Permanent Improvement Fund as this amount was understated.

These restatements had the following effects on fund balances of the Classroom Facilities Fund, the Permanent Improvement Fund, and the net assets of the governmental activities.

	Classroom Facilities	Governmental Activities
Fund Balances/Net Assets, June 30, 2004	762,116	24,572,989
Restatement of Retainage Payable	9,623	9,623
Restatement of Capital Lease Proceeds	0	0
Restated Fund Balances/Net Assets, June 30, 2004	771,739	24,582,612

NOTE 4 – ACCOUNTABILITY

At June 30, 2005, the Lunchroom, EMIS, Summer Intervention, Title I, and Improving Teacher Quality Special Revenue Funds, as well as the Self Insurance Internal Service Fund had deficit fund balances/net assets of \$96,226, \$313, \$21,363, \$36,273 \$6,310, and \$148,464 respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 5 – BUDGETARY BASIS OF ACCOUNTING

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 5 – BUDGETARY BASIS OF ACCOUNTING (continued)

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Net Change in Fund Balance

	General
GAAP Basis	(\$30,082)
Adjustments:	
Revenue Accruals	5,880
Expenditure Accruals	627,743
Encumbrances	(501,288)
Budget Basis	\$102,253

NOTE 6 – EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

Inactive deposits are public deposits that the Board 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 not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or other obligations of or security issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 – EQUITY IN POOLED CASH AND CASH EQUIVALENTS (continued)

3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio).
8. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
9. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's total average portfolio.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits were \$1,135,484, which include \$3,364 of cash with Trustee. Based on the criteria described in GASB Statement No. 40, Deposits and Investment Risk Disclosures", as of June 30, 2005 \$935,484 of the District's bank balance of \$1,117,617 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 – EQUITY IN POOLED CASH AND CASH EQUIVALENTS (continued)

Investments

As of June 30, 2005, the School District had the following investments and maturities:

	Carrying/Fair Value	Maturities 6 months or less	Maturities 6 to 12 months
STAR Ohio	\$ 2,370,838	\$2,370,838	\$0
Allegiant Govt Money Market Fund	5,481	0	5,481
Bayerische Hypo Und Verinsbank Investment Agreement	220,000	0	220,000
Total Investment	<u>\$ 2,596,319</u>	<u>\$ 2,370,838</u>	<u>\$ 225,481</u>

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at the end of fiscal year 2005:

<u>Investment Type</u>	<u>Carrying/Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 2,370,838	91.32
Allegiant Govt Money Market Fund	5,481	0.21
Bayerische Hypo Und Verinsbank Investment Agreement	220,000	8.47
Total Investment	<u>\$ 2,596,319</u>	<u>100.00%</u>

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting investment portfolio maturities to five years or less.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District limits their investments to STAR Ohio and money market accounts. Investments in STAROhio were rated AAAM by Standard & Poor’s. Investments in Allegiant Government Money Market Funds were rated Aaaa by Moody’s and AAAM by Standard and Poor’s. Investments in Bayerische Hypo Und Verinsbank Investment Agreement Funds were rated Aa1 by Moody’s and AAA by Standard and Poor’s.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 – PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004.

Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 – PROPERTY TAXES (continued)

The assessed values upon which fiscal year 2005 taxes were collected are:

	<u>2004 - Second Half Collections</u>		<u>2005 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$55,642,960	78.72%	\$59,412,390	79.12%
Public Utility	9,321,320	13.19%	9,566,690	12.74%
Tangible Personal Property	5,716,850	8.09%	6,114,710	8.14%
Total Assessed Value	<u>\$70,681,130</u>	<u>100.00%</u>	<u>\$75,093,790</u>	<u>100.00%</u>
 Tax rate per \$1,000 of assessed valuation	 \$33.50		 \$33.30	

The School District receives property taxes from Ross County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2005, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 was levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

The amount available as an advance at June 30, 2005, was \$148,134 in the General Fund, \$32,783 in the Bond Retirement Debt Service Major Fund and \$3,123 in all other non-major governmental funds.

NOTE 8 – INCOME TAX

The School District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2000, for five years. This levy expired on December 31, 2004 and was not renewed. The District continues to receive delinquent income taxes. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund. Income tax revenues received during the year were \$506,810.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 – RECEIVABLES

Receivables at June 30, 2005, consisted of property and income taxes, intergovernmental grants and interfund amounts. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of the intergovernmental receivables follows:

	<u>Amounts</u>
Non-Major Special Revenue Funds:	
Special Education, Title VI-B	\$87,373
Innovative Programs	6,065
Improving Teacher Quality	13,264
Title II-D	2,741
Title I	16,981
Safe & Drug Free Schools	<u>6,607</u>
Total All Funds	<u><u>\$133,031</u></u>

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 10 – CAPITAL ASSETS

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

	Ending Balance 06/30/04	Additions	Disposals	Ending Balance 06/30/05
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 705,000			\$ 705,000
Construction in Progress	1,575,604	191,542		1,767,146
Total Capital Assets, Not Being Depreciated	<u>2,280,604</u>	<u>191,542</u>	<u>-</u>	<u>2,472,146</u>
Capital Assets Being Depreciated				
Land Improvements	2,435,983	578,670		3,014,653
Buildings and Improvements	22,906,652	19,100		22,925,752
Furniture and Equipment	560,322	11,202		571,524
Vehicles	1,494,580			1,494,580
Library Books and Textbooks	406,010			406,010
Total Capital Assets, Being Depreciated	<u>27,803,547</u>	<u>608,972</u>	<u>-</u>	<u>28,412,519</u>
Less Accumulated Depreciation:				
Land Improvements	(205,917)	(135,011)		(340,928)
Buildings and Improvements	(1,156,793)	(728,689)		(1,885,482)
Furniture and Equipment	(35,823)	(42,285)		(78,108)
Vehicles	(833,564)	(92,262)		(925,826)
Library Books and Textbooks	(21,881)	(43,762)		(65,643)
Total Accumulated Depreciation	<u>(2,253,978)</u>	<u>(1,042,009)</u>	<u>-</u>	<u>(3,295,987)</u>
Total Capital Assets Being Depreciated, Net	<u>25,549,569</u>	<u>(433,037)</u>	<u>-</u>	<u>25,116,532</u>
Governmental Activities Capital Assets, Net	<u>\$ 27,830,173</u>	<u>\$ (241,495)</u>	<u>\$ -</u>	<u>\$27,588,678</u>

Depreciation expense was charged to government functions as follows:

Instruction:	
Regular	\$ 826,465
Vocational	119
Support Services:	
Instructional Staff	36,579
Administration	1,719
Central	94,098
Pupil Transportation	7,895
Operation of Non-Instructional Services	5,748
Extracurricular Activities	69,386
Total Depreciation Expense	<u>\$ 1,042,009</u>

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 – RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with Indiana Insurance for property and fleet insurance, liability insurance and inland marine coverage. Coverage provided by Indiana Insurance is as follows:

Building and Contents replacement cost (\$5,000 deductible)	\$13,273,904
Inland Marine Coverage (\$250 deductible)	58,000
Builders Risk (\$5,000 deductible)	21,072,644 limit
Automobile Liability (\$250 deductible)	
Bodily Injury - Each person	100,000
Bodily Injury - Each accident	300,000
Property Damage - Each accident	50,000
General Liability:	
Per occurrence	1,000,000
Total per year	5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. The School District is now carrying builders risk insurance to protect itself throughout the construction phase. The School District also no longer carries boiler and machinery coverage because of the construction of the new building. The School District has chosen to make repairs as necessary on these assets.

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate.

Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The School District is a member of a claims servicing pool (Note 19), consisting of fourteen school districts within Ross County and its surrounding area, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$189,806 reported in the internal service fund at June 30, 2005, is based on an estimate provided by the third party administrator and the requirements of *GASB Statement No. 30 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,"* which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 – RISK MANAGEMENT (continued)

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2004	\$78,529	\$1,108,691	\$1,034,516	\$152,704
2005	152,704	756,209	719,107	189,806

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit 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 State statute per 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 or by calling (614)222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 2005, 10.57% was the portion allocated to fund pension obligations. For fiscal year 2004, 9.09 percent was the portion allocated 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 adequacy of the contribution rates is determined annually. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$330,862, \$220,278, and \$108,440, respectively. 27% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$241,811 represents the unpaid contribution for fiscal year 2005.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer defined benefit pension plan. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported in whole or in part, by the state or any political subdivision thereof. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, or by visiting the STRS website at www.strsoh.org.

Plan Options –New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio’s public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

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 the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members’ beneficiaries.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 12 - DEFINED BENEFIT PENSION PLANS (continued)

Plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$534,510, \$445,536 and \$466,685, respectively; 84% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003. \$83,950 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$38,964 for fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004 (the latest information available) the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, 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. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% 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 was established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$281,331.

The target level for the health care reserve is 150 percent of the annual health care expenses, before premium deduction. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available) were \$223,443,805 and the target level was \$335.6 million. At June 30, 2004 (the latest information available), SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 14 – EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. There is no limit of sick leave accumulation for all personnel. Upon retirement, payment is made for one-fourth of up to 120 days of their accrued, but unused sick leave credit for all employees. Certified employees receive additional amounts based on length of service as follows:

<u>Length of Service</u>	<u>Additional Compensation</u>
10 years	\$10 per day over 120
11 - 20 years	\$20 per day over 120
21 years and over	\$30 per day over 120

B. Insurance Benefits

The School District provides life and accidental death and dismemberment insurance to all full-time employees through Professional Risk Management.

C. Deferred Compensation

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 15 – CAPITAL LEASES - LESSEE DISCLOSURE

The capital lease obligation recorded in the General Fund relates to the construction of a new athletic complex. The School District is leasing the project from Rickenbacker Port Authority. Rickenbacker Port Authority will retain title to the project during the lease term. Rickenbacker Port Authority has assigned US Bank as trustee. US Bank deposited \$1,525,000 in the School District's name with a escrow agent for the construction of the complex. Amounts will be paid to contractors by the School District as the work progresses. The School District will then submit the invoices to the agent for reimbursement. The School District will make semi-annual lease payments to US Bank. Interest rates are based on a calculation of the TBMA Index. The lease is renewable annually and expires in 2032. The intention of the School District is to renew the lease annually.

At fiscal year-end, the project was nearly complete. The School District began making payments in fiscal year 2005, in the amount of \$16,000. The principal amount owed on the lease at year-end is \$1,509,000.

At year-end, capital assets being constructed under this lease have been capitalized as construction in progress in the statement of net assets for governmental activities in the amount of \$1,767,146. The School District has contributed additional monies for this project.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 15 – CAPITAL LEASES - LESSEE DISCLOSURE (continued)

Fiscal Year Ending June 30,	
2006	106,932
2007	106,894
2008	106,712
2009	106,402
2010	105,982
2011-2015	527,782
2016-2020	522,430
2021-2025	513,376
2026-2030	504,422
2031-2032	201,583
Total	2,802,515
Less: Amount Representing Interest and Admin Fees	(1,293,515)
Present Value of Net Minimum Lease Payments	\$1,509,000

NOTE 16 – LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	Amount			Amount	Due in
	Outstanding	Additions	Deductions	Outstanding	
	6/30/04- Restated				6/30/05
1995 Energy Conservation Loan - 6.6%	\$30,000	\$0	\$30,000	\$0	\$0
2000 General Obligation Bonds - 5.84%	3,741,191	18,113	105,000	3,654,304	115,000
Total Long-Term Bonds and Loans	3,771,191	18,113	135,000	3,654,304	115,000
Capital Lease Payable	1,525,000	0	16,000	1,509,000	30,000
Compensated Absences	951,589	531,350	951,589	531,350	26,422
Total General Long-Term Obligations	\$6,247,780	\$549,463	\$1,102,589	\$5,694,654	\$171,422

Energy Conservation Loan - On January 1, 1996, the School District issued \$233,000 in unvoted general obligation notes for the purpose of providing energy conservation measures for the School District, under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The notes were issued for a ten year period with final maturity during fiscal year 2005. The loan was retired from the debt service fund.

General Obligation Bonds - The School District issued \$3,982,000 in voted general obligation bonds in 2000 for the purpose of constructing a new K-12 facility. The bonds were issued for a twenty-three year period with final maturity in December 2022. The bonds will be retired from the debt service fund.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 16 – LONG-TERM OBLIGATIONS (continued)

The term bonds, issued at \$2,850,000, maturing on December 1, 2022, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed plus accrued interest to the date of redemption, on December 1, in the years and in the respective principal amounts as follows:

Fiscal Year Ending June 30,	Amount
2013	\$175,000
2014	185,000
2015	200,000
2016	215,000
2017	235,000
2018	255,000
2019	275,000
2020	295,000
2021	320,000
2022	345,000
2023	350,000
Total	<u><u>\$2,850,000</u></u>

The serial bonds, issued at \$1,105,000 maturing on or after December 1, 2012, are subject to optional redemption, in whole or in part on any date at the option of the Issuer on or after December 1, 2010, as follows:

Redemption Dates (Dates Inclusive)	Redemption Prices
December 1, 2010 through November 30, 2011	101%
December 1, 2011 and thereafter	100%

The capital appreciation bonds, issued at \$27,000, are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2010 and 2011. The maturity amount of the capital appreciation bonds is \$175,000 each year for a total of \$350,000. For fiscal year 2005, the capital appreciation bonds were accreted \$18,113.

The total outstanding bond value at fiscal year end was \$3,654,304.

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

The School District's overall legal debt margin was \$3,104,137 with an unvoted debt margin of \$75,094 at June 30, 2005.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 16 – LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire Classroom Facilities Bonds outstanding at June 30, 2005, are as follows:

Fiscal Year Ending June 30,	Term Bonds Principal	Term Bonds Interest	Serial Bonds Principal	Serial Bonds Interest	Capital Appreciation Principal	Total
2006	\$0	\$0	\$115,000	\$193,086	\$0	\$308,086
2007	0	0	125,000	187,115	0	312,115
2008	0	0	135,000	180,581	0	315,581
2009	0	0	150,000	173,347	0	323,347
2010	0	0	165,000	84,761	0	249,761
2011-2015	560,000	839,591	0	0	350,000	1,749,591
2016-2020	1,275,000	478,132	0	0	0	1,753,132
2021-2023	1,015,000	87,716	0	0	0	1,102,716
Total	<u>\$2,850,000</u>	<u>\$1,405,439</u>	<u>\$690,000</u>	<u>\$818,890</u>	<u>\$350,000</u>	<u>\$6,114,329</u>

NOTE 17 – INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the year ended June 30, 2005, were as follows:

Fund	Transfer From	Transfer To
Major Fund:		
General	\$59,384	\$0
Non Major Special Revenue Fund:		
Athletic Fund	0	400
EMIS	0	1,500
SchoolNet	0	361
Title I	0	37,790
E-Rate	0	233
Non Major Capital Projects Fund:		
Permanent Improvement	0	19,100
Total	<u>\$59,384</u>	<u>\$59,384</u>

The transfers were made from the General Fund (a major fund) to the Extracurricular Activities Fund, the EMIS fund, the SchoolNet fund, the Title I Fund, E-Rate Fund and the Permanent Improvement (non-major funds) to provide support for activities of that fund.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 17 – INTERFUND ACTIVITY (continued)

Interfund balances at June 30, 2005, consist of the following individual fund receivables and payables, which are expected to be repaid during the 2006 fiscal year:

<u>Interfund Loans</u>	<u>Receivable</u>	<u>Payable</u>
General fund	\$ 89,540	\$ -
Nonmajor Special Revenue Funds		
Food Service		52,718
Athletic Fund		23,142
EMIS		500
Reading Intervention	-	13,180
Total Nonmajor Special Revenue Funds	-	89,540
Total Interfund Receivables/Payables	<u>\$ 89,540</u>	<u>\$ 89,540</u>

Advances were made from the general fund to nonmajor special revenue funds in anticipation of grant monies not received during the current fiscal year.

NOTE 18 – JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association - The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The School District paid SCOCA \$375 for services provided during the year. Financial information can be obtained from their fiscal agent, the Vern Riffe Career and Technology Center, Tonya Cooper who serves as Treasurer, at P.O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

Pickaway-Ross Career and Technology Center - The Pickaway-Ross Career and Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of eleven representatives from the various City and County Boards within Pickaway and Ross Counties, which possesses its own budgeting and taxing authority. To obtain financial information write to the Pickaway-Ross Career and Technology Center, Ben VanHorn who serves as Treasurer, at 895 Crouse Chapel Road, Chillicothe, Ohio 45601.

Great Seal Education Network of Tomorrow - The Great Seal Education Network of Tomorrow is a regional council of governments (the "Council") consisting of twelve city, local, and joint vocational school districts, two educational service centers and the Ohio University-Chillicothe Campus for the purpose of promoting the use of advanced telecommunications and technology to provide enhanced educational opportunities to the communities of Ross and Pickaway Counties. The Council is operated under the direction of a Board of Directors consisting of one representative (the superintendent or another person appointed by the board of education) of each of the members. The Council possesses its own budgeting and taxing authority. To obtain financial information, write to the Ohio University-Chillicothe Campus, who acts as fiscal agent, at 571 West Fifth Street, Chillicothe, Ohio 45601.

School Study Council of Ohio (SSCO) - The School Study Council of Ohio (SSCO), created in 1965, is a non-profit consortium of fifty-six school districts, eleven educational service centers, four colleges of education, and eight related educational schools and agencies from thirty counties. It is owned and governed by the member organizations with the Board of Trustees representing member organizations. The District's Superintendent represents the District on the Board of Trustees. Their mission is to enable district improvement through planning assistance, professional development, funding and related resource acquisition, research, system assessment and impact evaluation, leadership development, and other personalized technical assistance. The District has no ongoing financial interest or ongoing financial responsibility to the Council. To obtain the SSCO annual report, write to School Study Council of Ohio, 4795 Evanswood Drive, Floor 3, Columbus, Ohio 43229-7216.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 19 – CLAIMS SERVICING AND INSURANCE PURCHASING POOLS

Ross County School Employees Insurance Consortium - The School District is a member of the Ross County School Employees Insurance Consortium (the "Consortium"), a claims servicing pool consisting of fourteen school districts within Ross County and its surrounding area. Medical/surgical insurance is administered through a third party administrator, Medical Mutual of Ohio. The Consortium's business and affairs are managed by a Council consisting of one representative for each participating school. The participating school districts pay an administrative fee to the fiscal agent to cover the costs of administering the Consortium. To obtain financial information, write to the Westfall Local School District, Scott Glandon, who serves as Treasurer, at 19463 Pherson Pike, Williamsport, Ohio 43164.

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

NOTE 20 – SET-ASIDE CALCULATIONS

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

The following information describes the change in the year-end set aside amounts for textbooks and instructional materials and capital maintenance.

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside Reserve Balance as of June 30, 2004	(\$359,087)	\$0
Current Year Set-aside Replacement	176,135	176,135
Qualifying Disbursements	<u>(127,990)</u>	<u>(262,567)</u>
Set-aside Reserve Balance as of June 30, 2005	<u><u>(\$310,942)</u></u>	<u><u>(\$86,432)</u></u>

The School District had offsetting and qualifying disbursements during the year that reduced the set-aside amounts below zero in the Textbooks Reserve. These excess disbursements may be carried forward and used to reduce the set-aside requirements of future years. Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amount for Capital Acquisition Reserve, this amount may not be used to reduce set-aside requirements for future years and will not be presented as being carried forward to the next fiscal year.

NOTE 21 – STATE SCHOOL FUNDING DECISION

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

On March 4, 2003, the Plaintiffs filed a motion with the Common Pleas Court of Perry County requesting that such Court schedule and conduct a conference to address the State's compliance with the orders of such Court and the Supreme Court. On May 16, 2003, the Ohio Supreme Court granted a Writ of Prohibition as filed by the State and ordered the Common Pleas Court of Perry County to dismiss the motion for a compliance conference. The Ohio Supreme Court further stated again its ruling made on December 11, 2002.

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 22 – CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

B. Litigation

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

**SOUTHEASTERN LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education</i>						
Child Nutrition Cluster:						
Food Donation Program (See Note "B")	N/A	10.550	\$ -	\$ 61,052	\$ -	\$ 61,052
School Breakfast Program	05-PU-2004	10.553	5,448	-	5,448	-
School Breakfast Program	05-PU-2005	10.553	<u>36,493</u>	<u>-</u>	<u>36,493</u>	<u>-</u>
Total School Breakfast Program			41,941	-	41,941	-
National School Lunch Program	LL-P4-2004	10.555	35,408	-	35,408	-
National School Lunch Program	LL-P4-2005	10.555	<u>129,126</u>	<u>-</u>	<u>129,126</u>	<u>-</u>
Total National School Lunch Program			164,534	-	164,534	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE- Child Nutrition Cluster			<u>206,475</u>	<u>61,052</u>	<u>206,475</u>	<u>61,052</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	C1-S1-2004	84.010	-		23,946	
Title I Grants to Local Educational Agencies	C1-S1-2005	84.010	<u>219,823</u>	<u>-</u>	<u>186,832</u>	<u>-</u>
Total Title I Grants to Local Educational Agencies			219,823	-	210,778	-
Special Education Grants to States	6B-PB-2005	84.027	6,224	-	5,612	-
Special Education Grants to States	6B-SD-2004	84.027	30,000	-	12,717	-
Special Education Grants to States	6B-SD-2005	84.027	9,997	-	8,122	-
Special Education Grants to States	6B-SF-2004	84.027	(10,586)	-	47,441	-
Special Education Grants to States	6B-SF-2005	84.027	<u>213,970</u>	<u>-</u>	<u>232,529</u>	<u>-</u>
Total Special Education Grants to States			249,605	-	306,421	-
Safe and Drug Free Schools and Communities State Grant	DR-S1-2004	84.186	(2,911)	-	2,454	-
Safe and Drug Free Schools and Communities State Grant	DR-S1-2005	84.186	<u>3,645</u>	<u>-</u>	<u>1,003</u>	<u>-</u>
Total Safe and Drug Free Schools and Communities State Grant			734	-	3,457	-
State Grants for Innovative Programs	C2-S1-2004	84.298	916	-	-	-
State Grants for Innovative Programs	C2-S1-2005	84.298	<u>6,470</u>	<u>-</u>	<u>6,081</u>	<u>-</u>
Total State Grants for Innovative Programs			7,386	-	6,081	-
Education Technology State Grants	TJ-S1-2004	84.318	1,226	-	3,574	-
Education Technology State Grants	TJ-S1-2005	84.318	<u>6,414</u>	<u>-</u>	<u>6,088</u>	<u>-</u>
Total Education Technology State Grants			7,640	-	9,662	-
Improving Teacher Quality State Grants	TR-S1-2004	84.367	20,175	-	27,877	-
Improving Teacher Quality State Grants	TR-S1-2005	84.367	<u>51,895</u>	<u>-</u>	<u>51,686</u>	<u>-</u>
Total Improving Teacher Quality State Grants			72,070	-	79,563	-
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>557,258</u>	<u>-</u>	<u>615,962</u>	<u>-</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 763,733</u>	<u>\$ 61,052</u>	<u>\$ 822,437</u>	<u>\$ 61,052</u>

The accompanying notes are an integral part of this schedule.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the School's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C – TRANSFERS DUE TO ODE ADMINISTRATIVE ACTION

The District transferred between special cost centers during fiscal year 2005 for the following: CFDA #'s 84.027 - \$10,586, 84.186 - \$2,911, 84.298 - \$3,455, 84.318 - \$1,430, and 84.367 - \$5. These are for transfers from the 2004 grant to the 2005 grant year. This was due to the revised Comprehensive Continuous Improvement Plan Strategy (CCIP) as of July, 2002, which is an attempt to promote consistency between fiscal periods, and allows the local agencies to manage one ODE project at a time, and eliminates refunds to ODE.



**Auditor of State
Betty Montgomery**

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

Southeastern Local School District
Ross County
2003 Lancaster Road
Chillicothe, Ohio 45601

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southeastern Local School District, Ross County, Ohio, (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 April 24, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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 material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated April 24, 2006, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated April 24, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 24, 2006



Auditor of State Betty Montgomery

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

Southeastern Local School District
Ross County
2003 Lancaster Road
Chillicothe, Ohio 45601

To the Board of Education:

Compliance

We have audited the compliance of the Southeastern Local School District, Ross County, Ohio, (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 apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Southeastern Local School District, Ross County, Ohio complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005. In a separate letter to the District's management dated April 24, 2006, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

April 24, 2006

**SOUTHEASTERN LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR § .315 (b)
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Revised Code Section 5705.39- Appropriations exceeding Estimated Resources	No	Partially Corrected- Reported in the Management Letter
2004-002	Ohio Revised Code Section 5705.41B- Expenditures exceeding Appropriations	No	Partially Corrected- Reported in the Management Letter



**Auditor of State
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SOUTHEASTERN LOCAL SCHOOL DISTRICT

ROSS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 15, 2006**