



Mary Taylor, CPA
Auditor of State

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Southeast Local School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2006, 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, the major fund, and the aggregate remaining fund information of Southeast Local School District, Wayne County, Ohio, as of June 30, 2006, 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 February 23, 2007, 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.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Federal Awards Receipts and Expenditures Schedule 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 23, 2007

Southeast Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The discussion and analysis of Southeast 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, 2006. 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 the financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- Net assets of governmental activities decreased \$471,991, which represents a 7.6 percent decrease from 2005.
- For governmental activities, general revenues accounted for \$12.2 million in revenue or 76.9 percent of all revenues. Program specific revenues in the form of charges for service, operating grants, contributions and interest and capital grants and contributions accounted for \$3.6 million or 23.2 percent of total revenues of \$15.8 million.
- The School District had \$16.3 million in expenses related to governmental activities; \$3.6 million of these expenses were offset by program specific charges for services, operating grants, contributions and interest and capital grants and contributions. General revenues of \$12.2 million were not adequate to provide for these programs.
- The general fund, the only major fund, had \$12.4 million in revenues and \$13 million in expenditures. The general fund's balance decreased \$557,558 to \$1.7 million.

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 Southeast 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.

Southeast Local School District
Management's Discussion and Analysis
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Unaudited

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 present how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The statement of net assets and the statement of activities answer this question. These statements include all non-fiduciary 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 current 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, the School District's activities are considered to be all Governmental Activities:

Governmental Activities - Most of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services and extracurricular.

Southeast Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the general fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps 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.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole.

Southeast Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
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Table 1 provides a summary of the School District's net assets for 2006 compared to 2005:

Table 1
Net Assets

	Governmental Activities	
	2005	2006
Assets		
Current and other assets	\$ 10,023,262	\$ 10,417,969
Capital assets	4,035,768	3,874,076
<i>Total assets</i>	14,059,030	14,292,045
Liabilities		
Current liabilities	7,010,140	7,687,200
Long-term liabilities	869,079	897,025
<i>Total liabilities</i>	7,879,219	8,584,225
Net Assets		
Invested in capital assets, net of related debt	3,644,837	3,525,757
Restricted	496,291	655,702
Unrestricted	2,038,683	1,526,361
<i>Total net assets</i>	\$ 6,179,811	\$ 5,707,820

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the School District's assets exceeded liabilities by \$5,707,820, a decrease of \$471,991 from net assets at June 30, 2005. Capital assets reported on the government-wide statements represent the largest portion of the School District's net assets for fiscal year 2006. Capital assets include land, land and improvements, buildings, furniture and equipment, and vehicles which are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net assets, \$655,702 represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted assets, \$431,081 is restricted for capital projects \$224,621 is restricted for other purposes. Unrestricted net assets report a balance of \$1,526,361.

Southeast Local School District
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Table 2 reflects the changes in net assets for fiscal year 2006 compared to 2005:

Table 2
Changes in Net Assets

	Governmental Activites	
	<u>2005</u>	<u>2006</u>
Revenue:		
Program revenues:		
Charges for services	\$ 1,258,869	\$ 1,302,640
Operating grants and contributions	2,330,396	2,354,886
Capital grants and contributions	14,175	10,880
General revenues:		
Property taxes	6,248,387	6,773,784
Grants and entitlements	5,238,917	5,240,789
Investment earnings	115,000	147,656
Miscellaneous	<u>28,742</u>	<u>14,307</u>
Total Revenues	<u>15,234,486</u>	<u>15,844,942</u>
Expenses:		
Instructions:		
Regular	6,569,476	6,774,899
Special	2,208,425	2,138,447
Vocational	310,251	330,711
Other	367,109	361,935
Support services:		
Pupils	749,047	893,041
Instructional staff	399,590	398,150
Board of education	22,724	40,361
Administration	1,585,669	1,661,857
Fiscal	355,461	372,459
Operation and maintenance of plant	1,292,087	1,007,593
Pupil transportation	1,094,985	1,050,191
Central	55,199	72,097
Operation of non-instructional services	749,462	740,542
Extracurricular activities	429,717	455,006
Interest and fiscal charges	25,901	19,644
Other financing uses	4,700	-
Loss on sale of capital assets	<u>41,653</u>	<u>-</u>
Total Expenses	<u>16,261,456</u>	<u>16,316,933</u>
Changes in net assets	(1,026,970)	(471,991)
Net assets beginning of year, as restated	<u>7,206,781</u>	<u>6,179,811</u>
Net assets end of year	<u>\$ 6,179,811</u>	<u>\$ 5,707,820</u>

Southeast Local School District
Management's Discussion and Analysis
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Governmental Activities

Several revenue sources fund our governmental activities with property tax and school foundation revenues being the largest contributors. Property tax levies generated over \$6.7 million in 2006. General revenues from grants and entitlements, such as the school foundation program, generated over \$5.2 million. With the combination of taxes and intergovernmental funding comprising approximately 76% of all revenues, the School District monitors both of these revenue sources very closely for fluctuations.

Instructional expenses of the School District include activities directly related to the teaching of pupils as well as the interaction between teacher and pupil and the purchase of textbooks and instructional supplies and materials. These expenses totaled \$9,605,992, or 58.9% of the total program expenses of the School District.

Support services expenses for the pupils and instruction staff programs totaled \$1,291,191, or 7.9% of the total program expenses of the School District. These expenses include library, guidance, speech and hearing, and psychological services. These expenses decreased \$142,554 from the prior year.

Board of education, administration and fiscal classifications reflect expenses associated with establishing and administering school operation policies, financial operations and activities concerned with purchasing, receiving and maintaining goods and services for the School District. Current year expenses were \$2,074,677, which represents 12.7% of the total program expenses. Expenses of these School District programs increased \$110,823 over the prior year mainly due to increases in staff and student enrollment.

Costs associated with the operation and maintenance of plant represent those expenses necessary for the care and upkeep of School District's buildings, grounds and equipment. Current year expenses of \$1,007,593 made up almost 6.2% of all governmental expenses.

Southeast Local School District
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The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	<u>Total Cost of Services</u> <u>2006</u>	<u>Total Cost of Services</u> <u>2005</u>	<u>Net Cost of Services</u> <u>2006</u>	<u>Net Cost of Services</u> <u>2005</u>
Program Expenses				
Instruction:				
Regular	\$ 6,774,899	\$ 6,569,476	\$ (6,116,256)	\$ (6,471,310)
Special	2,138,447	2,208,425	(912,858)	(408,518)
Vocational	330,711	310,251	(330,711)	(280,205)
Adult/continuing	-	-	33,841	-
Other	361,935	367,109	(361,935)	(367,109)
Support services:				
Pupils	893,041	749,047	(318,705)	(178,108)
Instructional staff	398,150	399,590	(317,926)	(298,700)
Board of education	40,361	22,724	(40,361)	(22,724)
Administration	1,661,857	1,585,669	(1,603,944)	(1,528,353)
Fiscal	372,459	355,461	(372,459)	(355,461)
Operation and maintenance of plant	1,007,593	1,292,087	(1,002,167)	(1,292,087)
Pupil transportation	1,050,191	1,094,985	(1,039,311)	(1,094,985)
Central	72,097	55,199	(35,113)	(31,784)
Operation non-instructional services	740,542	749,462	80,673	17,044
Extracurricular activities	455,006	429,717	(291,651)	(273,462)
Interest and fiscal charges	19,644	25,901	(19,644)	(25,901)
Other financing uses	-	4,700	-	(4,700)
Loss on disposal of capital assets	-	41,653	-	(41,653)
Total	<u>\$ 16,316,933</u>	<u>\$ 16,261,456</u>	<u>\$ (12,648,527)</u>	<u>\$ (12,658,016)</u>

The School District depends on both property taxes and State funding which fund approximately 73.6% of the program expenses of the School District.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The total revenues for governmental funds were \$15,760,776, and total expenditures were \$16,149,462. The general fund is reporting a fund balance of \$1,724,105, a decrease of \$557,558 from 2005.

Southeast Local School District
Management's Discussion and Analysis
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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 fiscal year 2006, the School District amended its appropriation budget several times, however none were significant. Budget revisions are presented to the Board of Education for approval.

For the general fund, the final budget basis revenue estimate was \$11,950,000 which equals the original budget estimate. Near the closing of the fiscal year, the Treasurer adjusts the final budget (estimated resources) in the accounting system to reflect the actual amounts received or anticipated to be received by June 30, 2006. Due to these adjustments, the variance between the actual and final budget are immaterial.

The general fund's original expenditures estimate equaled \$13,330,122. No significant expenditure budget revisions were posted to any specific account during the year. Actual expenditures total \$13,200,541, or \$129,581 lower than the final amount budgeted. The final budgeted amount represents an amount equal to the amount of available resources that may be expended.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$3,874,076 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. Table 4 shows fiscal year 2006 balances compared to fiscal year 2005:

Table 4
Capital Assets (Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2006</u>
Land	\$ 588,680	\$ 588,680
Land improvements	40,241	155,794
Buildings and improvements	1,656,334	1,576,533
Furniture and equipment	901,072	774,362
Vehicles	849,441	778,707
Total capital assets	<u>\$ 4,035,768</u>	<u>\$ 3,874,076</u>

Southeast Local School District
Management's Discussion and Analysis
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Unaudited

The decrease in capital assets was due to depreciation expense being higher than additions and improvements, for the year. The School District continued its ongoing commitment to maintaining and improving its capital assets. For more information on capital assets, refer to Note 8 in the basic financial statements.

Debt Administration

The Board of Education for the School District issued general obligation notes in the amount of \$640,609 under House Bill 264 Energy Conservation Program on March 3, 1998. The School District is eligible for funding from the Ohio School Facilities Commission in 2008 under which the State will fund 36% of the School District's future facility needs after the issuance of bonds.

At June 30, 2006 the School District had \$348,319 of debt outstanding with \$44,440 due within one year. See Note 9 to the basic financial statement for detail. Table 5 summarizes the outstanding debt.

Table 5
Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2005	2006
General Obligation Notes	\$ 390,931	\$ 348,319

Current Issues Affecting Financial Condition

The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. The financial future of the School District is not without its challenges though. These challenges stem from issues that are local and at the State level. The local challenges will continue to exist, as the School District must rely heavily on property taxes to fund its operations. State level challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system. Although the School District relies heavily on its property taxpayers to support its operations, the community support for the School District is quite strong.

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

In conclusion, the School District's system of budgeting and internal controls is well regarded and will be needed to meet the challenges of the future.

Southeast Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Contacting the School District's Financial Management

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

Southeast Local School District
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 3,728,105
Receivables:	
Taxes	6,644,289
Intergovernmental	6,077
Prepaid items	22,345
Inventory held for resale	15,284
Materials and supplies inventory	1,869
Capital assets:	
Land	588,680
Depreciable capital assets, net	<u>3,285,396</u>
Total assets	<u>14,292,045</u>
 <u>Liabilities:</u>	
Accounts payable	73,866
Accrued wages	1,132,583
Compensated absences payable	65,939
Intergovernmental payable	427,213
Deferred revenue	5,976,895
Accrued interest payable	1,157
Claims payable	9,547
Long-term liabilities:	
Due within one year	179,514
Due in more than one year	<u>717,511</u>
Total liabilities	<u>8,584,225</u>
 <u>Net assets:</u>	
Invested in capital assets, net of related debt	3,525,757
Restricted for:	
Capital projects	431,081
Other purposes	224,621
Unrestricted	<u>1,526,361</u>
Total net assets	<u><u>\$ 5,707,820</u></u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Revenue and Change in Net Assets
					Governmental Activities
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$ 6,774,899	\$ 596,158	\$ 62,485	\$ -	\$ (6,116,256)
Special	2,138,447	-	1,225,589	-	(912,858)
Vocational	330,711	-	-	-	(330,711)
Adult/continuing	-	-	33,841	-	33,841
Other	361,935	-	-	-	(361,935)
Support services:					
Pupils	893,041	159,149	415,187	-	(318,705)
Instructional staff	398,150	-	80,224	-	(317,926)
Board of education	40,361	-	-	-	(40,361)
Administration	1,661,857	-	57,913	-	(1,603,944)
Fiscal	372,459	-	-	-	(372,459)
Operation and maintenance of plant	1,007,593	5,426	-	-	(1,002,167)
Pupil transportation	1,050,191	-	-	10,880	(1,039,311)
Central	72,097	-	36,984	-	(35,113)
Operation of non-instructional services	740,542	383,883	437,332	-	80,673
Extracurricular activities	455,006	158,024	5,331	-	(291,651)
Interest and fiscal charges	19,644	-	-	-	(19,644)
Total governmental activities	\$ 16,316,933	\$ 1,302,640	\$ 2,354,886	\$ 10,880	(12,648,527)

General Revenues:

Property taxes levied for:

General purposes	6,475,288
Capital projects	298,496
Grants and entitlements not restricted to specific programs	5,240,789
Investment earnings	147,656
Miscellaneous	14,307

Total general revenues 12,176,536

Change in net assets (471,991)

Net assets beginning of year (Restated) 6,179,811

Net assets end of year \$ 5,707,820

See accompanying notes to the basic financial statements.

Southeast Local School District
Balance Sheet
Governmental Funds
June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 2,923,763	\$ 722,662	\$ 3,646,425
Receivables:			
Taxes	6,343,870	300,419	6,644,289
Intergovernmental	6,077	-	6,077
Inventory held for resale	-	15,284	15,284
Materials and supplies inventory	-	1,869	1,869
Prepaid items	22,345	-	22,345
Total assets	9,296,055	1,040,234	10,336,289
<u>Liabilities:</u>			
Accounts payable	46,577	27,289	73,866
Accrued wages	1,120,489	12,094	1,132,583
Intergovernmental payable	364,325	62,888	427,213
Compensated absences payable	65,939	-	65,939
Deferred revenue	5,974,620	282,478	6,257,098
Total liabilities	7,571,950	384,749	7,956,699
<u>Fund balances:</u>			
Reserved for:			
Encumbrances	1,900	117,556	119,456
Prepaid items	22,345	-	22,345
Property Taxes	369,250	17,941	387,191
Unreserved, undesignated, reported in:			
General fund	1,330,610	-	1,330,610
Special revenue funds	-	227,651	227,651
Capital projects fund	-	292,337	292,337
Total fund balances	1,724,105	655,485	2,379,590
Total liabilities and fund balances	\$ 9,296,055	\$ 1,040,234	\$ 10,336,289

See accompanying notes to the basic financial statements.

Southeast Local School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006

Total governmental fund balances		\$ 2,379,590
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,874,076
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property taxes		280,203
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.		72,133
In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due.		(1,157)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General obligation notes	\$ (348,319)	
Compensated absences	(548,706)	
Total		(897,025)
Net assets of governmental activities		<u>\$ 5,707,820</u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Taxes	\$ 6,371,042	\$ 294,127	\$ 6,665,169
Intergovernmental	5,287,865	2,282,030	7,569,895
Interest	152,911	15,414	168,325
Tuition and fees	596,158	-	596,158
Extracurricular activities	-	233,146	233,146
Gifts and donations	-	21,453	21,453
Charges for services	-	383,884	383,884
Rent	5,426	-	5,426
Miscellaneous	14,307	103,013	117,320
Total revenues	<u>12,427,709</u>	<u>3,333,067</u>	<u>15,760,776</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	6,563,044	34,287	6,597,331
Special	917,547	1,228,659	2,146,206
Vocational	330,659	-	330,659
Other	361,935	-	361,935
Support services:			
Pupils	266,185	626,385	892,570
Instructional staff	291,505	80,082	371,587
Board of education	40,361	-	40,361
Administration	1,511,914	75,676	1,587,590
Fiscal	369,130	-	369,130
Operation and maintenance of plant	948,870	-	948,870
Pupil transportation	901,920	-	901,920
Central	13,994	58,103	72,097
Operation of non-instructional services:	-	730,536	730,536
Extracurricular	280,538	151,515	432,053
Capital outlay	126,296	178,952	305,248
Debt service:			
Principal retirement	42,612	-	42,612
Interest and fiscal charges	18,757	-	18,757
Total expenditures	<u>12,985,267</u>	<u>3,164,195</u>	<u>16,149,462</u>
Net change in fund balances	(557,558)	168,872	(388,686)
Fund balances beginning of year	<u>2,281,663</u>	<u>486,613</u>	<u>2,768,276</u>
Fund balances end of year	<u>\$ 1,724,105</u>	<u>\$ 655,485</u>	<u>\$ 2,379,590</u>

See accompanying notes to the basic financial statements.

Southeast 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, 2006

Net change in fund balances - total governmental funds \$ (388,686)

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 capital assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Net capital asset additions	\$	305,248	
Depreciation expense		<u>(443,506)</u>	
Excess of net capital outlay under depreciation expense			(138,258)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (23,434)

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

Property taxes	\$	108,612	
Intergovernmental		(13,426)	
Interest		<u>(11,020)</u>	
Net change in deferred revenues during the year			84,166

Repayments of debt are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets. 42,612

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

Increase in compensated absences	\$	(70,558)	
Decrease in accrued interest		<u>(887)</u>	
Total additional expenses			(71,445)

The internal service fund used by management to charge the costs of dental claims to individual funds is not reported in the statement of activities. The net revenue (expense) of the internal service fund is reported in the government-wide statements. 23,054

Change in net assets of governmental activities \$ (471,991)

See accompanying notes to the basic financial statements.

Southeast Local School District
Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	\$ 5,703,253	\$ 5,703,253	\$ 6,415,034	\$ 711,781
Intergovernmental	5,511,685	5,511,685	5,281,788	(229,897)
Interest	90,000	90,000	150,094	60,094
Tuition and fees	627,839	627,839	596,158	(31,681)
Rent	6,000	6,000	5,426	(574)
Miscellaneous	10,723	10,723	7,408	(3,315)
Total revenues	<u>11,949,500</u>	<u>11,949,500</u>	<u>12,455,908</u>	<u>506,408</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	6,544,089	6,726,877	6,708,469	18,408
Special	946,461	928,391	931,581	(3,190)
Vocational	343,418	337,950	337,853	97
Other	401,899	395,500	361,935	33,565
Support services:				
Pupils	323,948	315,882	265,087	50,795
Instructional staff	290,107	287,229	290,915	(3,686)
Board of education	30,811	30,320	34,376	(4,056)
Administration	1,604,942	1,579,488	1,553,863	25,625
Fiscal	374,366	368,717	366,202	2,515
Operation and maintenance of plant	1,078,790	1,068,408	1,089,528	(21,120)
Pupil transportation	1,001,203	906,712	923,332	(16,620)
Central	63,003	62,000	1,998	60,002
Extracurricular activities	259,785	255,348	274,389	(19,041)
Capital outlay	6,000	6,000	-	6,000
Debt service:				
Principal retirement	42,300	42,300	42,231	69
Interest and fiscal charges	19,000	19,000	18,782	218
Total expenditures	<u>13,330,122</u>	<u>13,330,122</u>	<u>13,200,541</u>	<u>129,581</u>
Excess of revenues (under) expenditures	<u>(1,380,622)</u>	<u>(1,380,622)</u>	<u>(744,633)</u>	<u>635,989</u>
<u>Other financing sources:</u>				
Proceeds from the sale of capital assets	500	500	5,344	4,844
Refund of prior year expenditures	-	-	1,555	1,555
Total other financing sources	<u>500</u>	<u>500</u>	<u>6,899</u>	<u>6,399</u>
Net change in fund balance	(1,380,122)	(1,380,122)	(737,734)	642,388
Fund balance at beginning of year	3,603,376	3,603,376	3,603,376	-
Prior year encumbrances appropriated	37,107	37,107	37,107	-
Fund balance at end of year	<u>\$ 2,260,361</u>	<u>\$ 2,260,361</u>	<u>\$ 2,902,749</u>	<u>\$ 642,388</u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Statement of Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2006

	<u>Self Insurance</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	<u>\$ 81,680</u>
<u>Liabilities:</u>	
Claims payable	<u>9,547</u>
<u>Net assets:</u>	
Unrestricted	<u>\$ 72,133</u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2006

	Self Insurance
<u>Operating revenues:</u>	
Charges for services	<u>\$ 148,331</u>
<u>Operating expenses:</u>	
Purchased services	10,733
Claims	<u>114,544</u>
Total operating expenses	<u>125,277</u>
Change in net assets	23,054
Net assets beginning of year	<u>49,079</u>
Net assets end of year	<u>\$ 72,133</u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2006

	Self Insurance
<u>Cash flows from operating activities:</u>	
Cash received from interfund services provided	\$ 148,331
Cash payments to suppliers for goods and services	(10,733)
Cash payments for claims	<u>(120,379)</u>
Net cash provided by operating activities	<u>17,219</u>
Net increase in cash and cash equivalents	17,219
Cash and cash equivalents at beginning of year	<u>64,461</u>
Cash and cash equivalents at end of year	<u><u>\$ 81,680</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 23,054</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in liabilities:	
Claims payable	<u>(5,835)</u>
Net cash provided by operating activities	<u><u>\$ 17,219</u></u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Statement of Assets and Liabilities
Agency Fund
June 30, 2006

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	<u>\$ 27,439</u>
<u>Liabilities:</u>	
Accounts payable	406
Due to students	<u>27,033</u>
Total liabilities	<u>\$ 27,439</u>

See accompanying notes to the basic financial statements.

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Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 1 – Summary of Significant Accounting Policies

A. Description of the School District

The Southeast Local School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is governed by a five-member Board of Education (the Board) elected by its citizens and is responsible for the provision of public education to residents of the School District. The board oversees the operations of the School District's six instructional and support facilities. Average daily membership was 1,681. The School District employed 141 certified and 95 non-certified employees.

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as it applies to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) Statements and Interpretation 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 School District's more significant accounting policies are described below.

B. Reporting Entity

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

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

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The School District participates in one joint venture with the Midland Council of Governments (COG). Also the School District is associated with three jointly governed organizations the Wayne County Career Center, Wayne County Schools Council and the Tri-County Computer Service Association (TCSSA). These organizations are discussed in Notes 10 and 11 to the basic financial statements.

C. 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 activity of the internal service is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental activity 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 District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on the major fund. The major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary fund is reported by type.

D. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into three categories: governmental, proprietary and fiduciary.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

General Fund

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

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

Proprietary Fund Type 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 School District's only proprietary fund is the internal service fund:

Internal Service Fund

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

Fiduciary Fund Type Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are agency funds. The School District's agency funds are for student activities.

E. 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.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

Revenues – Exchange and non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty 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. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the fund financial statements as intergovernmental revenue and an expenditure of operation of non-instructional services. In addition, this amount is reported on the statement of activities as an expense with a like amount reported within the "Operating Grants, Contributions and Interest" program revenue account.

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

F. Budgets and Budgetary Accounting

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the Tax Budget, the Appropriation Resolution and the Certificate of Estimated Resources, which are prepared on the budgetary basis of accounting. The Tax Budget demonstrates a need for existing or increased tax rates. The Certificate of Estimated Resources establishes a limit on the amounts that the Board of Education may appropriate. The Appropriation Resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

The Certificate of Estimated Resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

G. Cash and Investments

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

During fiscal year 2006, the School District's investments were limited to STAR Ohio an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes.

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

H. Inventory

Inventories are presented at cost on a first in, first out basis and are expensed/expensed when used. Inventories consist of materials and supplies held for consumption and donated and purchased food.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure is reported in the year in which services are consumed.

J. Capital Assets

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

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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 \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the 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, in accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The entire compensated absence liability is reported on the government-wide financial statements.

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

L. Accrued Liabilities and Long-Term Obligations

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

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

M. Fund Balance Reserves

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

N. Estimates

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

O. Net Assets

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

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

P. 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 the employee self-insurance program. Operating expenses are necessary costs incurred to provide services that are the primary activity of the fund.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 2 – Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances.

The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

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

Net Change in Fund Balance	
	<u>General</u>
GAAP basis	\$ (557,558)
Revenue accruals	35,098
Expenditure accruals	(225,736)
Encumbrances (budget basis)	
Outstanding at year end	<u>10,462</u>
Budget basis	<u>\$ (737,734)</u>

Note 3 – Accountability and Changes in Accounting Principles

A. Accountability

As of June 30, 2006, two funds had deficit fund balances. These deficits were caused by the application of GAAP; namely in the reporting of various liabilities attributable to the fiscal year. These deficit balances will be eliminated by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30. The following funds had deficit balances:

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

	<u>Amount</u>
<u>Nonmajor special revenue funds:</u>	
Improving Teacher Quality	\$ 149
Title VI-B	45,237

B. Change in Accounting Principles

For the fiscal year ended 2006, the School District implemented GASB Statement No. 42, "Accounting and Financial Reporting Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits."

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. GASB Statement No 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements and GASB Statement No. 47 establishes standards of accounting and financial reporting for termination benefits. The implementation of GASB Statements did not materially affect the presentation of the financial statements of the School District.

C. Restatement of net assets

Following the close of the previous fiscal year, capital assets were revealed to be erroneously reported. As a result of these errors, a restatement of the capital asset balances, accumulated depreciation and net assets is required. The restatement of net assets is presented below:

	<u>Governmental Activities</u>
Net assets at June 30, 2005	\$ 5,811,357
Restatement of capital assets, net of depreciation	368,454
Restated net assets at July 1, 2005	\$ 6,179,811

Note 4 – Deposits and Investments

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptance and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

A. Deposits

Custodial credit risk for a deposit is the risk that, in the event of a bank failure, the School District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

The carrying value of the School District's deposits totaled \$1,093,211 and the bank balances of the deposits totaled \$1,195,459. Of the bank balance, \$1,086,157 was exposed to custodial credit risk. This amount was uninsured and collateral is held by the pledging financial institution's trust department, and not in the School District's name.

B. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
STAROhio	2,662,333	N/A	AAAm ⁽¹⁾

⁽¹⁾ Standard and Poor's rating

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 Securities Exchange Commission 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, 2006.

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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 during fiscal year 2006 amounted to \$152,911, which includes \$51,198 assigned from other School District funds.

Note 5 – 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 (used in business) property located in the School District. Real property tax received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 tangible personal property received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 received during calendar year 2006 (other than public utility property) represents collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. 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 September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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

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Accrued property taxes receivable includes real property, public property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amounts available to the School District as an advance at June 30 are recognized as revenue. The amount available as an advance at June 30, 2006 was \$387,191. \$369,250 was available to the general fund, and \$17,941 to the permanent improvement capital projects fund.

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

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

<u>Property Category</u>	<u>2005 Assessed Value</u>	<u>2004 Assessed Value</u>
Real Property		
Residential and agricultural	\$ 194,279,180	\$ 177,840,200
Commercial , industrial and mineral	26,046,680	27,464,520
Public utilities	740	-
Tangible Personal Property		
General	29,303,290	29,245,388
Public utilities	<u>7,380,230</u>	<u>7,955,790</u>
Total	<u>\$ 257,010,120</u>	<u>\$ 242,505,898</u>

Southeast Local School District
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Note 6 – Receivables

Receivables at June 30, 2006, consisted of taxes and intergovernmental (grants). All receivables are considered collectable in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of Federal funds.

Note 7 – 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

B. Public Utility Property Tax Refund

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25 percent of true value rather than 88 percent used by the tax commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court.

The School District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the School District based on the lower assessment rate beginning from tax year 2001. The amount of that refund is estimated to be approximately \$45,863 per year. A portion of the refund may be recovered from additional State entitlement payments.

Southeast Local School District
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Note 8 – Capital Assets

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

	Restated Balance 7/1/2005	Additions	Deletions	Balance 6/30/2006
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$ 588,680	\$ -	\$ -	\$ 588,680
Depreciable Capital Assets				
Buildings and Improvements	4,385,503	-	-	4,385,503
Land Improvements	473,551	162,928	-	636,479
Furniture and Equipment	2,913,226	64,949	(141,630)	2,836,545
Vehicles	1,729,995	77,371	-	1,807,366
Total Depreciable Capital Assets	<u>9,502,275</u>	<u>305,248</u>	<u>(141,630)</u>	<u>9,665,893</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(2,729,169)	(79,801)	-	(2,808,970)
Land Improvements	(433,310)	(47,375)	-	(480,685)
Furniture and Equipment	(2,012,154)	(168,225)	118,196	(2,062,183)
Vehicles	(880,554)	(148,105)	-	(1,028,659)
Total Accumulated Depreciation	<u>(6,055,187)</u>	<u>(443,506)</u>	<u>118,196</u>	<u>(6,380,497)</u>
Depreciable Capital Assets, Net				
Governmental Activities	<u>3,447,088</u>	<u>(138,258)</u>	<u>(23,434)</u>	<u>3,285,396</u>
Capital Assets, Net	<u>\$ 4,035,768</u>	<u>\$ (138,258)</u>	<u>\$ (23,434)</u>	<u>\$ 3,874,076</u>

Southeast Local School District
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Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 185,558
Special	12,198
Vocational	52
Support Services:	
Pupils	1,428
Instructional staff	28,334
Administration	5,117
Fiscal	2,041
Operation and maintenance of plant	28,091
Pupil transportation	148,557
Operation of non-instructional services	9,177
Extracurricular activities	<u>22,953</u>
Total Depreciation Expense	<u>\$ 443,506</u>

Note 9 – Long-Term Debt and Other Obligations

The changes in the School District's long-term obligations during the year consist of the following:

	Balance 7/1/2005	Addition	Deletion	Balance 7/1/2006	Due within One Year
Governmental Activities					
General Obligation Notes, 5.05%	\$ 390,931	\$ -	\$ (42,612)	\$ 348,319	\$ 44,440
Compensated Absences Payable	<u>478,148</u>	<u>198,642</u>	<u>(128,084)</u>	<u>548,706</u>	<u>135,074</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 869,079</u>	<u>\$ 198,642</u>	<u>\$ (170,696)</u>	<u>\$ 897,025</u>	<u>\$ 179,514</u>

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

Compensated absences The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn 10 to 20 days of vacation per fiscal year, depending upon the length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

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Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 258 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 64 days for both classified and certified employees.

The annual requirements to amortize all debt outstanding as of June 30, 2006 including interest payments of \$63,525 are as follows:

Year Ending June 30	General Obligation Notes		
	Principal	Interest	Total
2007	44,440	16,573	61,013
2008	46,699	14,315	61,014
2009	49,151	11,863	61,014
2010	51,691	9,322	61,013
2011	54,363	6,651	61,014
2012-2013	101,975	4,801	106,776
	\$ 348,319	\$ 63,525	\$ 411,844

Note 10 – Joint Venture

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

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

The COG is funded by member fees and state grants. The Executive Committee determines and sets the member fees for all services to the COG. Fees are billed to member districts annually around July 1st. The School District paid \$122,457 in fees for fiscal year 2005-06. The School District has no equity interest in the COG.

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

1. All tangible personal property previously loaned or given to the COG that is clearly identified as to ownership shall be returned to the owner member.

Southeast Local School District
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2. All remaining tangible personal property shall be sold at public sale in accordance with the ORC 307.12 by sealed bid. The cash proceeds and all remaining assets and other intangibles, including moneys, shall be distributed to the member districts in proportion to the Average Daily Membership (ADM) of the School District.

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

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

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

Note 11– Jointly Governed Organizations

A. Wayne County Career Center

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

B. Wayne County Schools Council

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

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

Through the Council, the School District offers its employees a health care program through Medical Mutual of Ohio (MMO). Insurance rates are set by MMO, and payment is made to MMO, through the Council's fiscal agent. Administrative costs are determined annually by the Board of Directors. The fees are paid out of the reserve balance fund, for administrative and consultant fees.

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C. Tri-County Computer Service Association

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

Note 12 – Risk Management

Comprehensive The School District is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted with private carriers for property and fleet insurance, liability insurance, and inland marine coverage. Coverage provided by these carriers is as follows:

Building and Contents - replacement cost - \$28,910,297 (\$2,500 deductible)

Inland Marine Coverage - \$819,115 (\$500 deductible)

Automobile Liability - \$2,000,000 (\$500 - \$5,000 deductible)

Uninsured Motorists - \$1,000,000

General Liability - \$3,000,000 aggregate/\$1,000,000 per occurrence

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

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

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

		<u>Balance</u> <u>Beginning of Year</u>	<u>Current Year</u> <u>Claims</u>	<u>Claim</u> <u>Payments</u>	<u>Balance at</u> <u>End of Year</u>
2005	\$	14,631	137,246	136,495	\$ 15,382
2006	\$	15,382	114,544	120,379	\$ 9,547

Note 13 – 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, administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling toll free (800) 878-5853. It is also posted on SERSs' website, www.ohsers.org, under Forms and Publications.

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 contribution rate is 14 percent of the annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$207,055, \$293,256, and \$281,652, respectively. 47 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$110,419 represents the unpaid contributions for fiscal year 2006, and is recorded as a liability.

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B. State Teachers Retirement System

The School District also contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides basic retirement benefits, annual cost-of-living adjustments, disability, survivor and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for STRS Ohio. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

For the fiscal year ended June 30, 2006, plan members are required to contribute 10 percent of their annual covered salaries and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

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The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,024,023, \$944,116, and \$985,404, respectively. 83 percent has been contributed for fiscal year 2006 and 100 percent for the fiscal years 2005 and 2004. \$172,179 represents the unpaid contributions for fiscal year 2006, and is recorded as liability within the respective funds. Contributions to the DC and Combined plans for the fiscal year 2006 were \$13,019 made by the school district and \$28,660 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2006, three members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

Note 14 – Post Employment 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 STRS and SERS based on authority granted by State Statute. Both STRS and SERS are funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, 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 \$78,771 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.5 billion at June 30, 2006, and eligible benefit recipients totaled 119,184 and net health care costs paid by STRS were \$282,743,000.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, School District paid \$96,545 to fund health care benefits, including the surcharge in the amount of \$29,614.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006, were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has approximately 59,492 participants currently receiving health care benefits.

Note 15 – Statutory Reserves

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

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

	Textbooks	Capital Improvement and Maintenance	Total
Set-aside balance as of June 30, 2005	\$ (148,373)	\$ -	\$ (148,373)
Current year set-aside requirement	250,486	250,486	500,972
Current year offsets	-	(331,997)	(331,997)
Qualifying expenditures	<u>(350,816)</u>	<u>(220,606)</u>	<u>(571,422)</u>
Total	<u>\$ (248,703)</u>	<u>\$ (302,117)</u>	<u>\$ (550,820)</u>

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The School District had qualifying disbursements during the fiscal year that reduced the set-aside amounts below zero for the textbook set-aside. This extra amount may be used to reduce the set-aside requirement of future years. Although the School District had offsets during the fiscal year that reduced the set-aside amount to below zero for the capital improvement and maintenance set-aside, this amount may not be used to reduce the set-aside requirement for future years. The negative balance is, therefore, not presented as being carried forward to future years.

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SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor / Pass Through Grantor / Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF EDUCATION						
<i>Passed through the Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	C1-S1-2006	84.010	\$1,014,679		\$1,014,679	
Special Education Cluster: Special Education_Grants to States	6B-SF-2006	84.027	463,651		463,651	
Safe and Drug-Free Schools and Communities_State Grants	DR-S1-2006	84.186	24,470		24,470	
State Grants for Innovative Programs	C2-S1-2006	84.298	5,209		5,209	
Improving Teacher Quality State Grants	TR-S1-2006	84.367	248,944		248,944	
Education Technology State Grants	TJ-S1-2006	84.318	18,461		18,461	
Total U. S. Department of Education			1,775,414		1,775,414	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities Passed through the Tri-County Educational Service Center</i>						
State Children's Insurance Program	N/A	93.767	10,675		10,675	
Medical Assistance Program	N/A	93.778	21,014		21,014	
Total U.S. Department of Health and Human Services			31,689		31,689	
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed through the Ohio Department of Education</i>						
Food Donation Program	N/A	10.550		\$78,561		\$78,561
Child Nutrition Cluster: National School Lunch Program	LLP4-2005 LLP4-2006	10.555	27,876 211,668		27,876 211,668	
Total U.S. Department of Agriculture			239,544	78,561	239,544	78,561
Totals			\$2,046,647	\$78,561	\$2,046,647	\$78,561

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

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DONATION PROGRAM

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.

NOTE C - CHILD NUTRITION CLUSTER

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



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Southeast Local School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 23, 2007. 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 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 February 23, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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 February 23, 2007, we reported other matters related to noncompliance we deemed immaterial.

Southeast Local School District
Wayne County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

February 23, 2007



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Southeast Local School District, Wayne 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, 2006. 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 District 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, 2006.

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 audit committee, management, 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 23, 2007

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

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):	Special Education Cluster: Special Education Grants to States – CFDA #84.027 Child Nutrition Cluster: National School Lunch Program – CFDA #10.555
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
FISCAL YEAR END JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Ohio Rev. Code Section 5705.41(D), expenditures were not properly certified by the Treasurer prior to incurring the obligation	No	Partially Corrected. Repeated in the Management Letter.



Mary Taylor, CPA
Auditor of State

SOUTHEAST LOCAL SCHOOL DISTRICT

WAYNE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 29, 2007**