

SOUTHEAST LOCAL SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the Southeast Local School District, Portage County, prepared by Varney, Fink & Associates, Inc., for the audit period July 1, 2003 through June 20, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

November 8, 2005

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**SOUTHEAST LOCAL SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

TABLE OF CONTENTS

<i>INDEPENDENT AUDITOR'S REPORT</i>	1
<i>Management's Discussion and Analysis</i>	3
 <i>BASIC FINANCIAL STATEMENTS</i>	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances –Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – (Non-GAAP Budgetary Basis) General Fund	18
Statement of Net Assets – Proprietary Funds	19
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	20
Statement of Cash Flows - Proprietary Funds	21
Statement of Net Assets – Fiduciary Funds	22
Notes to the Basic Financial Statements	23
 Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	49
Schedule of Expenditures of Federal Awards	53
Notes to the Schedule of Expenditures of Federal Awards	54
Schedule of Findings and Questioned Costs	55

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of governmental activities, each major fund and the aggregate remaining fund information of the Southeast Local School District (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We were unable to obtain sufficient supporting documentation for the construction in progress reported at \$15,964,496 at June 30, 2004 as reflected in Note 7 to the financial statements.

In our opinion, except for the effects of such adjustments, if any, had we been able to examine supporting documentation of construction in progress as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the District as of June 30, 2004 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund and the aggregate remaining fund information of the District, as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (continued)

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

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

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

August 15, 2005

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004***

Unaudited

The discussion and analysis of Southeast School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2004 are as follows:

- ❑ Net assets increased \$4,014,179, which represents a 17% increase from 2003.
- ❑ General revenues accounted for \$15,668,212 in revenue or 70% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,742,004 or 30% of total revenues of \$22,410,216.
- ❑ The District had \$18,396,037 in expenses related to governmental activities; \$6,742,004 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$15,668,212 were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$14,895,418 in revenues and \$15,153,783 in expenditures. The general fund's fund balance decreased \$261,676 to a deficit of \$1,898,401. This decrease is attributable to the continuation of expenditures exceeding revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

These statements are as follows:

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

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

Government-wide Statements

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

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004***

Unaudited

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds – Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

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

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

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004***

Unaudited

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The following table provides a summary of the District's net assets for 2004 compared to 2003.

	<u>Governmental Activities</u> 2004	<u>Governmental Activities</u> 2003
Current and other assets	\$11,361,731	\$24,901,563
Capital assets, Net	31,474,496	13,707,405
Total assets	<u>42,836,227</u>	<u>38,608,968</u>
Long-term debt outstanding	7,664,227	7,653,192
Other liabilities	7,183,460	6,981,415
Total liabilities	<u>14,847,687</u>	<u>14,634,607</u>
Net assets		
Invested in capital assets, net of related debt	24,804,322	6,800,007
Restricted	5,741,971	18,865,446
Unrestricted	<u>(2,557,753)</u>	<u>(1,691,092)</u>
Total net assets	<u>\$27,988,540</u>	<u>\$23,974,361</u>

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SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004***

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2004 compared to 2003.

	Governmental Activities	Governmental Activities
	2004	2003
Revenues		
Program revenues:		
Charges for Services and Sales	\$721,496	\$677,625
Operating Grants and Contributions	782,340	782,289
Capital Grants and Contributions	5,238,168	14,554,370
General revenues:		
Property Taxes	4,649,501	4,531,181
Grants and Entitlements	10,830,264	10,455,580
Other	188,447	277,738
Total revenues	22,410,216	31,278,783
Program Expenses		
Instruction	9,150,677	8,127,993
Support Services:		
Pupils	865,534	898,945
Instructional Staff	619,877	610,464
Board of Education	37,617	47,114
Administration	1,330,093	1,299,287
Fiscal Services	378,072	279,280
Business	129,121	123,672
Operation and Maintenance of Plant	923,753	1,026,756
Pupil Transportation	1,299,389	1,087,123
Central	2,212,518	2,193,259
Operation of Non-Instructional Services	617,393	600,068
Extracurricular Activities	517,753	523,813
Debt Service:		
Interest and Fiscal Charges	314,240	323,231
Total expenses	18,396,037	17,141,005
Total Change in Net Assets	4,014,179	14,137,778
Beginning Net Assets	23,974,361	9,836,583
Ending Net Assets	\$27,988,540	\$23,974,361

Governmental Activities

Net assets of the District's governmental activities increased by \$4,014,179. This was due to a large amount of grant monies received for new school building construction.

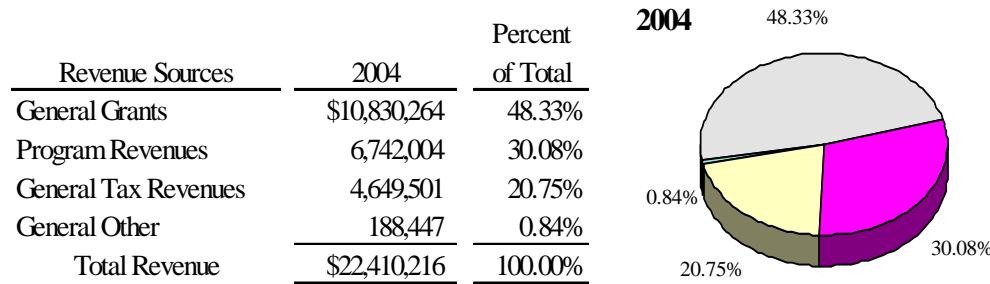
The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004**

Unaudited

Property taxes made up 21% of revenues for governmental activities for Southeast Local Schools in fiscal year 2004. The District's reliance upon tax revenues is demonstrated by the following graph:



FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$3,855,842, which is below last year's total of \$17,195,082. The schedule below indicates the fund balance and the total change in fund balance by fund type as of June 30, 2004 and 2003.

	Fund Balance June 30, 2004	Fund Balance June 30, 2003	Increase (Decrease)
General	(\$1,898,401)	(\$1,636,725)	(\$261,676)
Classroom Facilities	4,824,199	17,959,784	(13,135,585)
Other Governmental	930,044	872,023	58,021
Total	\$3,855,842	\$17,195,082	(\$13,339,240)

General Fund –The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2004 Revenues	2003 Revenues	Increase (Decrease)
Taxes	\$4,057,540	\$3,948,202	\$109,338
Tuition and Fees	15,201	17,543	(2,342)
Investment Earnings	16,372	31,955	(15,583)
Class Materials and Fees	24,877	44,597	(19,720)
Intergovernmental - State	10,500,647	10,161,198	339,449
Intergovernmental - Federal	271,858	226,572	45,286
All Other Revenue	8,923	4,980	3,943
Total	\$14,895,418	\$14,435,047	\$460,371

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004***

Unaudited

General Fund revenues in 2004 increased approximately 3.2% compared to revenues in fiscal year 2003. The primary factor contributing to this increase included an increase in the State's foundation revenues.

	2004 Expenditures	2003 Expenditures	Increase (Decrease)
Instruction	\$7,858,913	\$7,819,958	\$38,955
Supporting Services:			
Pupils	726,816	808,476	(81,660)
Instructional Staff	484,469	553,670	(69,201)
Board of Education	37,617	45,981	(8,364)
Administration	1,108,983	1,233,617	(124,634)
Fiscal Services	332,631	276,260	56,371
Business	126,891	121,486	5,405
Operation & Maintenance of Plant	846,440	961,031	(114,591)
Pupil Transportation	1,046,510	1,105,379	(58,869)
Central	2,211,338	2,140,051	71,287
Extracurricular Activities	373,175	373,814	(639)
Total	\$15,153,783	\$15,439,723	(\$285,940)

The District's expenditures remained very stable, decreasing \$285,940, or about 1.9%.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004 the District had \$31,474,496 net of accumulated depreciation invested in land, buildings, equipment and vehicles. The following table shows fiscal year 2003 and 2004 balances:

	Governmental Activities		Increase (Decrease)
	2004	2003	
Land	\$1,475,065	\$1,475,065	\$0
Land Improvements	1,415,533	525,488	890,045
Buildings and Improvements	15,652,496	5,119,931	10,532,565
Machinery and Equipment	1,833,209	1,138,512	694,697
Vehicles	1,601,124	1,601,124	0
Construction in Progress	15,964,496	9,582,511	6,381,985
Less: Accumulated Depreciation	(6,467,427)	(5,735,226)	(732,201)
Totals	\$31,474,496	\$13,707,405	\$17,767,091

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004***

Unaudited

The primary increases occurred in buildings and improvements and construction in progress, which represents the ongoing construction of new school buildings.

Additional information on the District's capital assets can be found in Note 7.

Debt

At June 30, 2004, the District had \$6,657,000 in bonds outstanding, \$235,000 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2004:

	2004	2003
Governmental Activities:		
General Obligation Bond:		
Classroom Facilities	\$6,657,000	\$6,882,000
Capital Leases Payable	13,174	25,398
Compensated Absences	994,053	745,794
Totals	<u>\$7,664,227</u>	<u>\$7,653,192</u>

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2004, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Note 9.

ECONOMIC FACTORS

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

As part of the overall financial plan in the district, the Board of Education has decided not to run two renewals scheduled for 2005 and 2006. In 2005 a 7.75 mill levy will not be renewed and in 2006 a 6.88 mill levy will not be renewed. This is due to the fact that the district will reach the 20 mill floor. By not renewing these levies, the district taxpayers will save approximately \$248,232. This savings would then reduce the 8.9 mill emergency levy to approximately an 8.43 mill levy due to the savings of not running the two renewals. When a school district reaches the 20 mill floor the district receives growth on 20 mills when valuation in the district goes up and hopefully this can cause levies in this district to be pushed back due to the growth. Unknowns such as state budgets and the state economy play a part in this.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004***

Unaudited

The District's tax base has grown steadily over the years with some new construction but most due to the 3-year triennial updates and re-appraisals. But due to the HB 920 effect, this has only caused to reduce our effective millage, which now stands at 20.47 effective mills. The tax base now stands at \$206,829,894, with 84% of that coming from res/agg. Fortunately, the District is not heavily dependent upon personal property taxes as only 2% of the tax valuation is made up of personal property.

REQUESTS FOR INFORMATION

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

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SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Net Assets ***June 30,2004***

	Governmental Activities
Assets:	
Cash and Cash Equivalents	\$ 5,940,776
Receivables:	
Taxes	5,073,027
Accounts	32,125
Intergovernmental	291,045
Inventory of Supplies at Cost	16,110
Prepaid Items	8,648
Capital Assets, Net	<u>31,474,496</u>
Total Assets	<u>42,836,227</u>
Liabilities:	
Accounts Payable	21,367
Accrued Wages and Benefits	1,962,537
Intergovernmental Payable	410,891
Claims Payable	279,877
Deferred Revenue	4,465,605
Accrued Interest Payable	25,550
Compensated Absences Payable	17,633
Long Term Liabilities:	
Due Within One Year	299,119
Due in More Than One Year	<u>7,365,108</u>
Total Liabilities	<u>14,847,687</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	24,804,322
Restricted For:	
Capital Projects	5,100,318
Debt Service	306,865
Other Purposes	334,788
Unrestricted (Deficit)	<u>(2,557,753)</u>
Total Net Assets	<u>\$ 27,988,540</u>

See accompanying notes to the basic financial statements

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Activities For the Fiscal Year Ended June 30, 2004

	Expenses	Program Revenues			Net (Expense) Revenue and and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 9,150,677	\$ 50,321	\$ 458,737	\$ 5,238,168	\$ (3,403,451)
Support Services:					
Pupils	865,534	0	135,372	0	(730,162)
Instructional Staff	619,877	0	66,373	0	(553,504)
Board of Education	37,617	0	0	0	(37,617)
Administration	1,330,093	0	112,539	0	(1,217,554)
Fiscal Services	378,072	0	3,597	0	(374,475)
Business	129,121	0	0	0	(129,121)
Operation and Maintenance of Plant	923,753	0	5,722	0	(918,031)
Pupil Transportation	1,299,389	0	0	0	(1,299,389)
Central	2,212,518	0	0	0	(2,212,518)
Operation of Non-Instructional	617,393	510,355	0	0	(107,038)
Extracurricular Activities	517,753	160,820	0	0	(356,933)
Debt Service:					
Interest and Fiscal Charges	314,240	0	0	0	(314,240)
Total Governmental Activities	<u>\$ 18,396,037</u>	<u>\$ 721,496</u>	<u>\$ 782,340</u>	<u>\$ 5,238,168</u>	<u>(11,654,033)</u>
General Revenues					
Property Taxes Levied for:					
					3,991,923
					497,533
					160,045
					10,830,264
					170,027
					18,420
					<u>15,668,212</u>
					4,014,179
					23,974,361
					<u>\$ 27,988,540</u>

See accompanying notes to the basic financial statements

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Balance Sheet
Governmental Funds
June 30, 2004***

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	\$ 43,631	\$ 4,824,199	\$ 906,490	\$ 5,774,320
Receivables:				
Taxes	4,442,634	0	630,393	5,073,027
Accounts	1,091	0	27,431	28,522
Intergovernmental	0	0	291,045	291,045
Inventory Held for Resale	8,607	0	7,503	16,110
Prepaid Items	8,648	0	0	8,648
Total Assets	\$ 4,504,611	\$ 4,824,199	\$ 1,862,862	\$ 11,191,672
Liabilities:				
Accounts Payable	\$ 17,006	\$ 0	\$ 4,361	\$ 21,367
Accrued Wages and Benefits	1,837,978	0	124,559	1,962,537
Intergovernmental Payable	248,488	0	9,775	258,263
Deferred Revenue	4,281,907	0	794,123	5,076,030
Compensated Absences Payable	17,633	0	0	17,633
Total Liabilities	6,403,012	0	932,818	7,335,830
Fund Balances:				
Reserved for Encumbrances	686,420	4,173,855	74,170	4,934,445
Reserved for Prepaid Items	8,648	0	0	8,648
Reserved for Supplies Inventory	8,607	0	7,503	16,110
Reserved for Debt Service	0	0	275,008	275,008
Reserved for Property Taxes	160,727	0	24,517	185,244
Reserved for Endowments	0	0	10,000	10,000
Statutory Reserves	726,448	0	0	726,448
Unreserved, Undesignated in:				
General Fund (Deficit)	(3,489,251)	0	0	(3,489,251)
Special Revenue Funds	0	0	270,287	270,287
Capital Projects Funds	0	650,344	268,559	918,903
Total Fund Balances	(1,898,401)	4,824,199	930,044	3,855,842
Total Liabilities and Funds Balances	\$ 4,504,611	\$ 4,824,199	\$ 1,862,862	\$ 11,191,672

See accompanying notes to the basic financial statements

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Assets Of Governmental Activities
June 30, 2004***

Total Governmental Fund Balances	\$ 3,855,842
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.	31,474,496
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	610,425
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	(109,818)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(7,842,405)</u>
<i>Net Assets of Governmental Funds</i>	<u><u>\$ 27,988,540</u></u>

See accompanying notes to the basic financial statements

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Fiscal Year Ended June 30, 2004

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 4,057,540	\$ 0	\$ 589,565	\$ 4,647,105
Tuition and Fees	15,201	0	10,243	25,444
Food Services	0	0	323,512	323,512
Investment Earnings	16,372	140,616	10,184	167,172
Extracurricular Activities	0	0	160,820	160,820
Class Materials and Fees	24,877	0	0	24,877
Intergovernmental - State	10,500,647	5,238,168	209,648	15,948,463
Intergovernmental - Federal	271,858	0	752,942	1,024,800
All Other Revenue	8,923	0	10,000	18,923
Total Revenue	14,895,418	5,378,784	2,066,914	22,341,116
Expenditures:				
Current:				
Instruction	7,858,913	0	424,073	8,282,986
Supporting Services:				
Pupils	726,816	0	124,910	851,726
Instructional Staff	484,469	0	31,478	515,947
Board of Education	37,617	0	0	37,617
Administration	1,108,983	83	138,249	1,247,315
Fiscal Services	332,631	0	11,131	343,762
Business	126,891	0	0	126,891
Operation & Maintenance of Plant	846,440	2,770	13,924	863,134
Pupil Transportation	1,046,510	0	0	1,046,510
Central	2,211,338	0	0	2,211,338
Operation on Non-Instructional	0	0	589,768	589,768
Extracurricular Activities	373,175	0	138,013	511,188
Capital Outlay	0	18,511,516	0	18,511,516
Debt Service:				
Principal Retirement	0	0	225,000	225,000
Interest & Fiscal Charges	0	0	314,898	314,898
Total Expenditures	15,153,783	18,514,369	2,011,444	35,679,596
Excess (Deficiency) of Revenues Over Expenditures	(258,365)	(13,135,585)	55,470	(13,338,480)
Other Financing Sources (Uses):				
Proceeds from the Sale of Capital Assets	932	0	0	932
Refund of P/Y Receipts	(326)	0	(177)	(503)
Total Other Financing Sources (Uses)	606	0	(177)	429
Net Change in Fund Balance	(257,759)	(13,135,585)	55,293	(13,338,051)
Fund Balance (Deficit) at Beginning of Year	(1,636,725)	17,959,784	872,023	17,195,082
Increase (Decrease) in Inventory Reserve	(3,917)	0	2,728	(1,189)
Fund Balance (Deficit) End of Year	\$ (1,898,401)	\$ 4,824,199	\$ 930,044	\$ 3,855,842

See accompanying notes to the basic financial statements

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended June 30, 2004***

Net Change in Fund Balances - Total Governmental Funds \$(13,338,051)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 17,767,091

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 65,559

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 237,224

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 658

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (286,751)

The internal service funds are used by management to charge the costs of services to individual funds is not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities. (431,551)

Change in Net Assets of Governmental Activities \$ 4,014,179

See accompanying notes to the basic financial statements

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2004**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Taxes	\$ 4,017,782	\$ 4,033,088	\$ 4,033,088	\$ 0
Tuition	14,433	14,488	14,488	0
Investment Earnings	16,310	16,372	16,372	0
Class Material and Fees	24,783	24,877	24,877	0
Intergovernmental - State	10,460,797	10,500,647	10,500,647	0
Intergovernmental - Federal	270,826	271,858	271,858	0
All Other Revenues	9,032	9,066	9,066	0
Total Revenues	14,813,963	14,870,396	14,870,396	0
Expenditures:				
Current:				
Instruction	6,443,593	6,443,593	7,862,819	(1,419,226)
Support Services:				
Pupils	820,688	820,688	901,107	(80,419)
Instructional Staff	658,010	658,010	492,685	165,325
Board of Education	31,233	31,233	56,744	(25,511)
Administration	1,405,445	1,405,445	1,253,580	151,865
Fiscal Services	366,807	366,807	319,057	47,750
Business	221,424	221,424	161,019	60,405
Operation and Maintenance of Plant	1,226,791	1,226,791	1,122,885	103,906
Pupil Transportation	1,411,221	1,411,221	1,129,605	281,616
Central	2,243,699	2,243,699	2,246,651	(2,952)
Extracurricular Activities	311,686	311,686	372,351	(60,665)
Total Expenditures	15,140,597	15,140,597	15,918,503	(777,906)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(326,634)	(270,201)	(1,048,107)	(777,906)
Other Financing Sources (Uses):				
Proceeds from the Sale of Fixed Assets	0	0	932	932
Refund of Prior Year's Receipts	0	(17)	(326)	(309)
Total Other Financing Sources (Uses):	0	(17)	606	623
Net Change in Fund Balances	(326,634)	(270,218)	(1,047,501)	(777,283)
Fund Balance at Beginning of Year	51,299	51,299	51,299	0
Prior Year Encumbrances	336,407	336,407	336,407	0
Fund Balance at End of Year	\$ 61,072	\$ 117,488	\$ (659,795)	\$ (777,283)

See accompanying notes to the basic financial statements

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Net Assets
Proprietary Funds
June 30, 2004

	Governmental Activities - Internal Service Funds
Assets:	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 166,456
Receivables:	
Accounts	3,603
<i>Total Current Assets</i>	<u>170,059</u>
Total Assets	<u>170,059</u>
Liabilities:	
<i>Current Liabilities:</i>	
Claims Payable	279,877
<i>Total Current Liabilities</i>	<u>279,877</u>
Total Liabilities	<u>279,877</u>
Net Assets:	
Unrestricted	(109,818)
Total Net Assets	<u>\$ (109,818)</u>

See accompanying notes to the basic financial statements

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

	Governmental Activities - Internal Service Funds
Operating Revenues:	
Sales	\$ 2,287,171
Total Operating Revenues	<u>2,287,171</u>
Operating Expenses:	
Contractual Services	<u>2,721,577</u>
Total Operating Expenses	<u>2,721,577</u>
Operating Loss	(434,406)
Nonoperating Revenue (Expenses):	
Investment Earnings	<u>2,855</u>
Total Nonoperating Revenues (Expenses)	<u>2,855</u>
Change in Net Assets	(431,551)
Net Assets Beginning of Year	<u>321,733</u>
Net Assets End of Year	<u>\$ (109,818)</u>

See accompanying notes to the basic financial statements

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Cash Flows
Proprietary Funds
June 30, 2004

	Governmental Activities Internal Service Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Interfund Charges	2,549,457
Cash Payments for Goods and Services	<u>(2,599,634)</u>
Net Cash Used for Operating Activities	<u>(50,177)</u>
<u>Cash Flows from Investing Activities:</u>	
Receipts of Interest	2,855
Net Cash Provided by Investing Activities	<u>2,855</u>
Net Decrease in Cash and Cash Equivalents	(47,322)
Cash and Cash Equivalents at Beginning of Year	<u>213,778</u>
Cash and Cash Equivalents at End of Year	<u><u>\$166,456</u></u>
<u>Reconciliation of Operating Loss to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Loss	(\$434,406)
Adjustments to Reconcile Operating Loss to	
Net Cash Used for Operating Activities:	
Decrease in Accounts Receivable	262,286
Increase in Claims Payable	<u>121,943</u>
Total Adjustments	<u>384,229</u>
Net Cash Provided by Operating Activities	<u><u>(\$50,177)</u></u>

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

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Net Assets
Fiduciary Funds
June 30, 2004

	<u>Student Activity Fund</u>
Assets:	
Cash and Cash Equivalents	\$ 41,633
Total Assets	<u>41,633</u>
Liabilities:	
Due to Students	<u>41,633</u>
Total Liabilities	<u>41,633</u>
Net Assets:	
Unrestricted	<u>0</u>
Total Net Assets	<u><u>\$ 0</u></u>

See accompanying notes to the basic financial statements

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Southeast Local School District, Ohio (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District is governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by approximately 78 non-certified and approximately 143 certified teaching personnel and administrative employees providing education to 2,264 students.

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

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

The accounting policies and financial reporting practices of the District conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies.

B. Basis of Presentation - Fund Accounting

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

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

The following fund types are used by the District:

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

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

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

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

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District or to other governments on a cost-reimbursement basis.

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

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District’s governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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

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

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term “measurable” means the amount of the transaction can be determined. The term “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the District is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and contractually required pension obligations which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Revenue considered susceptible to accrual at year end includes property taxes available for advance, tuition, grants, student fees, and extracurricular activities.

Current property taxes measurable at June 30, 2004, of which are not intended to finance fiscal 2004 operations, have been recorded as deferred revenues. Delinquent property taxes measurable and available (received within 60 days) and amounts available as an advance on future tax settlements are recognized as revenue at year end. Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2004 are reflected as a reservation of fund balance for future appropriations. The District is prohibited by law from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year end.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

The accrual basis of accounting is utilized for reporting purposes by the government-wide financial statements, proprietary funds and the private-purpose trust fund. Revenues are recognized when they are earned and expenses are recognized when incurred.

Pursuant to GASB Statement No. 20, “*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*,” the District follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

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.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include income and property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the income is earned. 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 satisfied.

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

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however, only the General Fund is required to be reported. The primary level of budgetary control is at the fund level. Supplemental budgetary modifications may only be made by resolution of the Board of Education.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

1. Tax Budget

By January 15, the Superintendent and Treasurer submit an annual operating budget for the following fiscal year to the Board of Education for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the period July 1 to June 30 of the following fiscal year.

2. Estimated Resources

Prior to March 15, the Board accepts by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2004.

3. Appropriations

A temporary appropriation measure to control expenditures may be passed on or about July 1 of each year for the period July 1 through September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 through June 30. The appropriation resolution establishes spending controls at the fund, function and object level. The appropriation resolution may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. During the year, no supplemental appropriations were passed. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

5. Basis of Budgeting

The District's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund:

<u>Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</u>	<u>General Fund</u>
GAAP Basis (as reported)	(\$257,759)
Increase (Decrease):	
Accrued Revenues at June 30, 2004, received during FY 2005	(161,818)
Accrued Revenues at June 30, 2003, received during FY 2004	136,796
Accrued Expenditures at June 30, 2004, paid during FY 2005	2,121,105
Accrued Expenditures at June 30, 2003, paid during FY 2004	(2,182,294)
FY 2003 Prepays for FY 2004	8,543
FY 2004 Prepays for FY 2005	(8,648)
Encumbrances Outstanding	(703,426)
Budget Basis	<u><u>(\$1,047,501)</u></u>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

During fiscal year 2004, cash and cash equivalents included amounts in demand deposits, repurchase agreements and the State Treasury Asset Reserve (STAR Ohio). STAR Ohio and repurchase agreements are very liquid investments and are reported as cash equivalents in the general purpose financial statements.

The District pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and cash equivalents represents the balance on hand as if each fund maintained its own cash and investment account. See Note 4, "Cash and Cash Equivalents."

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the District records all its investments at fair value except for nonparticipating investment contracts (repurchase agreements) which are reported at cost. See Note 4, "Cash and Cash Equivalents."

The District has invested funds in the State Treasury Asset Reserve of Ohio during 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Investment earnings of \$13,388 earned by other funds was credited to the General Fund as required by state statute.

H. Inventory

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

On fund financial statements, inventory is stated at cost (first-in, first-out) in the governmental funds and at the lower of cost or market (first-in, first-out) in the proprietary funds. The costs of inventory items are recorded as expenditures in the governmental funds when purchased and as expenses in the proprietary funds when used. Reported supplies inventory is equally offset by a fund balances reserve in the governmental fund which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Prepaid Items

Payments to vendors for services that will benefit periods beyond June 30, 2004 are recorded as prepaid items using the consumption method. A current asset for the prepaid item is recorded at the time of purchase and an expenditure is reported in the fiscal year in which the services are consumed. At fiscal year end, because prepaid items are not available to finance future governmental fund expenditures, the fund balances are reserved by an amount equal to the carrying amount of the asset.

J. Capital Assets and Depreciation

The accounting and reporting treatment applied to fixed assets is determined by their ultimate use:

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements.

Contributed capital assets are recorded at fair market value at the date received. Interest incurred during construction is not capitalized on general fixed assets. The District does not possess any infrastructure. Capital asset values were initially determined by identifying historical costs where such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

2. Depreciation

All capital assets are depreciated, excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Governmental and Business-Type Activities Estimated Lives (in years)</u>
Land Improvements	25
Building Improvements	25 - 75
Machinery, Equipment, Furniture and Fixtures	8 - 20

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Revenues – Exchange and Non-Exchange Transactions

Exchange transactions are those in which each party to a transaction gives and receives essentially something of equal value. Proprietary funds, where the full accrual basis of accounting is used, record revenue when the exchange takes place. Governmental funds, where the modified accrual basis of accounting is used, record revenue in the fiscal year in which the resources are both measurable and available.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Property taxes available as an advance at June 30 are recognized as revenue. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenues are both measurable and available. Eligibility requirements include timing requirements, matching requirements and expenditure requirements. Eligibility requirements specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted. With matching requirements, the District must provide local resources to be used for a specific purpose. For expenditure requirements, resources are provided to the District on a reimbursement basis.

L. Long-Term Obligations

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

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

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Compensated Absences

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

N. Net Assets

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

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

O. Pensions

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

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Interfund Activity

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

Q. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization reserve. This reserve may be used by the District to offset any budget deficit the District may experience in future fiscal years. A fund balance reserve has been established for this amount.

R. Reservations of Fund Balance

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

S. Estimates

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

T. Operating Revenues and Expenses

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

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

U. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The District had no extraordinary or special items during fiscal year 2004.

NOTE 2 – RESTATEMENT OF NET ASSETS

During fiscal year 2004 the District completed a reappraisal of its capital assets, which required a restatement of net assets. As part of this reappraisal, the District increased its capitalization threshold to \$5,000. As a result of the restatement, the District's net assets at June 30, 2003 decreased \$525,524, to a restated amount of \$23,974,361.

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

The fund deficits at June 30, 2004 of \$1,898,401 in the General Fund, \$116,888 in the Food Service Fund, \$1,992 in the Summer School Fund, and \$25,621 in the Title I Fund, (special revenue funds) arise from the recognition of expenditures on the modified accrual basis of accounting which are greater than expenditures recognized on the budgetary basis. The fund deficit of \$109,818 in the Self-Insurance Fund arises from the recognition of expenses on the accrual basis of accounting which are greater than expenses recognized on the budgetary basis.

NOTE 4 - CASH AND CASH EQUIVALENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments.

Statutes require the classification of funds held by the District into three categories. Category 1 consists of "active" funds - those funds required to be kept in a "cash" or "near cash" status for immediate use by the District. Such funds must be maintained either as cash in the District Treasury or in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories, or as savings or deposit accounts, including, but not limited to, passbook accounts.

Category 3 consists of "interim" funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 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;

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 4 - CASH AND CASH EQUIVALENTS (Continued)

- 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;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds. Interim deposits are certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets 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;
- The State Treasury Asset Reserve of Ohio (STAR Ohio), and
- Certain bankers' acceptances 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.

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public collateral and are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*," collateral held in single financial institution collateral pools with securities being held by the pledging financial institutions' agent in the pool's name are classified as Category 3.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 4 - CASH AND CASH EQUIVALENTS (Continued)

The Governmental Accounting Standards Board has established risk categories for deposits and investments as follows:

Deposits:

- Category 1 Insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent, in the District's name.
- Category 3 Uncollateralized (this includes collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the District's name).

Investments:

- Category 1 Insured or registered, or securities held by the District or its agent in the District's name).
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District's name.

A. Deposits

At year end, the carrying amount of the District's deposits was an \$5,949,066 and the bank balance was \$6,351,381.

Of the bank balance:

1. \$200,280 was covered by Federal Depository Insurance or by collateral held by the District's agent in the name of the District.
2. \$6,151,101 was held in collateral pools with no specification for whom such funds are held and is considered to be uninsured and uncollateralized as defined by GASB Statement No. 3. Although all state statutory requirements for the deposit of monies has been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 4 - CASH AND CASH EQUIVALENTS (Continued)

B. Investments

The District's investments at June 30, 2004 were as follows:

<u>Non-Categorized Investments</u>	<u>Fair Value</u>
STAR Ohio	\$33,343

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Combined Balance Sheet	\$5,982,409	\$0
STAR Ohio	(33,343)	33,343
Per GASB Statement No. 3	<u>\$5,949,066</u>	<u>\$33,343</u>

NOTE 5 - PROPERTY TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the District. Real property taxes (other than public utility) collected during 2004 were levied after October 1, 2003 on assessed values as of January 1, 2003, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be reappraised every six years and equalization adjustments made the third year following reappraisal. The last revaluation was completed in 2000, and equalization adjustments were made in 1997. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 5 - PROPERTY TAXES (Continued)

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County including Southeast Local School District. The County Auditor periodically remits to the District its portion of the taxes collected. The assessed value upon which the fiscal year 2004 receipts were based are:

	2003 Second Half	2004 First Half
	<u>Collections</u>	<u>Collections</u>
Agricultural/Residential and Other Real Estate	\$157,089,690	\$183,371,180
Public Utility Personal	11,088,940	10,707,930
Tangible Personal Property	<u>8,131,759</u>	<u>7,480,640</u>
Total Assessed Value	<u>\$176,310,389</u>	<u>\$201,559,750</u>
Tax rate per \$1,000 of assessed valuation	\$46.61	\$46.19

NOTE 6 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, interfund loans and intergovernmental receivables.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 7 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at June 30, 2004:

Historical Cost:

Class	Restated June 30, 2003	Additions	Deletions	June 30, 2004
Capital assets not being depreciated:				
Land	\$1,475,065	\$0	\$0	\$1,475,065
Capital assets being depreciated:				
Land Improvements	525,488	890,045	0	1,415,533
Buildings and Improvement	5,119,931	10,532,565	0	15,652,496
Machinery and Equipment	1,138,512	694,697	0	1,833,209
Vehicles	1,601,124	0	0	1,601,124
Construction in Progress	9,582,511	6,381,985	0	15,964,496
Total Cost	<u>\$19,442,631</u>	<u>\$18,499,292</u>	<u>\$0</u>	<u>\$37,941,923</u>

Accumulated Depreciation:

Class	June 30, 2003	Additions	Deletions	June 30, 2004
Land Improvements	(\$885,219)	(\$93,368)	\$0	(\$978,587)
Buildings and Improvement	(3,039,036)	(280,035)	0	(3,319,071)
Machinery and Equipment	(788,173)	(178,672)	0	(966,845)
Vehicles	(1,022,798)	(180,126)	0	(1,202,924)
Total Depreciation	<u>(\$5,735,226)</u>	<u>(\$732,201) *</u>	<u>\$0</u>	<u>(\$6,467,427)</u>
Net Value:	<u>\$13,707,405</u>			<u>\$31,474,496</u>

* Depreciation expenses were charged to governmental functions as follows:

Instruction	\$415,595
Support Services:	
Instructional Staff	79,575
Administration	3,404
Operations & Maintenance of Plant	22,593
Pupil Transportation	193,554
Central	1,180
Extracurricular Activities	6,565
Other Noninstructional Services	9,735
Total Depreciation Expense	<u>\$732,201</u>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 8 - DEFINED BENEFIT PENSION PLANS

All of the District's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

A. School Employees Retirement System of Ohio (SERS of Ohio)

All non-certified employees of the District, with minor exceptions, performing duties that do not require a certificate issued by the Ohio Department of Education are eligible to participate in the School Employees Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The SERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The SERS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the SERS of Ohio. Interested parties may obtain a copy by making a written request to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10% respectively. The contribution rates are determined actuarially, and are established and may be amended, up to statutory amounts, by the School Employees Retirement Board (Retirement Board) within the rates allowed by State statute. The required employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. At June 30, 2004, 9.09% was allocated to fund the pension benefit and 4.91% to fund health care. The District's contributions to the SERS of Ohio for the years ending June 30, 2004, 2003, and 2002 were \$318,375, \$283,367, and \$425,099, respectively, which were equal to the required contributions for each year.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below Federal poverty levels. Premiums are reduced by 50% for those who apply. The portion of the 2004 employer contribution rate that was used to fund health care for the year 2004 was 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2004, the minimum pay has been established as \$25,400. The amount contributed to fund health care benefits, including the surcharge amounted to \$264,059.

Health care benefits are financed on a pay-as-you-go basis. The number of retirees and covered dependents currently receiving benefits is approximately 62,000. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. Net assets available for payment of benefits at June 30, 2004 was \$300.8 million.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (STRS of Ohio)

All certified employees of the District are eligible to participate in the State Teachers Retirement System of Ohio, a cost-sharing, multiple-employer public employee retirement system.

The STRS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits based on eligible service credit to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. The STRS of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the STRS of Ohio. Interested parties may obtain a copy by making a written request to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 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 contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. 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.

The Ohio Revised Code provides statutory authority for District and employee contributions of 14% and 10%, respectively. The contribution requirements of plan members and the District are established and may be amended by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. At June 30, 2004, 13% was allocated to fund the pension benefit and 1% to fund health care. The District's contributions to the STRS of Ohio for the years ending June 30, 2004, 2003, and 2002 were \$1,053,492, \$1,083,418, and \$1,040,947, respectively, which were equal to the required contributions for each year.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 8 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (STRS of Ohio) (Continued)

STRS provides postemployment health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to a Health Care Reserve Fund. For the fiscal year ended June 30, 2004, the board allocated employer contributions are equal to 1% of covered payroll to the Health Care Reserve Fund, which amounted to \$73,744 for the District. The balance of the Health Care Reserve Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, the net health care costs paid by STRS were \$268,739,000. There were 111,853 eligible benefit recipients.

NOTE 9 – LONG-TERM DEBT AND OTHER OBLIGATIONS

Detail of the changes in the long-term general obligation bonds, capital leases and compensated absences of the District for the year ended June 30, 2004 is as follows:

	Balance June 30, 2003	Additions	Deductions	Balance June 30, 2004	Amount Due Within One Year
Governmental Activities:					
General Obligation Bond:					
ClassroomFacilities Improvement	\$6,882,000	\$0	(\$225,000)	\$6,657,000	\$235,000
Capital Leases Payable	25,398	0	(12,224)	13,174	13,174
Compensated Absences	745,794	248,259	0	994,053	50,945
Total Governmental Activities	<u>7,653,192</u>	<u>248,259</u>	<u>(237,224)</u>	<u>7,664,227</u>	<u>299,119</u>
Total Other					
Long-TermObligations	<u>\$7,653,192</u>	<u>\$248,259</u>	<u>(\$237,224)</u>	<u>\$7,664,227</u>	<u>\$299,119</u>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004***

NOTE 9 – LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

A. Principal and Interest Requirements

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2004, follows:

Years	General Obligation Bond	
	Principal	Interest
2005	\$235,000	\$305,698
2006	250,000	295,998
2007	250,000	285,872
2008	275,000	274,973
2009	275,000	263,216
Thereafter	5,372,000	2,689,224
Totals	\$6,657,000	\$4,114,981

NOTE 10 - CAPITAL LEASE COMMITMENTS

The District is obligated under four leases accounted for as capital leases. The cost of the leased assets (copiers) is accounted for in the Governmental Activities Capital Assets and the related liability in the Governmental Activities Other Long-Term Obligations.

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2004:

Year Ending June 30,	Capital Lease
2005	\$13,716
Minimum Lease Payments	13,716
Less: Amount representing interest at the District's incremental borrowing rate of interest	(542)
Present Value of minimum lease payments	\$13,174

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 11 – STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves for the purpose of textbooks and other instructional materials and an additional amount for capital improvements. During the fiscal year ended June 30, 2004, the reserve activity (cash-basis) was as follows:

	Textbook Reserve	Capital Acquisition Reserve	Total
Set-aside Cash Balance as of June 30, 2003	(\$26,092)	\$273,595	\$247,503
Current Year Set-Aside Requirement	336,730	336,730	673,460
Qualifying Disbursements	(121,478)	(73,037)	(194,515)
Total	<u>\$189,160</u>	<u>\$537,288</u>	<u>\$726,448</u>
Cash Balance Carried Forward to FY 2005	<u>\$189,160</u>	<u>\$537,288</u>	<u>\$726,448</u>

The District may use the negative amount in the textbooks set-aside to reduce set-aside requirements of future fiscal years. Amounts remaining at the fiscal year-end are represented by cash and cash equivalents and are presented as restricted assets on the Combined Balance Sheet. Corresponding amounts are reported as reserves of fund balances.

NOTE 12 - RISK MANAGEMENT

A. Public Entity Risk Pools

The District participates in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

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

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004***

NOTE 12 - RISK MANAGEMENT (Continued)

B. Other Insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2004, the District contracted for various insurance coverages, as follows:

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

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

The School District also maintains a self-funded health insurance program for employees health coverage. The plan was started in July of 2003. The claims are processed by the third party administrator, Benefit Services Inc. An internal service fund is presented in the financial statements and reflects premiums paid into the self-insurance fund by other funds which are available to pay claims and administrative costs, and establish claims reserves. Claims are paid weekly through the third party administrator and fixed costs for administrative and stop loss costs are paid on a monthly basis. The District purchases stop-loss coverage through Sun Life Insurance Company to protect the plan in the occurrence of catastrophic claims. The outstanding claims at June 30, 2004 for the self-insurance program amounted to \$279,877 .

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

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
2003	\$0	\$2,450,508	(\$2,292,574)	\$157,934
2004	157,934	2,721,577	(2,599,634)	279,877

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 13 - JOINTLY GOVERNED ORGANIZATION

Stark Portage Area Computer Consortium

The Stark Portage Area Computer Consortium (SPARCC) is the computer service organization (A-site) used by the Southeast Local School District. SPARCC is an association of public school districts in a geographic area determined by the Ohio Department of Education. The Stark County Educational Service Center acts as the fiscal agent for the consortium. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All districts in the consortium are required to pay fees, charges and assessments as charged. SPARCC is governed by a board made up of superintendents from all of the participating districts. An elected Executive Board consisting of five members of the governing board is the managerial body of the consortium and meets on a monthly basis. The Southeast Local School District does not maintain an ongoing financial interest or an ongoing financial responsibility. Payments to SPARCC are made from the General Fund. Financial information can be obtained from Gene Feucht, who serves as director, at 2100 38th Street, NW, Canton, Ohio 44709.

NOTE 14 - CONTINGENCIES

A. Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

B. Litigation

The District is not a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2004.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004

NOTE 14 - CONTINGENCIES (Continued)

C. State School Funding

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issues his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

As of the date of these financial statements, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**CERTIFIED PUBLIC ACCOUNTANTS
121 College Street
Wadsworth, Ohio 44281
330/336-1706 Fax 330/334-5118**

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Southeast Local School District (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 15, 2005. The report on governmental activities was qualified because we were unable to obtain sufficient supporting documentation for construction in progress. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-01 through 2004-03. We also noted certain additional matters that we have reported to management of the District, in a separate letter dated August 15, 2005.

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

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

August 15, 2005

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

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

Compliance

We have audited the compliance of the Southeast Local School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in items 2004-04 through 2004-08 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding financial reporting, Individualized Education Program (IEP), activities allowed or unallowed, allowable costs/cost principles and reporting that are applicable to its Special Education – Grants to State program. Compliance with such requirements is necessary, in our opinion, for the District, to comply with requirements to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

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

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2004-08.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 2004-08 above to be a material weakness.

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

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

August 15, 2005

**Southeast Local School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2004**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Receipts	Disbursements
<u>U.S. Department of Agriculture</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
National School Lunch Program	10.555	049221-LLP4-2003	\$7,947	\$7,947
National School Lunch Program	10.555	049221-LLP4-2004	116,023	116,023
Total National School Lunch Program			123,970	123,970
Food Distribution	10.550	----	56,901	56,901
Total U.S. Department of Agriculture - Child Nutrition Cluster			180,871	180,871
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Innovative Education Program Strategies (ESEA Title VI)	84.298	049221-C2S1	8,132	10,122
Title I Grants to Local Educational Agencies	84.010	049221-C1S1	203,226	210,689
Safe and Drug-Free Schools and Communities - State Grants	84.186	049221-DRS1	7,816	10,236
Special Education Cluster:				
Special Education-Grants to States (Title VI-B Flow-Thru)	84.027	049221-6BSF	252,692	250,881
Improving Teacher Quality State Grants	84.367	049221-TRS1	98,975	86,225
Education Technology State Grants (Enhancing Education Through Technology Program)	84.318	049221-TJS1	2,674	4,566
School Renovation Grants	84.352	049221-ATS4	9,273	0
Total U.S. Department of Education			582,788	572,719
Total Federal Assistance			\$763,659	\$753,590

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

SOUTHEAST LOCAL SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance such as food received from the U.S. Department of Agriculture, is reported in the schedule at the fair market value of the commodities received and disbursed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities in inventory.

SOUTHEAST LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS

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

SOUTHEAST LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)

(d)(1)(vii)	Major Program:	Special Education-Grants to State, CFDA #84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

2004-01

Section 5705.39, Revised Code, states that the total appropriation from each fund shall not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriation from each fund does not exceed the total official estimate or amended official estimate.

The appropriations exceeded the estimated resources in Title VI-B by \$19,916, Title I by \$22,176, Class Size Reduction by \$1,623 and Classroom Facilities by \$15,937,808.

2004-02

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

District expenditures, plus outstanding encumbrances, exceeded appropriations at the fund level in the following instances at April 30, 2004 and June 30, 2004:

<u>Fund Type - Fund</u>	<u>April 30, 2004</u>	<u>June 30, 2004</u>
General Fund		\$778,219
Miscellaneous Grants		5,000
Title VI-B Grants		30,125
SchoolNet	\$3,311	3,411
Self-Funded Benefits	1,997,036	2,599,635

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

SOUTHEAST LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505

FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)

2004-03

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

The District had negative cash balances at March 31, 2004 and June 30, 2004 in the following funds:

Fund	<u>March 31, 2004</u>	<u>June 30, 2004</u>
Food Service	\$63,255	\$64,775
Summer Intervention		1,992
Title I		22,374
Drug-Free Schools		4,234

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

3. FINDINGS FOR FEDERAL AWARDS

Federal Program: Special Education, Part B – IDEA – Fiscal Year 2004
 Identification Number: 049221-6BSF
 CFDA Number: 84.027
 Federal Agency: U.S. Department of Education
 Pass Through Entity: Ohio Department of Education

2004-04

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

1. A statement of the child’s present level of educational achievements;
2. A statement of the annual goals;
3. A statement of the special education and related services to be provided;

SOUTHEAST LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)

4. The projected dates for initiation of the service and the anticipated duration of the services; and
5. Appropriate objective criteria and evaluation procedures.

Condition Found: The following results were found from the 40 IEP selected for testing:

- One instance in which there was no IEP.
- One instance in which the IEP did not contain the statement of the special education and related services to be performed.
- One instance in which the IEP did not show initiation dates and/or anticipated duration of the services.

The IEP should have the signatures of the parent, child's regular education teacher, District representative and the child's special education teacher. Fourteen of the files tested did not contain one or more of the above signatures.

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

Federal Program: Special Education, Part B – IDEA – Fiscal Year 2004
Identification Number: 049221-6BSF
CFDA Number: 84.027
Federal Agency: U.S. Department of Education
Pass Through Entity: Ohio Department of Education

2004-05

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

Condition Found: The District commingled the activity of the fiscal year 2003 and fiscal year 2004 activity which prohibited tracing activity reported on the project cash requests back to the financial ledgers of the District.

SOUTHEAST LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505

FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)

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

Federal Program: Special Education, Part B – IDEA – Fiscal Year 2004
Identification Number: 049221-6BSF
CFDA Number: 80.20
Federal Agency: U.S. Department of Education
Pass Through Entity: Ohio Department of Education

2004-06

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

Condition Found: The District was unable to provide supporting documentation for two expenditures originally charged to the General Fund but later charged to the Special Education Fund.

Questioned Costs:	Correction of Posting	\$15,335
	Correction of Posting	<u>18,000</u>
	Total	<u>\$33,335</u>

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

Federal Program: Special Education, Part B – IDEA – Fiscal Year 2004
Identification Number: 049221-6BSF
CFDA Number: 84.027
Federal Agency: U.S. Department of Education
Pass Through Entity: Ohio Department of Education

2004-07

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

SOUTHEAST LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505

FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)

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

	Final Expenditure Report	Expenditure Ledger	Over/ (Under) Stated
Salaries	\$213,457.21	\$177,650.73	\$35,806.48
Retirement Fringe			
Benefits	19,488.00	0.00	19,488.00
Purchased Services	13,333.05	33,872.55	(20,539.50)
Supplies	19,180.56	38,946.69	(19,766.13)
Capital Outlay	9,880.60	411.00	9,469.60

Questioned Costs: The amounts spent on salaries, retirement fringe benefits and capital outlay were overstated in the final expenditure report by \$35,806.48, \$19,488 and \$9,469.60, respectively.

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

Federal Program: Special Education, Part B – IDEA – Fiscal Year 2004
 Identification Number: 049221-6BSF
 CFDA Number: 84.027
 Federal Agency: U.S. Department of Education
 Pass Through Entity: Ohio Department of Education

2004-08

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

1. Financial Reporting: Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant.

SOUTHEAST LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)

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

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

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

SOUTHEAST LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505

FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)

2. Accounting Records – the ledgers did not adequately identify the application of funds provided for financially assisted activities. The financial ledgers of the District for the Special Education Fund contains fiscal year 2003 and fiscal year 2004 grants under one cost center.
3. Internal Control – effective monitoring of Project Cash Requests and Final Expenditure Reports were not being performed.
4. Budgetary Control – comparisons of actual expenditures to authorized budgets were not been performed.
5. Source Documentation – source documentation for costs being charged to the General Fund and later correct by posting to the financial ledgers was not maintained.
6. Cash Management – the District’s revenue and expenditure ledgers do not have separate cost centers for funds made up of more than one grant. Based on this, the revenues and expenditures on the project cash requests to the District’s financial ledgers were untraceable.

Recommendation: The following procedures should be put in place:

1. Financial Reporting – reports submitted by the Treasurer need to be reviewed to verify that information being presented is accurate.
2. Accounting Records – all costs to be paid for by grant funds need to be recorded in the appropriate grant fund at the time of payment. This will allow for an audit trail and provide accurate information for preparing reports.
3. Internal Control – effective monitoring of reports prepared by the Treasurer and the allocation of expenditures should be performed. Those individuals monitoring reports and allocation of costs need to have familiarity with the reporting requirements along with what costs are allowable and unallowable for the Federal program.

SOUTHEAST LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(CONTINUED)

4. Budget Control – a comparison of actual costs being incurred to the approved budget for the Federal program should be done on a regular basis. This will identify potential problems (ie. costs greater than budgeted amounts or insufficient costs being charged to the program) in a timely manner and enable management to correct prior to rather than after the fact.
5. Source Documentation – all costs need to be supported by source documentation. Payroll reports should allocate individual employees being charged to the Federal program at the time of payment. Purchase requisitions and purchase orders should have the proper account to be charged. Those individuals responsible for approving payroll and purchases need to be familiar with where charges can be charged.
6. Cash Requests – projected cash received and total expenditure amounts need to be traced to the accounting records supporting the audited financial statements.



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**SOUTHEAST LOCAL SCHOOL DISTRICT
PORTAGE COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 22, 2005**