



**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Southeast Local School District, Wayne County, Ohio, (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Federal Awards Receipts and Expenditures Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

December 16, 2005

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

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

Financial Highlights

Key financial highlights for 2005 are as follows:

- Net assets of governmental activities decreased \$1.03 million, which represents a 15 percent decrease from 2004. The District has no business-type activities.
- For governmental activities, general revenues accounted for \$11.6 million in revenue or 76.3 percent of all revenues. Program specific revenues in the form of charges for service, sales, rents and contributions accounted for \$3.6 million or 23.7 percent of total revenues of \$15.2 million.
- The District had \$16.3 million in expenses related to governmental activities; \$3.6 million of these expenses were offset by program specific charges for services, grants, or contributions. General revenues (primarily state foundation and taxes) of \$11.6 million were not adequate to provide for these programs.
- The general fund, the only major fund, had \$11.9 million in revenues and \$12.6 million in expenditures. The general fund's balance decreased \$730,501 to \$2.3 million.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-wide Financial Statements. The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned by unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the District include instruction, support services, operation of non-instructional services, and extracurricular activities.

The government-wide financial statements can be found on pages 13-15 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The District, like the state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary fund, and fiduciary fund.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

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

The basic fund financial statements can be found on pages 16-20 of this report.

Proprietary Fund The internal service fund is an accounting device used to accumulate and allocate costs internally across the District's various functions. The District uses its internal service fund to account for its dental care costs. Because this service predominantly benefits governmental functions, they have been included within governmental activities in the government-wide statements.

The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Fiduciary Fund The Fiduciary fund is used to account for resources held for the benefit of parties outside the government. The Fiduciary fund is not reflected in the government-wide financial statement because the resources of this fund are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for the proprietary funds.

The basic fiduciary fund financial statements can be found on pages 24 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-47 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$5.8 million at the close of the most recent fiscal year.

Approximately thirty-five percent of the District's net assets (\$2.0 million) reflect its unrestricted net assets. The District uses these unrestricted net assets to meet ongoing obligations to the residents and creditors. Fifty-six percent of the net assets (\$3.3 million) are investment in capital assets (e.g., land, building and improvements, land improvements, furniture and equipment, and vehicles). The District uses these capital assets to provide services to residents; consequently, these assets are not available for future spending. An additional portion of the District's net assets, \$0.5 million, represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the District is able to report positive balances for the governmental net assets. The same situation held true for the prior fiscal year.

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

Southeast Local School District's Net Assets

	Governmental Activities	
	2004	2005
Assets		
Current and Other Assets	\$ 10,926,653	\$ 10,023,262
Capital Assets	4,100,703	3,667,314
<i>Total Assets</i>	15,027,356	13,690,576
Liabilities		
Current Liabilities	7,185,624	7,010,140
Long-term Liabilities	1,003,405	869,079
<i>Total Liabilities</i>	8,189,029	7,879,219
Net Assets		
Invested in Capital Assets, Net of Related Debt	3,509,592	3,276,383
Restricted	527,285	496,291
Unrestricted	2,801,450	2,038,683
<i>Total Net Assets</i>	\$ 6,838,327	\$ 5,811,357

The District's net assets decreased by \$1 million during the current fiscal year. All of these represent the degree to which decreases in ongoing revenues have not met the demand of increases in ongoing expenses.

Governmental Activities

Governmental activities decreased the District's net assets by \$1 million, thereby accounting for fifteen percent of the total decline in net assets of the District. Key elements of this decrease are as follows:

- Increases in Charges for Services and Operating Grants and Contributions Program revenues were offset by decreases in Taxes and Grants and Entitlements for a net decrease of \$.2 million.
- Overall Expenses increased \$.8 million with the majority of the increase in Special Instruction, Administration and Pupil Transportation.

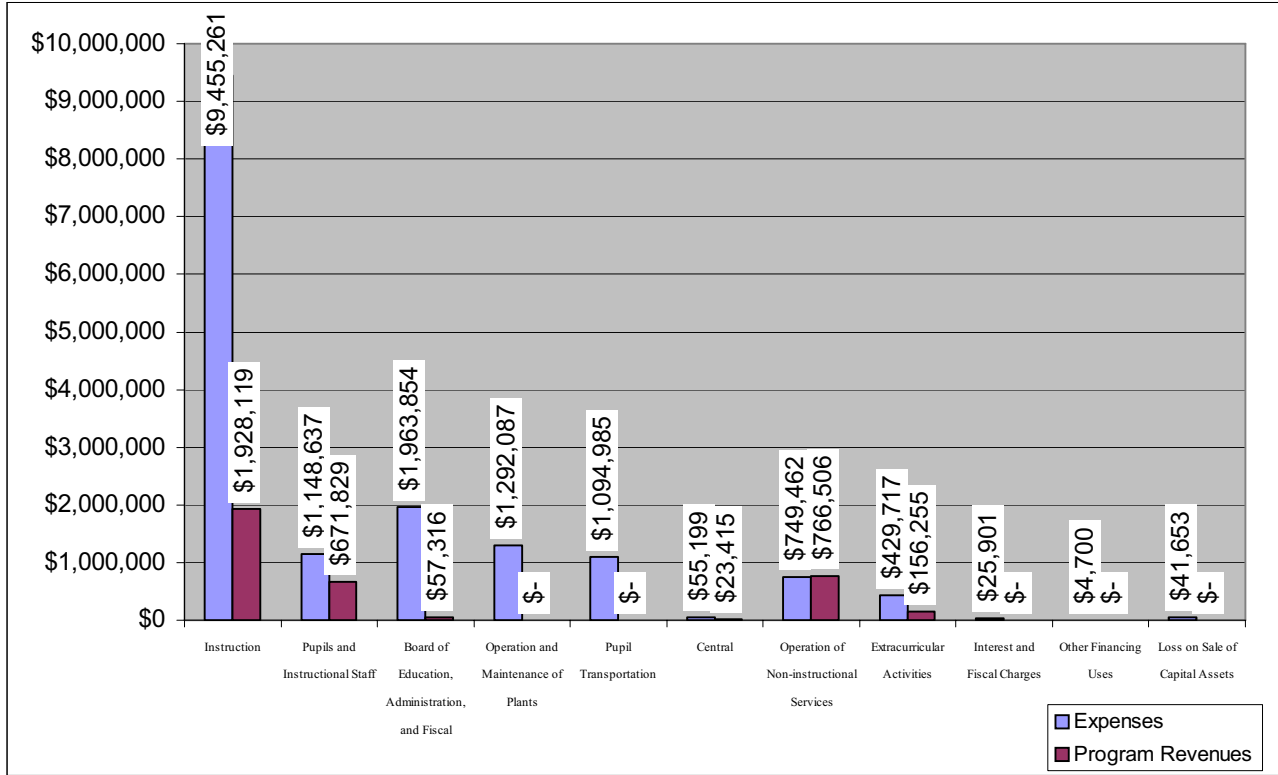
Southeast Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Southeast Local School District's Changes in Net Assets

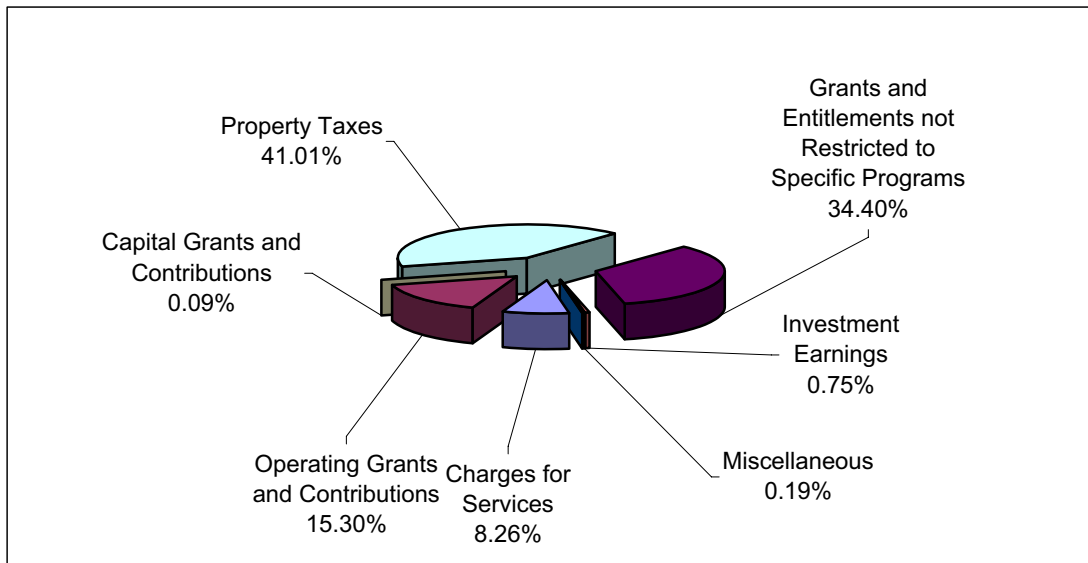
	Governmental	
	Activities	
	2004	2005
Revenue:		
Program Revenues:		
Charges for Services and Sales	\$ 1,116,037	\$ 1,258,869
Operating Grants and Contributions	2,102,837	2,330,396
Capital Grants and Contributions	70,482	14,175
General Revenues:		
Property Taxes	6,607,535	6,248,387
Grants and Entitlements	5,457,594	5,238,917
Investment Earnings	74,544	115,000
Miscellaneous	39,295	28,742
Total Revenues	15,468,324	15,234,486
Expenses:		
Instructions:		
Regular	6,368,838	6,569,476
Special	1,677,050	2,208,425
Vocational	301,790	310,251
Other	289,967	367,109
Support Services:		
Pupils	928,501	749,047
Instructional Staff	343,312	399,590
Board of Education	39,086	22,724
Administration	1,471,805	1,585,669
Fiscal	349,913	355,461
Operation and Maintenance of Plant	1,343,990	1,292,087
Pupil Transportation	957,703	1,094,985
Central	65,945	55,199
Operation of Non-instructional Services	773,267	749,462
Extracurricular Activities	431,087	429,717
Fiscal and Interest Charges	42,136	25,901
Other Financing Uses	-	4,700
Loss on Sale of Capital Assets	2,182	41,653
Total Expenses	15,386,572	16,261,456
Changes in Net Assets	81,752	(1,026,970)
Beginning Net Assets	6,756,575	6,838,327
Ending Net Assets	\$ 6,838,327	\$ 5,811,357

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Expenses and Program Revenues – Governmental Activities



Revenues by Sources – Governmental Activities



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For the most part, the increase in expenses closely paralleled inflation and growth in the demand for services. Expenses increased by \$0.9 million in comparison to the prior fiscal year. Most of the increase in expenses occurred in instruction due to salary and benefit increases.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does 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.

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to voters to maintain a constant level of service. Property taxes made up 41 percent of revenue for governmental activities for Southeast Local School District in fiscal year 2005, slightly lower from prior years.

Financial Analysis of the Governmental Funds

Governmental Funds. Information about the District's governmental funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$15.3 million and expenditures of \$16.1 million. The total governmental fund balance decreased \$784 thousand. The net change in governmental fund balance for the year was most significant in the general fund, where the general fund's fund balance decreased by \$730 thousand for fiscal year 2005.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, fund balance of the general fund was \$2.3 million, while total fund balance declined to \$2.8 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. Unreserved fund balance represents nearly fifteen percent of total general fund expenditures, while total fund balance represents over eighteen percent of that same amount.

Key factors in this decrease of fund balance for the general fund are:

- Total revenues decreased by \$483,560 mostly in property taxes and intergovernmental revenues.
- Expenditures increased by \$155,997. Most of the increase occurred in instruction and support services.

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Management's Discussion and Analysis
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Unaudited

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the District amended its general fund budget one time.

For the General Fund, final budget basis revenue was \$11.7 million, which was the same as the original budget. Actual revenue was \$12.1 million, which was higher than the final budget.

The original appropriations of \$13.1 million decreased slightly to \$13.0 million. Expenditures, however, were only \$12.6 million or \$0.4 million less than anticipated.

Capital Assets and Debt Administration

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2005, amount to \$3.7 million (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, equipment, furniture, and vehicles. The total decrease in the District's investment in capital assets for the current fiscal year was 10.6 percent.

**Southeast Local School District's Capital Assets
(Net of Depreciation)**

	Governmental Activities	
	2004	2005
Land and Land Improvements	\$ 685,715	\$ 628,545
Building and Improvements	1,661,636	1,583,499
Furniture and Equipment	959,344	797,816
Vehicles	794,008	657,454
Totals	\$ 4,100,703	\$ 3,667,314

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

The decrease in capital assets was due to recognizing \$433,780 in depreciation expense, offset by \$42,364 of acquisitions. These acquisitions were distributed among furniture and equipment. The District also retired \$147,778 of capital assets, which resulting in \$41,653 on loss of sale of capital assets. The District continued its ongoing commitment to maintaining and improving its capital assets.

The District operates its own sewer plant to process sewage at the High School and Junior High complex. For more information on capital assets, refer to Note 8 in the basic financial statements.

Debt

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

At June 30, 2005 the District had \$390,931 of debt outstanding with \$42,256 due within one year. See Note 10 to the basic financial statement for detail. The following table summarizes the outstanding debt.

Southeast Local School District
Outstanding Debt at Year End

	Governmental Activities	
	2004	2005
General Obligation Notes	\$ 431,111	\$ 390,931
General Obligation Bonds	160,000	-
	\$ 591,111	\$ 390,931

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

Current Issues Affecting Financial Condition

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

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

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

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

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

Contacting the District's Financial Management

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

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

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 4,343,384
Receivables:	
Taxes	5,644,338
Intergovernmental	709
Accrued Interest	11,020
Prepaid Assets	5,813
Inventory Held for Resale	17,998
Nondepreciable Capital Assets	588,680
Depreciable Capital Assets, Net	3,078,634
<i>Total Assets</i>	13,690,576
Liabilities	
Accounts Payable	200,116
Accrued Wages and Benefits	1,391,695
Compensated Absences Payable	27,374
Pension Obligation Payable	313,545
Intergovernmental Payable	23,092
Deferred Revenue	5,038,666
Accrued Interest Payable	270
Claims Payable	15,382
Long-Term Liabilities:	
Due Within One Year	104,401
Due in More Than One Year	764,678
<i>Total Liabilities</i>	7,879,219
Net Assets	
Invested in Capital Assets, Net of Related Debt	3,276,383
Restricted for:	
Capital Projects	252,213
Other Purposes	244,078
Unrestricted	2,038,683
<i>Total Net Assets</i>	\$ 5,811,357

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

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

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Instruction:				
Regular	\$ 6,569,476	\$ 11,688	\$ 72,303	\$ 14,175
Special	2,208,425	560,167	1,239,740	-
Vocational	310,251	-	30,046	-
Other	367,109	-	-	-
Support Services:				
Pupils	749,047	194,807	376,132	-
Instructional Staff	399,590	-	100,890	-
Board of Education	22,724	-	-	-
Administration	1,585,669	-	57,316	-
Fiscal	355,461	-	-	-
Operation and Maintenance of Plant	1,292,087	-	-	-
Pupil Transportation	1,094,985	-	-	-
Central	55,199	-	23,415	-
Operation of Non-Instructional Services	749,462	335,952	430,554	-
Extracurricular Activities	429,717	156,255	-	-
Interest and Fiscal Charges	25,901	-	-	-
Other Financing Uses	4,700	-	-	-
Loss on Sale of Capital Assets	41,653	-	-	-
Total Governmental Activities	\$ 16,261,456	\$ 1,258,869	\$ 2,330,396	\$ 14,175

General Revenues

Property Taxes Levied for:

 General Purposes

 Capital Projects

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Changes in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

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

Net (Expense) Revenue
and Changes in Net Assets

Governmental
Activities

\$	(6,471,310)
	(408,518)
	(280,205)
	(367,109)
	(178,108)
	(298,700)
	(22,724)
	(1,528,353)
	(355,461)
	(1,292,087)
	(1,094,985)
	(31,784)
	17,044
	(273,462)
	(25,901)
	(4,700)
	(41,653)
<u>\$</u>	<u>(12,658,016)</u>

\$	5,955,060
	293,327
	5,238,917
	115,000
	28,742
	<u>11,631,046</u>
	(1,026,970)
	<u>6,838,327</u>
<u>\$</u>	<u>5,811,357</u>

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

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 3,648,214	\$ 630,709	\$ 4,278,923
Receivables:			
Taxes	5,385,085	259,253	5,644,338
Intergovernmental	-	709	709
Prepaid Assets	5,813	-	5,813
Inventory Held for Resale	-	17,998	17,998
<i>Total Assets</i>	9,039,112	908,669	9,947,781
Liabilities			
Accounts Payable	67,783	132,333	200,116
Accrued Wages and Benefits	1,371,683	20,012	1,391,695
Compensated Absences Payable	27,374	-	27,374
Intergovernmental Payable	21,590	1,502	23,092
Pension Obligation Payable	297,176	16,369	313,545
Deferred Revenue	4,971,843	251,840	5,223,683
<i>Total Liabilities</i>	6,757,449	422,056	7,179,505
Fund Balances			
Reserved for:			
Encumbrances	27,341	146,663	174,004
Property Taxes	413,242	20,839	434,081
Unreserved:			
Undesignated, Reported in:			
General Fund	1,841,080	-	1,841,080
Special Revenue Funds	-	170,790	170,790
Capital Projects Funds	-	148,321	148,321
<i>Total Fund Balances</i>	2,281,663	486,613	2,768,276
<i>Total Liabilities and Fund Balances</i>	\$ 9,039,112	\$ 908,669	\$ 9,947,781

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

Southeast Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2005*

Total Governmental Fund Balances		\$ 2,768,276
 Amounts reported for governmental activities in the statement of net assets are different because		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,667,314
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	171,591	
Intergovernmental	13,426	
Total		185,017
An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		49,079
Long-term assets, including accrued interest receivable, are not received in the current period and therefore are not reported in the funds.		
Interest		11,020
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	(478,148)	
General Obligation Notes	(390,931)	
Accrued Interest	(270)	
Total		(869,349)
Net Assets of Governmental Activities		\$ 5,811,357

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

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

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 5,938,765	\$ 292,376	\$ 6,231,141
Intergovernmental	5,238,216	2,331,846	7,570,062
Interest	95,315	8,665	103,980
Tuition and Fees	560,167	-	560,167
Extracurricular Activities	-	233,288	233,288
Food Service	-	335,946	335,946
Classroom Materials and Fees	11,688	-	11,688
Miscellaneous	11,467	135,055	146,522
	Total Revenues	3,337,176	15,192,794
	11,855,618	3,337,176	15,192,794
Expenditures			
Current:			
Instruction:			
Regular	6,277,559	87,009	6,364,568
Special	914,694	1,281,005	2,195,699
Vocational	310,199	-	310,199
Other	367,109	-	367,109
Support Services:			
Pupils	264,348	482,995	747,343
Instructional Staff	269,622	101,140	370,762
Board of Education	22,724	-	22,724
Administration	1,501,245	71,686	1,572,931
Fiscal	348,788	6,085	354,873
Operation and Maintenance of Plant	1,030,632	1,550	1,032,182
Pupil Transportation	918,493	39,571	958,064
Central	50,548	18,924	69,472
Operation of Non-Instructional Services	-	743,983	743,983
Extracurricular Activities	243,581	142,101	385,682
Capital Outlay	5,883	244,731	250,614
Dent Service:			
Principal	40,180	160,000	200,180
Interest and Fiscal Charges	20,834	5,900	26,734
	Total Expenditures	3,386,680	15,973,119
	12,586,439	3,386,680	15,973,119
<i>Excess of Revenue (Under) Expenditures</i>	(730,821)	(49,504)	(780,325)
Other Financing Sources (Uses)			
Proceed from Sale of Capital Assets	320	-	320
Other Financing Uses	-	(4,700)	(4,700)
Transfer In	-	97,485	97,485
Transfer Out	-	(97,485)	(97,485)
	Other Financing Sources (Uses)	(4,700)	(4,380)
	320	(4,700)	(4,380)
<i>Net Change in Fund Balances</i>	(730,501)	(54,204)	(784,705)
<i>Fund Balances Beginning of Year, Restated</i> <i>(See Note 3A)</i>	3,012,164	540,817	3,552,981
<i>Fund Balances End of Year</i>	\$ 2,281,663	\$ 486,613	\$ 2,768,276

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

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

Net Change in Fund Balances - Total Governmental Funds \$ (784,705)

***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 these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Assets Additions	42,364	
Current Year Depreciation	(433,780)	
Total		(391,416)

Governmental funds only report the disposal of assets to the extent proceeds are received from that sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of capital assets.

Loss on Disposal of Capital Assets		(41,973)
------------------------------------	--	----------

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

Taxes	17,246	
Intergovernmental	13,426	
Interest	11,020	
Total		41,692

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Proceeds of long-term debt is revenue in the governmental funds as opposed to a liability in the statement of net assets.

Note Principal Payment	40,180	
Bond Principal Payment	160,000	
Total		200,180

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

833

Some expenses reported in the statement of activities, such as compensated absences and pension obligation 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.

Compensated Absences Payable		(65,854)
------------------------------	--	----------

The internal service fund used by management to charge the cost of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

14,273

Change in Net Assets of Governmental Activities **\$ (1,026,970)**

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

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

	Budgeted Amount		Actual	Variance with Final Budget Positive/ (Negative)
	Original	Final		
<i>Revenue:</i>				
Taxes	\$ 6,143,145	\$ 6,143,145	\$ 6,153,523	\$ 10,378
Intergovernmental	4,848,635	4,848,635	5,238,217	389,582
Interest	84,500	84,500	92,302	7,802
Tuition	551,900	551,900	560,167	8,267
Classroom Materials and Fees	10,500	10,500	11,688	1,188
Miscellaneous	11,000	11,000	11,467	467
Total Revenues	11,649,680	11,649,680	12,067,364	417,684
<i>Expenditures:</i>				
Instruction:				
Regular	6,551,402	6,481,356	6,269,173	212,183
Special	948,520	948,520	912,089	36,431
Vocational	318,900	318,900	307,493	11,407
Other	424,500	424,500	367,109	57,391
Support Services:				
Pupils	333,788	333,788	270,228	63,560
Instructional Staff	268,693	268,693	268,552	141
Board of Education	29,011	29,011	29,011	-
Administration	1,501,041	1,501,041	1,471,770	29,271
Fiscal	357,966	357,966	357,998	(32)
Operation and Maintenance of Plant	1,052,459	1,052,459	1,047,325	5,134
Pupil Transportation	897,575	897,575	917,972	(20,397)
Central	62,729	62,729	62,729	-
Extracurricular Activities	261,859	261,859	242,616	19,243
Capital Outlay	5,883	5,883	5,883	-
Debt Service:				
Principal Payments	40,180	40,180	40,180	-
Interest and Fiscal Charges	20,834	20,834	20,834	-
Total Expenditures	13,075,340	13,005,294	12,590,962	414,332
Excess of Revenues				
Under Expenditures	(1,425,660)	(1,355,614)	(523,598)	832,016
<i>Other Financing Sources and Uses:</i>				
Proceeds from Sale of Capital Assets	320	320	320	-
Refund of Prior Year Receipts	(4,198)	(4,198)	(4,198)	-
Total Other Financing Sources and Uses	(3,878)	(3,878)	(3,878)	-
Net Change in Fund Balance	(1,429,538)	(1,359,492)	(527,476)	832,016
Fund Balance at the Beginning of Year	3,621,014	3,621,014	3,621,014	-
Prior year encumbrances appropriated	10,333	10,333	10,333	-
Fund Balance at the End of Year	\$ 2,201,809	\$ 2,271,855	\$ 3,103,871	\$ 832,016

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

Southeast Local School District
Statement of Net Assets
Proprietary Fund
June 30, 2005

		Governmental Activities - Internal Service Fund
Assets		
Equity in Pooled Cash and Cash Equivalents	\$	64,461
<i>Total Assets</i>		64,461
Liabilities		
Claims Payable		15,382
<i>Total Liabilities</i>		15,382
Net Assets		
Unrestricted		49,079
<i>Total Net Assets</i>	\$	49,079

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

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

		Governmental Activities - Internal Service Fund
Operating Revenues:		
Charges for Services	\$	151,519
<i>Total Operating Revenues</i>		151,519
Operating Expenses:		
Claims		137,246
<i>Total Operating Expenses</i>		137,246
<i>Operating Income</i>		14,273
<i>Change in Net Assets</i>		14,273
<i>Net Assets Beginning of Year</i>		34,806
<i>Net Assets End of Year</i>	\$	49,079

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

Southeast Local School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2005

		Governmental Activities - Internal Service Fund
Increase in Cash and Cash Equivalents		
Cash Flows from Operating Activities		
Cash Received from Customers	\$	151,519
Cash Payments for Claims		(136,495)
<i>Net Cash Provided by Operating Activities</i>		15,024
<i>Net Increase in Cash and Cash Equivalents</i>		15,024
<i>Cash and Cash Equivalents Beginning of Year</i>		49,437
<i>Cash and Cash Equivalents End of Year</i>	\$	64,461
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
<i>Operating Income</i>	\$	14,273
Adjustments:		
Increase in Liabilities:		
Claims Payable		751
<i>Total Adjustments</i>		751
<i>Net Cash Provided by Operating Activities</i>	\$	15,024

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

Southeast Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2005

	Student Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 28,081
<i>Total Assets</i>	28,081
Liabilities	
Accounts Payable	121
Due to Students	27,960
<i>Total Liabilities</i>	\$ 28,081

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

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

Note 1 – Description of the School District and Reporting Entity

The Southeast Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is governed by a five-member Board of Education (the Board) elected by its citizens and is responsible for the provision of public education to residents of the District. The board oversees the operations of the District's six instructional and support facilities. Average daily membership was 1,662. The District employed 144 certified and 97 non-certified employees.

A. The Reporting Entity

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

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

B. Joint Venture

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

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

The COG is funded by member fees and state grants. The Executive Committee determines and sets the member fees for all services to the COG. Fees are billed to member districts annually around July 1st. The District paid \$128,554 in fees for fiscal year 2004-05. The District has no equity interest in the COG.

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

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

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

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

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

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

C. Jointly Governed Organizations

Wayne County Career Center

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

Wayne County Schools Council

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

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

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

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

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

Tri-County Computer Service Association

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

Note 2 – Summary of Significant Accounting Policies

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

The District's significant accounting policies are described below.

A. Basis of Presentation

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

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

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

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

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

B. Fund Accounting

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

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

General Fund

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

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

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

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

Internal Service Funds

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

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

Agency Funds

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

C. Measurement Focus

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

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

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

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

D. Basis of Accounting

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

Revenues – Exchange and non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded when in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgetary Data

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

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

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

F. Cash and Cash Equivalents

To improve cash management, all cash received by the District is pooled at various banks. Monies for all funds, including proprietary funds, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements. During fiscal year 2005, investments were limited to STAR Ohio.

STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005.

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

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

G. Inventory

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

H. Prepaid Items

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

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

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

J. Compensated Absences

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Interfund Activity

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

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

M. Fund Balance Reserves

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

N. Estimates

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

O. Net Assets

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

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

P. 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. Neither type of transaction occurred during 2005.

Q. Operating Revenues and Expenses

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

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

Note 3 – Accountability and Compliance

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2005, the District has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosures” and GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers”.

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have any effect on financial statements of the District, however additional note disclosure can be found in Note 5. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major Governmental funds of the District as they were previously reported as of June 30, 2004:

	Fund Balance 6/30/2004	Adjustment	Fund Balance 7/1//2004
Major General fund	\$ 3,099,568	(87,404)	\$ 3,012,164
Non-major Food Service fund	\$ 47,707	(10,478)	\$ 37,229

B. Deficit Fund Balance

Fund balances at June 30, 2005 included the following individual fund deficits:

Non-major Fund	Deficit
Summer Intervention	\$29
Title VI-B	167
Title I	782
Title II-A	946
Title VI-R	124

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

C. Compliance

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

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

Note 4 – Budgetary Basis of Accounting

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

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

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

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

Net Change in Fund Balances	
Budget Basis	(\$527,476)
Net Adjustment for Revenue Accruals	(211,746)
Net Adjustment for Expenditure Accruals	41,629
Net Adjustment for Other Financing (Uses)	4,198
Adjustment for Encumbrances	(37,106)
GAAP Basis	(\$730,501)

Note 5 – Deposits and Investments

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the basic financial statements as "Equity in Pooled Cash and Cash Equivalents". State statutes classify monies held by the District into three categories.

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

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

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

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

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

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,013,593 of the District's bank balance of \$1,130,690 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department of agent, but not in the District's name.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2005, the District had one investment, STAROhio. The District's investment in STAROhio had a carrying and fair value of \$3,288,670. The investment is in an internal investment pool.

Credit Risk STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

Note 6 – Property Taxes

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

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

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value. The assessed value upon which the 2004 taxes were collected was \$248,671,688. Agricultural/residential and public utility/minerals real estate represented 73.47% or \$182,706,310 of this total; commercial and industrial real estate represented 11.57% or \$28,764,200 of this total; public utility tangible represented 3.20% or \$7,955,790 of this total; and general tangible property represented 11.76% or \$29,245,388 of this total.

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

The District receives property taxes from Wayne, Holmes, and Stark County. These County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

The amounts available to the District as an advance at June 30 are recognized as revenue. The amount available as an advance at June 30, 2005 was \$434,081. \$413,242 was available to the general fund, and \$20,839 to the permanent improvement capital projects fund.

Note 7 – Receivables

Receivables at June 30, 2005, consisted of taxes and intergovernmental (grants). All receivables are considered collectable in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of Federal funds.

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

Note 8 – Capital Assets

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

	Balance 7/1/2004	Addition	Deletion	Balance 6/30/2005
Governmental Activities				
<i>Capital Assets, Not Being Depreciated:</i>				
Land	\$ 588,680	\$ -	\$ -	\$ 588,680
<i>Total Capital Assets, Not Being Depreciated</i>	<u>588,680</u>	<u>-</u>	<u>-</u>	<u>588,680</u>
<i>Capital Assets, Being Depreciated:</i>				
Building and Improvements	4,312,551	-	-	4,312,551
Land Improvements	472,466	-	-	472,466
Furniture and Equipment	2,887,995	42,364	(130,803)	2,799,556
Vehicles	1,626,610	-	(16,975)	1,609,635
<i>Total Capital Assets, Being Depreciated</i>	<u>9,299,622</u>	<u>42,364</u>	<u>(147,778)</u>	<u>9,194,208</u>
<i>Less Accumulated Depreciation:</i>				
Building and Improvements	(2,650,915)	(78,137)	-	(2,729,052)
Land Improvements	(375,431)	(57,170)	-	(432,601)
Furniture and Equipment	(1,928,651)	(167,860)	94,771	(2,001,740)
Vehicles	(832,602)	(130,613)	11,034	(952,181)
<i>Total Accumulated Depreciation</i>	<u>(5,787,599)</u>	<u>(433,780)</u>	<u>105,805</u>	<u>(6,115,574)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>3,512,023</u>	<u>(391,416)</u>	<u>(41,973)</u>	<u>3,078,634</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 4,100,703</u>	<u>\$ (391,416)</u>	<u>\$ (41,973)</u>	<u>\$ 3,667,314</u>

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

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 193,885
Special	12,726
Vocational	52
Support Services:	
Pupils	1,182
Instructional Staff	28,828
Administration	5,194
Fiscal	1,733
Operation and Maintenance of Plant	6,063
Transportation	131,573
Operation of Non-instructional Services	8,509
Extracurricular Activities	<u>44,035</u>
Total Depreciation Expense	<u>\$ 433,780</u>

Note 9 – Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 256 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 63 days for both classified and certified employees.

Note 10 – Long-Term Debt and Other Obligations

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

	Balance 7/1/2004	Addition	Deletion	Balance 6/30/2005	Due within One Year
Governmental Activities					
General Obligation Notes, 5.05%	\$ 431,111	\$ -	\$ (40,180)	\$ 390,931	\$ 42,256
General Obligation Bonds, 7.35%	160,000	-	(160,000)	-	-
Compensated Absences Payable	<u>412,294</u>	<u>282,500</u>	<u>(216,646)</u>	<u>478,148</u>	<u>62,145</u>
<i>Total Governmental Activities</i>					
<i>Long-Term Liabilities</i>	<u>\$ 1,003,405</u>	<u>\$ 282,500</u>	<u>\$ (416,826)</u>	<u>\$ 869,079</u>	<u>\$ 104,401</u>

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

The annual requirements to amortize all debt outstanding as of June 30, 2005 including interest payments of \$82,282 are as follows:

Year Ending June 30	General Obligation Notes		
	Principal	Interest	Total
2006	\$ 42,257	\$ 18,757	\$ 61,014
2007	44,441	16,573	61,014
2008	46,699	14,315	61,014
2009	49,151	11,863	61,014
2010	51,691	9,323	61,014
2011-2013	156,672	11,451	168,123
	\$ 390,911	\$ 82,282	\$ 473,193

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

Note 11 – Risk Management

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

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

Inland Marine Coverage - \$924,536 (\$500 deductible)

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

Uninsured Motorists - \$1,000,000

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

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

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

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

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

		Balance at Beginning of Year		Current Year Claims		Claim Payments		Balance at End of Year
2004	\$	13,792	\$	128,108	\$	127,269	\$	14,631
2005	\$	14,631	\$	137,246	\$	136,495	\$	15,382

Note 12 – Defined Benefit Pension Plans

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan, administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The contribution rate is 14 percent of the annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$293,256, \$281,652, and \$272,973, respectively. 50 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$145,669 represents the unpaid contributions for fiscal year 2005, and is recorded as a liability.

B State Teachers Retirement System

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

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

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

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

For the fiscal year ended June 30, 2005, plan members are required to contribute 10 percent of their annual covered salaries and the District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 \$944,116, \$985,404, and \$978,582, respectively. 82 percent has been contributed for fiscal year 2005 and 100 percent for the fiscal years 2004 and 2003. \$167,876 represents the unpaid contributions for fiscal year 2005, and is recorded as liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2005, three members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

Note 13 – Post Employment Benefits

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$67,437 for fiscal year 2005.

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

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, School District paid \$71,848 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Note 14 – Contingencies and Commitments

A. Grants

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

B. School Funding Decision

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

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

Note 15 – Statutory Reserves

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

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

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

	Textbooks	Capital Improvement and Maintenance	Total
Set-aside balance as of June 30, 2004	\$ (135,075)	\$ -	\$ (135,075)
Current year set-aside requirement	248,964	248,964	497,928
Current year offsets	-	(323,427)	(323,427)
Qualifying expenditures	(262,262)	-	(262,262)
Total	\$ (148,373)	\$ (74,463)	\$ (222,836)

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

Note 16 – Interfund Transactions

Interfund Transfers

Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

	Transfer In	Transfer Out
Non-major Governmental Funds:		
Debt Service	\$0	\$97,485
Permanent Improvement	97,485	0

The transfer was the result of the closure of debt service fund. The District paid off the general obligation bonds in fiscal year 2005 and the remaining balance in the debt service fund therefore was transferred to the permanent improvement fund.

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SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY

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

Federal Grantor / Pass Through Grantor / Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF EDUCATION						
<i>Passed through the Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	C1-S1-2005 C1-S1-2004	84.010	\$1,081,118 (\$4,573)		\$1,081,118	
Total Title I Grants to Local Educational Agencies			\$1,076,545		\$1,081,118	
Special Education Cluster:						
Special Education: Grants to States	6B-SF-2005	84.027	411,957		414,021	
Safe and Drug-Free Schools and Communities: State Grants	DR-S1-2005	84.186	31,291		31,291	
Innovative Education Program Strategies	C2-S1-2005	84.298	7,848		7,848	
Improving Teacher Quality State Grants	TR-S1-2005 TR-S1-2003	84.367	250,643		250,643 50,620	
Total Improving Teacher Quality State Grants			250,643		301,263	
Technology Literacy Challenge Fund Grants	TJ-S1-2005	84.318	23,375		23,375	
Total U. S. Department of Education			1,801,659		1,858,916	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	N/A	93.778	29,187		29,187	
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed through the Ohio Department of Education</i>						
Child Nutrition Cluster:						
Food Donation Program	N/A	10.550		\$90,452		\$90,452
National School Lunch Program	LLP4-2004 LLP4-2005	10.555	29,091 149,598		29,091 149,598	
Total U.S. Department of Agriculture - Child Nutrition Cluster			178,689	90,452	178,689	90,452
Totals			\$2,009,535	\$90,452	\$2,066,792	\$90,452

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

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Southeast Local School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

In a separate letter to the District's management dated December 16, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001.

In a separate letter to the District's management dated December 16, 2005, we reported an other matter related to noncompliance we deemed immaterial.

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

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

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

Betty Montgomery
Auditor of State

December 16, 2005



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Southeast Local School District, Wayne County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District's complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

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

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Southeast Local School District
Wayne County
Independent Accountants' Report on Compliance with Requirement
Applicable to the Major Federal Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133

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

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

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

Betty Montgomery
Auditor of State

December 16, 2005

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2005-001

Noncompliance Citation

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

FINDING NUMBER 2005-001 (Continued)

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" Certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Nineteen of forty-two (45%) expenditures tested were not certified by the Treasurer prior to incurring the commitment and the three exceptions noted above were not utilized. The District should certify the availability of funds for expenditures and also implement the use of Then and Now Certificates, Blanket Certificates, and Super Blanket Certificates as further permitted by Ohio Rev. Code Section 5705.41.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
FISCAL YEAR END JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code Section 5705.41(D), expenditures were not properly certified by the Treasurer prior to incurring the obligation	No	Not Corrected. Finding repeated for the 2005 fiscal year as Finding Number 2005-001.



**Auditor of State
Betty Montgomery**

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SOUTHEAST LOCAL SCHOOL DISTRICT

WAYNE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 12, 2006**