

***SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO***

**AUDIT REPORT**

**For the Year Ended June 30, 2006**

***Charles E. Harris & Associates, Inc.***  
**Certified Public Accountants and Government Consultants**





Mary Taylor, CPA  
Auditor of State

Board of Education  
Seneca East Local School District  
109 Seneca Street  
P.O. Box 462  
Attica, Ohio 44807

We have reviewed the *Report of Independent Accountants* of the Seneca East Local School District, Seneca County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

April 11, 2007

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**SENECA EAST LOCAL SCHOOL DISTRICT**  
**AUDIT REPORT**  
**For the Year Ended June 30, 2006**

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*Charles E. Harris & Associates, Inc.*  
*Certified Public Accountants*

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**REPORT OF INDEPENDENT ACCOUNTANTS**

Seneca East Local School District  
Seneca County  
109 Seneca Street  
P.O. Box 462  
Attica, Ohio

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Seneca East Local School District, Seneca County, Ohio, (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Seneca East Local School District, Seneca County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof and the respective budgetary position for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally on inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 31, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Charles E. Harris & Associates, Inc.*  
January 31, 2007

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED**

The discussion and analysis of the Seneca East 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, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities increased \$820,540 which represents a 4.21% increase from 2005.
- General revenues accounted for \$7,397,442 in revenue or 82.13% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,609,337 or 17.87% of total revenues of \$9,006,799.
- The District had \$8,186,239 in expenses related to governmental activities; \$1,609,337 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$7,397,442 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and classroom facilities fund. The general fund had \$7,175,766 in revenues and \$7,271,821 in expenditures and other financing uses. During fiscal year 2006, the general fund's fund balance decreased \$96,055 from a balance of \$16,063 to a deficit balance of \$79,992.
- The District's classroom facilities fund had \$16,233,916 in revenues and other financing sources and \$11,063,769 in expenditures. During fiscal year 2006, the classroom facilities fund's fund balance increased \$5,170,147 from a balance of \$9,965,078 to a balance of \$15,135,225.

**Using these Basic Financial Statements**

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

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



**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operations and maintenance, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 12-13 of this report.

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

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

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 14-18 of this report.

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 19 and 20. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-49 of this report.

**The District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2006 and 2005.

	Net Assets	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 32,463,705	\$ 30,731,560
Capital assets	<u>3,676,754</u>	<u>1,437,576</u>
Total assets	<u>36,140,459</u>	<u>32,169,136</u>
<b><u>Liabilities</u></b>		
Current liabilities	3,280,005	2,974,153
Long-term liabilities	<u>12,533,301</u>	<u>9,688,370</u>
Total liabilities	<u>15,813,306</u>	<u>12,662,523</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	1,047,684	1,141,797
Restricted	19,935,023	18,755,636
Unrestricted (deficit)	<u>(655,554)</u>	<u>(390,820)</u>
Total net assets	<u>\$ 20,327,153</u>	<u>\$ 19,506,613</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$20,327,153. Of this total, \$19,935,023 is restricted in use.

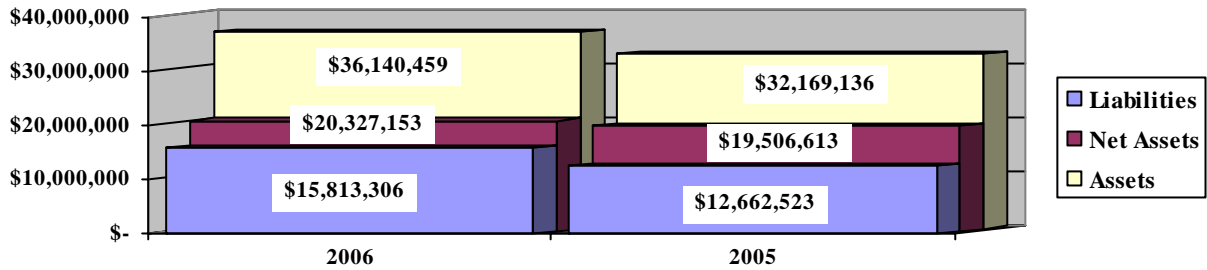
At year-end, capital assets represented 10.17% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$1,047,684. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$19,935,023, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$655,554.

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED

**Governmental Activities**



The table below shows the change in net assets for fiscal year 2006 and 2005.

**Change in Net Assets**

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 1,091,830	\$ 1,094,828
Operating grants and contributions	505,219	582,249
Capital grants and contributions	12,288	-
General revenues:		
Property taxes	2,111,942	1,809,123
School district income tax	842,454	804,343
Grants and entitlements	3,892,086	3,685,577
Grants for Ohio Schools Facilities construction	-	18,651,770
Investment earnings	538,098	24,238
Other	12,862	9,212
Total revenues	<u>9,006,779</u>	<u>26,661,340</u>

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED**

	Change in Net Assets	
	Governmental	Governmental
	Activities	Activities
	<u>2006</u>	<u>2005</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 3,704,224	\$ 3,822,660
Special	873,423	884,413
Vocational	185,888	193,319
Other	19,326	-
Support services:		
Pupil	88,221	84,215
Instructional staff	340,857	289,131
Board of education	19,832	45,583
Administration	594,030	598,558
Fiscal	226,775	181,542
Operations and maintenance	591,878	557,336
Pupil transportation	583,205	502,031
Operations of non-instructional services	-	17,355
Food service operations	359,454	333,408
Extracurricular activities	313,847	295,675
Interest and fiscal charges	<u>285,279</u>	<u>55,809</u>
Total expenses	<u>8,186,239</u>	<u>7,861,035</u>
Change in net assets	820,540	18,800,305
Net assets at beginning of year	<u>19,506,613</u>	<u>706,308</u>
Net assets at end of year	<u>\$ 20,327,153</u>	<u>\$ 19,506,613</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$820,540. Total governmental expenses of \$8,186,239 were offset by program revenues of \$1,609,337 and general revenues of \$7,379,442. Program revenues supported 19.66% of the total governmental expenses.

The District received \$17,516,270 in revenue from the Ohio School Facilities Commission in fiscal year 2005. This was a one-time grant, causing the decrease in revenues between fiscal year 2006 and 2005. All other revenue amounts remained consistent.

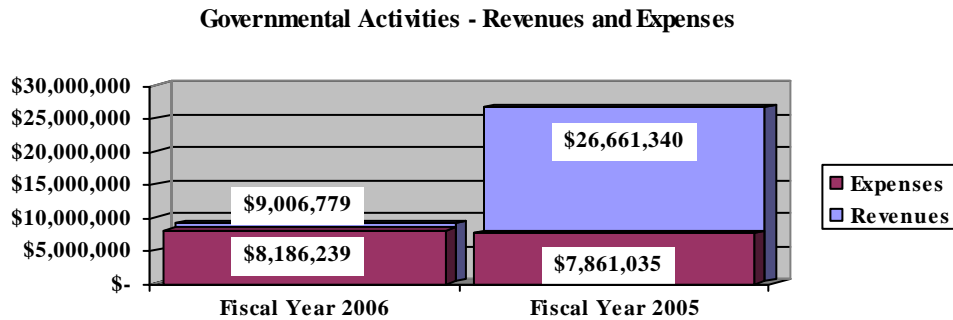
The primary sources of revenue for governmental activities in fiscal year 2006 are derived from property taxes, the school district income tax and grants and entitlements. These revenue sources represent 76.01% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,782,861 or 58.43% of total governmental expenses for fiscal 2006.

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2006 and 2005.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**Governmental Activities**

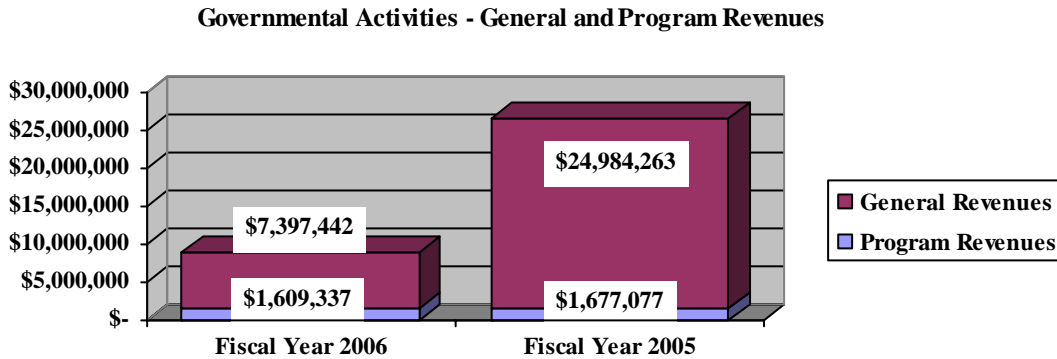
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2006	2006	2005	2005
<b>Program expenses</b>				
Instruction:				
Regular	\$ 3,704,224	\$ 2,935,716	\$ 3,822,660	\$ 3,023,525
Special	873,423	571,122	884,413	586,013
Vocational	185,888	185,888	193,319	193,319
Other	19,326	19,326	-	-
Support services:				
Pupil	88,221	87,863	84,215	84,034
Instructional staff	340,857	311,902	289,131	247,714
Board of education	19,832	19,832	45,583	45,583
Administration	594,030	588,426	598,558	559,217
Fiscal	226,775	226,775	181,542	178,217
Operations and maintenance	591,878	590,862	557,336	555,347
Pupil transportation	583,205	582,703	502,031	501,219
Operations of non-instructional services	-	-	17,355	17,355
Food service operations	359,454	(8,302)	333,408	(24,767)
Extracurricular activities	313,847	179,510	295,675	161,373
Interest and fiscal charges	285,279	285,279	55,809	55,809
<b>Total expenses</b>	<b>\$ 8,186,239</b>	<b>\$ 6,576,902</b>	<b>\$ 7,861,035</b>	<b>\$ 6,183,958</b>

The dependence upon tax and other general revenues for governmental activities is apparent, 77.61% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 80.34%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED**

The graph below presents the District's governmental activities revenue for fiscal year 2006 and 2005.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$18,582,560, which is higher than last year's total of \$10,203,272. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance (Deficit) June 30, 2006	Fund Balance June 30, 2005	Increase (Decrease)	Percentage Change
General	\$ (79,992)	\$ 16,063	\$ (96,055)	(597.99) %
Classroom Facilities	15,135,225	9,965,078	5,170,147	51.88 %
Other Governmental	3,527,327	222,131	3,305,196	1,487.95 %
<b>Total</b>	<b>\$ 18,582,560</b>	<b>\$ 10,203,272</b>	<b>\$ 8,379,288</b>	<b>82.12 %</b>

**General Fund**

The District's general fund balance decreased \$96,055. The decrease in fund balance can be attributed to several items related to expenditures increasing faster than revenues. Expenditures exceeded revenues for fiscal year 2006 by \$34,055. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED

	2006	2005	Increase	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>(Decrease)</u>	<u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 2,588,251	\$ 2,575,835	\$ 12,416	0.48 %
Earnings on investments	17,862	6,346	11,516	181.47 %
Intergovernmental	3,853,434	3,685,577	167,857	4.55 %
Other revenues	<u>716,219</u>	<u>715,275</u>	<u>944</u>	0.13 %
<b>Total</b>	<b><u>\$ 7,175,766</u></b>	<b><u>\$ 6,983,033</u></b>	<b><u>\$ 192,733</u></b>	<b>2.76 %</b>
<b><u>Expenditures</u></b>				
Instruction	\$ 4,619,865	\$ 4,422,503	\$ 197,362	4.46 %
Support services	2,376,580	2,119,275	257,305	12.14 %
Extracurricular activities	165,961	158,613	7,348	4.63 %
Debt service	<u>47,415</u>	<u>51,366</u>	<u>(3,951)</u>	(7.69) %
<b>Total</b>	<b><u>\$ 7,209,821</u></b>	<b><u>\$ 6,751,757</u></b>	<b><u>\$ 458,064</u></b>	<b>6.78 %</b>

***Classroom Facilities Fund***

The District's classroom facilities fund had \$16,233,916 in revenues and other financing sources and \$11,063,769 in expenditures. During fiscal year 2006, the classroom facilities fund's fund balance increased \$5,170,147 from a balance of \$9,965,078 to a balance of \$15,135,225. The increase is primarily due the issuance of \$11,845,986 in general obligation bonds related to the District's building project.

***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 2006, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$7,061,170 and final budgeted revenues and other financing sources were \$7,236,017. Actual revenues and other financing sources for fiscal 2006 was \$7,145,817. This represents a \$90,200 decrease over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$7,014,525 were decreased to \$7,170,525 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$7,313,888, which was \$143,363 above the final budgeted appropriations.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2006, the District had \$3,676,754 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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**Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities	
		Restated
	2006	2005
Land	\$ 75,706	\$ 75,706
Land improvements	9,158	9,943
Building and improvements	558,911	596,660
Furniture and equipment	331,904	392,092
Vehicles	133,182	171,973
Construction in progress	<u>2,567,893</u>	<u>191,202</u>
Total	<u>\$ 3,676,754</u>	<u>\$ 1,437,576</u>

The overall increase in capital assets of \$2,239,178 is due to capital outlays of \$2,378,741 exceeding depreciation expense of \$139,563 in the fiscal year. The increase in capital outlay is a result of construction in progress associated with the Ohio Schools Facilities Commission construction project for the new building.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

***Debt Administration***

At June 30, 2006, the District had \$11,853,643 in capital appreciation bonds and \$61,177 in capital lease obligations outstanding. Of this total, \$240,833 is due within one year and \$11,673,987 is due within greater than one year. The following table summarizes the notes and lease obligations outstanding.

**Outstanding Debt, at Year End**

	Governmental	Governmental
	Activities	Activities
	2006	2005
Bond anticipation notes	\$ -	\$ 9,000,000
General obligation bonds	11,853,643	-
Capital lease obligations	<u>61,177</u>	<u>104,577</u>
Total	<u>\$ 11,914,820</u>	<u>\$ 9,104,577</u>

See Note 11 to the basic financial statements for additional information on the District's debt administration.



**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED**

**Current Financial Related Activities**

As the preceding information shows, the District relies heavily upon state foundation monies \$3,647,775 (51% of revenues), general property tax \$1,927,576 (27%), income tax \$832,559 (12%), and open enrollment and miscellaneous revenues \$726,679 (10%) making up the remaining balance. The District ended fiscal year 2006 with a cash balance in the General Fund of \$241,831. This decrease over the previous year's cash balance of \$292,821 is primarily due to a decrease in state funding and the new CAUV calculations.

As a result of the declining cash balance, state support and the new CAUV calculations, the Board of Education made approximately \$500,000 in cuts for fiscal year 2007. These cuts included the reduction in force of both certified and non-certified employees and the closing of the Seneca Huron Elementary School building. Since the District passed a levy in February of 2005 for a new building through the Ohio School Facilities Commission, money spent at the current time out of the general fund for non-routine repairs and capital improvement items will continue to be reduced. In addition, the operating costs at one site compared to the two sites we operate now are expected to be less. Currently, the District is hoping for a move in date of January 2008 for the new school.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Laura Brickner, Treasurer, Seneca East Local School District, 109 Seneca Street, P.O. Box 462, Attica, Ohio 44807.

**BASIC  
FINANCIAL STATEMENTS**

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2006

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 19,253,933
Cash with fiscal agent. . . . .	901
Cash in segregated accounts . . . . .	11,516
Receivables:	
Taxes. . . . .	2,435,189
Intergovernmental . . . . .	10,559,909
Accrued interest . . . . .	85,391
Prepayments . . . . .	80,538
Materials and supplies inventory . . . . .	36,328
Capital assets:	
Land . . . . .	75,706
Construction in progress . . . . .	2,567,893
Depreciable capital assets, net . . . . .	1,033,155
Capital assets, net. . . . .	3,676,754
 Total assets. . . . .	 36,140,459
<b>Liabilities:</b>	
Accounts payable. . . . .	19,730
Contracts payable. . . . .	403,559
Retainage payable . . . . .	11,516
Accrued wages and benefits . . . . .	589,723
Pension obligation payable. . . . .	168,884
Intergovernmental payable . . . . .	71,506
Deferred revenue . . . . .	1,982,273
Accrued interest payable . . . . .	32,814
Long-term liabilities:	
Due within one year. . . . .	297,753
Due in more than one year . . . . .	12,235,548
Total liabilities . . . . .	15,813,306
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	1,047,684
Restricted for:	
Debt service . . . . .	131,198
Capital projects . . . . .	19,508,258
State funded programs . . . . .	23,234
Federally funded programs . . . . .	20,710
Student activities . . . . .	11,307
Other purposes . . . . .	240,316
Unrestricted (deficit) . . . . .	(655,554)
Total net assets . . . . .	\$ 20,327,153

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 3,704,224	\$ 704,096	\$ 52,124	\$ 12,288	\$ (2,935,716)
Special . . . . .	873,423	-	302,301	-	(571,122)
Vocational . . . . .	185,888	-	-	-	(185,888)
Other . . . . .	19,326	-	-	-	(19,326)
Support services:					
Pupil . . . . .	88,221	-	358	-	(87,863)
Instructional staff . . . . .	340,857	-	28,955	-	(311,902)
Board of education . . . . .	19,832	-	-	-	(19,832)
Administration . . . . .	594,030	-	5,604	-	(588,426)
Fiscal . . . . .	226,775	-	-	-	(226,775)
Operations and maintenance . . . . .	591,878	-	1,016	-	(590,862)
Pupil transportation . . . . .	583,205	-	502	-	(582,703)
Food service operations . . . . .	359,454	253,397	114,359	-	8,302
Extracurricular activities . . . . .	313,847	134,337	-	-	(179,510)
Interest and fiscal charges . . . . .	285,279	-	-	-	(285,279)
<b>Total governmental activities . . . . .</b>	<b>\$ 8,186,239</b>	<b>\$ 1,091,830</b>	<b>\$ 505,219</b>	<b>\$ 12,288</b>	<b>(6,576,902)</b>

**General Revenues:**

Property taxes levied for:	
General purposes . . . . .	1,715,878
Special revenue . . . . .	4,134
Debt service . . . . .	391,930
School district income tax . . . . .	842,454
Grants and entitlements not restricted to specific programs . . . . .	3,892,086
Investment earnings . . . . .	538,098
Miscellaneous . . . . .	12,862
<b>Total general revenues . . . . .</b>	<b>7,397,442</b>
Change in net assets . . . . .	820,540
<b>Net assets at beginning of year . . . . .</b>	<b>19,506,613</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 20,327,153</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 192,447	\$ 15,481,897	\$ 3,530,205	\$ 19,204,549
Cash with fiscal agent . . . . .	-	-	901	901
Cash in segregated accounts . . . . .	-	-	11,516	11,516
Receivables:				
Taxes. . . . .	2,042,057	-	393,132	2,435,189
Intergovernmental . . . . .	-	10,503,666	56,243	10,559,909
Accrued interest . . . . .	-	85,391	-	85,391
Interfund receivable . . . . .	14,380	-	-	14,380
Prepayments . . . . .	55,788	24,750	-	80,538
Materials and supplies inventory . . . . .	25,858	-	10,470	36,328
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	49,384	-	-	49,384
<b>Total assets . . . . .</b>	<u>\$ 2,379,914</u>	<u>\$ 26,095,704</u>	<u>\$ 4,002,467</u>	<u>\$ 32,478,085</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 7,159	\$ 11,572	\$ 999	\$ 19,730
Contracts payable . . . . .	-	403,559	-	403,559
Retainage payable . . . . .	-	-	11,516	11,516
Accrued wages and benefits . . . . .	535,711	-	54,012	589,723
Compensated absences payable . . . . .	43,663	-	-	43,663
Pension obligation payable. . . . .	152,798	-	16,086	168,884
Intergovernmental payable. . . . .	44,575	22,702	4,229	71,506
Interfund payable. . . . .	-	-	14,380	14,380
Deferred revenue. . . . .	1,676,000	10,522,646	373,918	12,572,564
<b>Total liabilities . . . . .</b>	<u>2,459,906</u>	<u>10,960,479</u>	<u>475,140</u>	<u>13,895,525</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	46,488	245,509	3,415	295,412
Reserved for materials and supplies inventory. . . . .	25,858	-	10,470	36,328
Reserved for prepayments . . . . .	55,788	24,750	-	80,538
Reserved for property tax unavailable for appropriation . . . . .	96,589	-	21,421	118,010
Reserved for debt service. . . . .	-	-	99,791	99,791
Reserved for textbooks. . . . .	49,384	-	-	49,384
Unreserved, undesignated (deficit), reported in:				
General fund . . . . .	(354,099)	-	-	(354,099)
Special revenue funds. . . . .	-	-	230,936	230,936
Capital projects funds. . . . .	-	14,864,966	3,161,294	18,026,260
<b>Total fund balances (deficit) . . . . .</b>	<u>(79,992)</u>	<u>15,135,225</u>	<u>3,527,327</u>	<u>18,582,560</u>
<b>Total liabilities and fund balances . . . . .</b>	<u>\$ 2,379,914</u>	<u>\$ 26,095,704</u>	<u>\$ 4,002,467</u>	<u>\$ 32,478,085</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006

<b>Total governmental fund balances</b>		\$	18,582,560
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			3,676,754
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	65,438	
Intergovernmental revenue		10,505,873	
Accrued interest		18,980	
Total			10,590,291
In the statement of activities interest is accrued on outstanding bonds, whereas in the governmental funds, interest expenditures are reported when due			(32,814)
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		(574,818)	
General obligation bonds payable		(11,853,643)	
Capital lease obligation payable		(61,177)	
Total			(12,489,638)
<b>Net assets of governmental activities</b>		\$	20,327,153

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 2,588,251	\$ -	\$ 384,184	\$ 2,972,435
Tuition. . . . .	646,244	-	-	646,244
Charges for services. . . . .	-	-	253,397	253,397
Earnings on investments. . . . .	17,862	447,210	54,046	519,118
Classroom materials and fees . . . . .	38,430	-	-	38,430
Extracurricular. . . . .	-	-	133,687	133,687
Other local revenues. . . . .	31,545	-	1,389	32,934
Intergovernmental - State. . . . .	3,853,434	7,012,604	84,198	10,950,236
Intergovernmental - Federal . . . . .	-	-	473,080	473,080
Total revenue . . . . .	<u>7,175,766</u>	<u>7,459,814</u>	<u>1,383,981</u>	<u>16,019,561</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	3,818,805	-	60,703	3,879,508
Special. . . . .	599,839	-	271,384	871,223
Vocational. . . . .	181,895	-	-	181,895
Other. . . . .	19,326	-	-	19,326
Support services:				
Pupil. . . . .	86,449	-	360	86,809
Instructional staff . . . . .	318,355	-	14,299	332,654
Board of education . . . . .	19,832	-	-	19,832
Administration. . . . .	601,278	-	533	601,811
Fiscal . . . . .	218,996	-	7,878	226,874
Operations and maintenance. . . . .	587,209	-	104	587,313
Pupil transportation . . . . .	544,461	-	505	544,966
Food service operations . . . . .	-	-	354,355	354,355
Extracurricular activities. . . . .	165,961	-	135,163	301,124
Facilities acquisition and construction . . . . .	-	2,063,769	77,654	2,141,423
Debt service:				
Principal retirement . . . . .	43,400	9,000,000	-	9,043,400
Interest and fiscal charges . . . . .	4,015	-	294,164	298,179
Total expenditures . . . . .	<u>7,209,821</u>	<u>11,063,769</u>	<u>1,217,102</u>	<u>19,490,692</u>
Excess of revenues under expenditures . . . . .	<u>(34,055)</u>	<u>(3,603,955)</u>	<u>166,879</u>	<u>(3,471,131)</u>
<b>Other financing sources (uses):</b>				
Accrued interest on bonds . . . . .	-	-	4,433	4,433
Sale of bonds . . . . .	-	8,774,102	3,071,884	11,845,986
Transfers in . . . . .	-	-	62,000	62,000
Transfers (out). . . . .	<u>(62,000)</u>	<u>-</u>	<u>-</u>	<u>(62,000)</u>
Total other financing sources (uses) . . . . .	<u>(62,000)</u>	<u>8,774,102</u>	<u>3,138,317</u>	<u>11,850,419</u>
Net change in fund balances . . . . .	(96,055)	5,170,147	3,305,196	8,379,288
<b>Fund balances at beginning of year . . . . .</b>	<u>16,063</u>	<u>9,965,078</u>	<u>222,131</u>	<u>10,203,272</u>
<b>Fund balances (deficit) at end of year . . . . .</b>	<u>\$ (79,992)</u>	<u>\$ 15,135,225</u>	<u>\$ 3,527,327</u>	<u>\$ 18,582,560</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**Net change in fund balances - total governmental funds** \$ 8,379,288

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

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

Capital asset additions	\$	2,378,741	
Current year depreciation		<u>(139,563)</u>	
 Total			 2,239,178

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

Taxes		(18,039)	
Intergovernmental		(7,013,723)	
Accrued interest		<u>18,980</u>	
 Total			 (7,012,782)

Proceeds of bonds are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. (11,845,986)

Repayment of note and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 9,043,400

Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The following items resulted in additional interest being reported on the statement of activities:

Accreted interest on capital appreciation bonds		(7,657)	
Increase in accrued interest payable		<u>16,124</u>	
 Total			 8,467

Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 8,975

**Change in net assets of governmental activities** \$ 820,540

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 2,515,327	\$ 2,650,959	\$ 2,545,479	\$ (105,480)
Tuition. . . . .	638,589	646,244	646,244	-
Earnings on investments. . . . .	17,688	12,139	17,900	5,761
Classroom materials and fees . . . . .	37,975	37,232	38,430	1,198
Other local revenues . . . . .	31,171	38,394	31,545	(6,849)
Intergovernmental - State . . . . .	3,807,787	3,838,264	3,853,434	15,170
Total revenue . . . . .	<u>7,048,537</u>	<u>7,223,232</u>	<u>7,133,032</u>	<u>(90,200)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	3,790,008	3,872,514	3,868,240	4,274
Special. . . . .	584,966	597,701	597,041	660
Vocational. . . . .	176,427	180,267	180,068	199
Other. . . . .	18,668	19,075	19,053	22
Support services:				
Pupil. . . . .	84,174	86,006	85,911	95
Instructional staff . . . . .	311,320	318,098	317,747	351
Board of education . . . . .	19,525	19,537	19,928	(391)
Administration. . . . .	573,132	585,608	584,961	647
Fiscal . . . . .	216,655	221,372	221,127	245
Operations and maintenance. . . . .	584,859	597,591	596,932	659
Pupil transportation . . . . .	567,829	580,191	579,550	641
Extracurricular activities. . . . .	163,574	167,135	166,950	185
Total expenditures . . . . .	<u>7,091,135</u>	<u>7,245,094</u>	<u>7,237,508</u>	<u>7,586</u>
Excess of revenues over (under) expenditures. . . . .	<u>(42,598)</u>	<u>(21,862)</u>	<u>(104,476)</u>	<u>(82,614)</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure. . . . .	10,636	10,764	10,764	-
Transfers (out) . . . . .	(60,747)	(62,069)	(62,000)	69
Advances in. . . . .	1,997	2,021	2,021	-
Advances (out) . . . . .	(14,089)	(14,396)	(14,380)	16
Total other financing sources (uses) . . . . .	<u>(62,203)</u>	<u>(63,680)</u>	<u>(63,595)</u>	<u>85</u>
Net change in fund balance . . . . .	(104,801)	(85,541)	(168,071)	(82,530)
<b>Fund balance at beginning of year . . . . .</b>	208,817	208,817	208,817	-
<b>Prior year encumbrances appropriated . . . . .</b>	151,446	151,446	151,446	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 255,462</u>	<u>\$ 274,722</u>	<u>\$ 192,192</u>	<u>\$ (82,530)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 106,004	\$ 42,931
Total assets. . . . .	106,004	\$ 42,931
<b>Liabilities:</b>		
Accounts payable. . . . .	-	\$ 7,876
Due to students . . . . .	-	35,055
Total liabilities . . . . .	-	\$ 42,931
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	106,004	
Total net assets . . . . .	\$ 106,004	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 1,902
Gifts and contributions. . . . .	15,105
	17,007
<b>Deductions:</b>	
Scholarships awarded . . . . .	10,669
	6,338
Change in net assets . . . . .	99,666
<b>Net assets at beginning of year. . . . .</b>	<b>99,666</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 106,004</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

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

The District was established in 1971. The District serves an area of approximately 154 square miles and is located in Seneca and Huron Counties. The District is the 494<sup>th</sup> largest in the State of Ohio among the 615 public school districts in terms of enrollment. It is staffed by 76 certified employees and 49 non-certified teaching personnel who provide services to 992 students and other community members. The District currently operates 2 elementary schools, an elementary/junior high school, a high school, and an administration building.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed 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 not legally separate from the District. For the District, this includes general operations, food services, 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 organizations' government 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; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

*JOINTLY GOVERNED ORGANIZATIONS*

Northern Ohio Educational Computer Association (NOECA)

The District is a participant in the Northern Ohio Educational Computer Association (NOECA), which is a computer consortium. NOECA is an association of thirty-eight public school districts formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Vanguard-Sentinel Career Center

The Vanguard-Sentinel Career Center (Career Center) is a distinct political subdivision of the State of Ohio, which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of one representative from the Seneca East Local School District, one representative from twelve other participating school districts, and two representatives from the Fremont City School District. The degree of control exercised by any participating school district is limited to its representation on the Board. The Career Center is its own budgeting and taxing authority. Financial information can be obtained from Jay Valasek, Vanguard-Sentinel Career Center, 1306 Cedar Street, Fremont, Ohio 43420.

Bay Area Council

The Bay Area Council was established in 1986 to carry out a cooperative program for the purchase of natural gas among boards of education located in Erie, Huron, Ottawa, Sandusky, Seneca, and Wood Counties. The Bay Area Council is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member boards of education. The Bay Area Council is governed by a Board of Directors. This Board is elected by an Assembly consisting of a representative from each participating school district. Financial information can be obtained from the Erie County Educational Service Center, who serves as fiscal agent, 2902 Columbus Avenue, Sandusky, Ohio 44870.

Northwestern Ohio Educational Research Council, Incorporated

The Northwestern Ohio Educational Research Council, Inc. is a non-profit organization under the direction of a Board of Directors. The Council was formed to provide conferences and training to personnel of the participating districts. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. To obtain financial information write to the Northwestern Ohio Educational Research Council, Inc., David G. Elsass, Treasurer, at P.O. Box 456, Ashland, Ohio 44805.

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

*RELATED ORGANIZATION*

Seneca East Public Library

The Seneca East Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Seneca East Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. Although the District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Seneca East Public Library, Ernestine Walliser, who serves as Clerk-Treasurer, 14 North Main Street, Attica, Ohio 44807.

*INSURANCE PURCHASING POOLS*

North Central Ohio Joint Self-Insurance Association (the "Association")

The Association is a public entity risk pool consisting of the North Central Ohio Educational Service Center, the Sandusky County Educational Service Center, and five local school districts – Tiffin, Old Fort, Bettsville, Seneca East, and New Riegel. The Association was established pursuant to Section 9.833, Ohio Revised Code, in order to act as a common risk management and insurance program. The Association's Board of Directors is comprised of one member from each of the local school districts, the North Central Ohio Educational Service Center, and the Sandusky County Educational Service Center. The North Central Ohio Educational Service Center acts as fiscal agent to the Association. Refer to Note 12.B for further information on this public entity risk pool.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Refer to Note 12.C. for further information on this group rating plan.

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

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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

Classroom Facilities - This fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio School Facilities Commission for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

*PROPRIETARY FUND*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. 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. Basis of Presentation and Measurement Focus**

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 government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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.

**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

*Fund Financial Statements* - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

The private-purpose trust fund is reported using the economic resources measurement focus. The agency fund does not report a measurement focus as it does not report operations.

**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 the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from income taxes is recognized in the fiscal year in which the underlying exchange transaction is accrued (see Note 7).

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

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



**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, (see Note 6) have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2006 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Seneca County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final amended certificates issued for fiscal year 2006.

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2006; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

As part of formal budgetary control, purchase orders, contracts and other commitment for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent year expenditures.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

Cash and cash equivalents held for the District by the North Central Ohio Educational Service Center are included on the statement of net assets as "Cash with Fiscal Agent".

During fiscal year 2006, investments were limited to federal securities, State Treasury Asset Reserve of Ohio (STAR Ohio), and a U.S. Government money market. These investments are reported at fair value, which is based on quoted market prices.

**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The District has invested funds in STAR Ohio during fiscal year 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund, capital projects fund and the private-purpose trust fund. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$17,862, which includes \$8,637 assigned from other funds.

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.

An analysis of the District's investment account at year-end is provided in Note 4.

**G. Inventory**

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

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicate that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

**H. Capital Assets**

General capital assets are those assets specifically related to activities reported in the governmental 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. The District maintains a capitalization threshold of \$1,500. Donated capital assets are recorded at their fair market values as of the date received. 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. The District does not possess infrastructure.

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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

Description	Governmental Activities Estimated Lives
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the statement of net assets.

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2006, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with ten or more years of service with the District were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**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 and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

**L. Fund Balance Reserves**

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, materials and supplies inventory, prepayments, debt service, textbooks and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**M. 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 when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**N. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At the fiscal year end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved on the fund financial statements by an amount equal to the carrying value of the assets.

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**O. Estimates**

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

**P. Interfund Activity**

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

Interfund activity between governmental funds is eliminated in the statement of activities.

**Q. 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 fiscal year 2006.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles**

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

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**B. Deficit Fund Balances**

Fund balances at June 30, 2006 included the following individual fund deficits:

	<u>Deficit</u>
General Fund	\$ 79,992
<u>Nonmajor Funds</u>	
Title I	12,061
Drug Free Schools	2,057
Classroom Reduction Grant	5,681

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 result from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

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

Protection of District's deposits is provided by 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.

**A. Cash on Hand**

At year-end, the District had \$2,420 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."



**SENECA EAST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**B. Cash with Fiscal Agent**

At fiscal year-end, the District had \$901 in cash and cash equivalents held by the North Central Ohio Educational Service Center. This amount is included on the balance sheet as "Cash with Fiscal Agent". The North Central Ohio Educational Service Center holds this flow through grant money for the District together with that of other school districts and therefore the District cannot classify this money by risk under GASB Statement No. 3.

**C. Cash in Segregated Accounts**

At June 30, 2006, the District had \$11,516 on deposit in retainage accounts related to the Ohio School Facilities Construction Project. This amount is included on the financial statements as "cash in segregated accounts" and is included in deposits with financial institutions below.

**D. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$5,896,827. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$5,648,443 of the District's bank balance of \$5,929,879 was exposed to custodial risk as discussed below, while \$281,436 was covered by Federal Deposit Insurance Corporation.

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

**E. Investments**

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment</u>
		<u>Maturities</u>
		6 months or less
FHLB Discount Note	\$ 2,992,800	\$ 2,992,800
FHLB	1,496,700	1,496,700
FHLM	2,977,870	2,977,870
FNMA Discount Note	2,484,000	2,484,000
FNMA	1,998,400	1,998,400
U.S. Government Money Market	283,441	283,441
STAR Ohio	1,270,410	1,270,410
	<u>\$13,503,621</u>	<u>\$ 13,503,621</u>

The weighted average maturity of investments is .19 years.

**SENECA EAST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* The District's investments, except for STAR Ohio, were rated AAA and Aaa by Standard and Poor's and Moody's Investor Services respectively. Standard and Poor's has assigned STAR Ohio an AAAM money market rating.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB Discount Note	\$ 2,992,800	22.16
FHLB	1,496,700	11.08
FHLM	2,977,870	22.05
FNMA Discount Note	2,484,000	18.40
FNMA	1,998,400	14.80
U.S. Government Money Market	283,441	2.10
STAR Ohio	1,270,410	9.41
	<u>\$ 13,503,621</u>	<u>100.00</u>

**F. Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	\$ 5,896,827
Investments	13,503,621
Cash on hand	2,420
Cash with fiscal agent	901
Cash in segregated accounts	<u>11,516</u>
Total	<u>\$ 19,415,285</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 19,266,350
Private-purpose trust funds	106,004
Agency funds	<u>42,931</u>
Total	<u>\$ 19,415,285</u>

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:			
General Fund			\$ 62,000

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

- B. Interfund balances at June 30, 2006 as reported on the fund statements consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>		<u>Payable Fund</u>		
General Fund		Nonmajor governmental funds		\$ 14,380

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the statement of net assets.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 6 - PROPERTY TAXES - (Continued)**

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006 on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Seneca and Huron Counties. The 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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date tax bills are sent.

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

The amount available as an advance at June 30, 2006 was \$96,589 in the general fund \$1,218 in the classroom facilities maintenance fund and \$20,203 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$72,712 in the general fund and \$19,492 in the permanent improvement fund.

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

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 6 - PROPERTY TAXES - (Continued)**

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

	2005 Second		2006 First	
	Half Collections		Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 78,356,316	86.23	\$ 78,828,060	88.12
Public utility personal	10,206,890	11.24	9,167,830	10.25
Tangible personal property	<u>2,300,569</u>	<u>2.53</u>	<u>1,459,669</u>	<u>1.63</u>
<b>Total</b>	<b>\$ 90,863,775</b>	<b>100.00</b>	<b>\$ 89,455,559</b>	<b>100.00</b>
Tax rate per \$1,000 of assessed valuation				
	\$ 30.30		\$ 38.99	

**NOTE 7 - SCHOOL DISTRICT INCOME TAX**

The voters of the District passed a 1% school district income tax at the November 7, 2000 election that became effective January 1, 2001. This tax is effective for five years and renewed upon election in November 2005. School district income tax revenue received by the general fund during fiscal year 2006 was \$842,454.

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2006 consisted of property and income taxes, accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

<b>Governmental Activities:</b>		
Taxes		\$ 2,435,189
Accrued interest		85,391
Intergovernmental		<u>10,559,909</u>
<b>Total</b>		<b>\$ 13,080,489</b>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

**SENECA EAST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 9 - CAPITAL ASSETS**

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

	Balance <u>06/30/05</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>06/30/06</u>
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 75,706	\$ -	\$ -	\$ 75,706
Construction in progress	191,202	2,376,691	-	2,567,893
Total capital assets, not being depreciated	<u>266,908</u>	<u>2,376,691</u>	<u>-</u>	<u>2,643,599</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	27,500	-	-	27,500
Buildings and improvements	1,538,332	-	-	1,538,332
Furniture and equipment	1,124,824	2,050	(6,337)	1,120,537
Vehicles	910,808	-	-	910,808
Total capital assets, being depreciated	<u>3,601,464</u>	<u>2,050</u>	<u>(6,337)</u>	<u>3,597,177</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(17,557)	(785)	-	(18,342)
Buildings and improvements	(941,672)	(37,749)	-	(979,421)
Furniture and equipment	(732,732)	(62,238)	6,337	(788,633)
Vehicles	(738,835)	(38,791)	-	(777,626)
Total accumulated depreciation	<u>(2,430,796)</u>	<u>(139,563)</u>	<u>6,337</u>	<u>(2,564,022)</u>
Governmental activities capital assets, net	<u>\$ 1,437,576</u>	<u>\$ 2,239,178</u>	<u>\$ -</u>	<u>\$ 3,676,754</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 62,645
Special	1,558
Vocational	2,514
<u>Support Services:</u>	
Pupil	289
Instructional staff	4,799
Administration	6,633
Operations and Maintenance	3,611
Pupil transportation	41,170
Extracurricular	12,723
Food service operations	3,621
Total depreciation expense	<u>\$ 139,563</u>

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE**

During fiscal 2003 and 2004, the District entered into capitalized leases for physical fitness equipment. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of furniture and equipment have been capitalized in the amount of \$268,183. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2006 was \$82,623, leaving a current book value of \$185,560. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2006 fiscal year totaled \$43,400 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2006:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 23,157
2008	19,612
2009	19,612
2010	<u>3,267</u>
Total minimum lease payments	65,648
Less amount representing interest	<u>(4,471)</u>
Total	<u>\$ 61,177</u>

**NOTE 11 - LONG-TERM OBLIGATIONS**

A. During fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	<u>Interest</u>	<u>Balance at</u>			<u>Balance at</u>	<u>Amounts</u>
	<u>Rate</u>	<u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/06</u>	<u>Due in</u>
						<u>One Year</u>
<b>Governmental Activities:</b>						
Bond anticipation notes	3.45%	\$ 9,000,000	\$ -	\$ (9,000,000)	\$ -	\$ -
General obligation bonds	3.5-4.8%	-	11,853,643	-	11,853,643	220,000
Capital lease		104,577	-	(43,400)	61,177	20,833
Compensated absences		<u>583,793</u>	<u>48,860</u>	<u>(14,172)</u>	<u>618,481</u>	<u>56,920</u>
Total governmental activities long-term liabilities		<u>\$ 9,688,370</u>	<u>\$ 11,902,503</u>	<u>\$ (9,057,572)</u>	<u>\$ 12,533,301</u>	<u>\$ 297,753</u>

**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

Bond Anticipation Notes: On May 3, 2005, the District issued \$9,000,000 in bond anticipation notes to begin various District building projects associated with the Ohio Schools Facilities Commission. The notes bear an annual interest rate of 3.45% and mature on November 3, 2005. The notes were retired using a portion of the proceeds from the District's \$11,845,986 bond issue on November 1, 2005.

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

- B.** On November 1, 2005, the District issued general obligation bonds. The issuance proceeds of \$11,845,986 were issued to finance the District's portion of the Ohio Schools Facilities Project, and retired the \$9,000,000 in bond anticipation notes issued on May 3, 2005. The principal balance of the general obligation bonds at June 30, 2006 was \$11,853,643, including \$7,657 of accreted interest.

The issue is comprised of both current interest bonds, par value \$11,800,000, and capital appreciation bonds, par value \$45,986. The capital appreciation bonds mature between 2019 and December 1, 2021 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2006 was \$45,986. Total accreted interest of \$7,657 has been included in the statement of activities.

The following is a schedule of activity for fiscal year 2006 on the 2006 series refunding bonds:

	Balance 06/30/05	Additions	Reductions	Balance 06/30/06
Current interest bonds	\$ -	\$ 11,800,000	\$ -	\$ 11,800,000
Capital appreciation bonds	-	53,643	-	53,643
<b>Total refunding bonds</b>	<b>\$ -</b>	<b>\$ 11,853,643</b>	<b>\$ -</b>	<b>\$ 11,853,643</b>

The following is a summary of the future debt service requirements to maturity for the 2006 series refunding bonds:

Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 220,000	\$ 500,432	\$ 720,432	\$ -	\$ -	\$ -
2008	250,000	492,207	742,207	-	-	-
2009	305,000	482,494	787,494	-	-	-
2010	315,000	471,644	786,644	-	-	-
2011	325,000	460,443	785,443	-	-	-
2012 - 2016	1,835,000	2,102,005	3,937,005	-	-	-
2017 - 2021	835,000	1,770,373	2,605,373	45,986	1,289,014	1,335,000
2022-2026	2,435,000	1,471,840	3,906,840	-	-	-
2027-2031	3,035,000	858,491	3,893,491	-	-	-
2032-2034	2,245,000	156,489	2,401,489	-	-	-
<b>Total</b>	<b>\$ 11,800,000</b>	<b>\$ 8,766,418</b>	<b>\$ 20,566,418</b>	<b>\$ 45,986</b>	<b>\$ 1,289,014</b>	<b>\$ 1,335,000</b>



**SENECA EAST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of the 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$8,170,994 (including available funds of \$119,994) an unvoted debt margin of \$89,456.

**NOTE 12 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the District contracted for the following insurance coverages:

Coverages provided by Lindsey Insurance are as follows:

Buildings and contents - replacement cost (\$2,500 deductible)	\$15,950,244
Computer equipment (\$250 deductible)	443,003
Contractor's equipment (\$250 deductible)	46,518
Miscellaneous radio (\$250 deductible)	17,213
Musical instruments	173,837
Automobile liability	1,000,000
Uninsured motorists	100,000
Medical payments - per person	5,000
Comprehensive (\$1,000 deductible)	
Collision (\$1,000 deductible)	
Umbrella liability	2,000,000 (per occurrence) 2,000,000 (aggregate)
General liability	1,000,000 (per occurrence) 2,000,000 (aggregate)
Professional errors and omissions	1,000,000 (each loss) 1,000,000 (aggregate)
Sexual misconduct liability	1,000,000 (each loss) 1,000,000 (aggregate)
Employers stop gap liability	1,000,000 (each accident loss) 1,000,000 (each employee limit) 2,000,000 (aggregate)

Coverages provided by Ohio Mutual Insurance Association are as follows:

Farm buildings and contents (\$100 deductible)	101,900
Crop hailstorm	17,500

Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in insurance coverage from last year.

**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 12 - RISK MANAGEMENT - (Continued)**

**B. Health Insurance**

The District joined together with other area school districts to form the North Central Ohio Joint-Self Insurance Association, a public entity risk pool for seven member school districts. The risk of loss transfers entirely to the pool. The pool is self-sustaining through member premiums. The District paid a monthly premium to the pool for health insurance. The agreement for formation of the pool provided that it will be self-sustaining through member premiums and the pool will purchase stop-loss insurance policies through commercial companies to cover claims in excess of \$50,000 for any employee.

**C. Workers' Compensation Plan**

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool (Note 2.A.). The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the Plan.

The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. 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 Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 13 - PENSION PLANS - (Continued)**

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. 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, 2006, 2005, and 2004 were \$97,211, \$105,250, and \$82,674, respectively; 46.60% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$51,909 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

**B. State Teachers Retirement System**

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 13 - PENSION PLANS - (Continued)**

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by 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 District's required contributions to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$460,505, \$446,004 and \$464,617, respectively; 83.41% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$76,392 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2006 were \$1,068 made by the District and \$5,784 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 14 - POSTEMPLOYMENT 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 reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$35,423 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. 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.

**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)**

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$49,056 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, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

While 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 and disbursements.

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) 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 account payable (GAAP basis).

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

<b>Net Change in Fund Balance</b>		<u>General Fund</u>
Budget basis		\$ (168,071)
Net adjustment for revenue accruals		42,734
Net adjustment for expenditure accruals		(21,952)
Net adjustment for other sources/uses		1,595
Adjustment for encumbrances		<u>49,639</u>
GAAP basis		<u>\$ (96,055)</u>

**NOTE 16 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

The District is involved in no material litigation as either plaintiff or defendant.

**NOTE 17 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ 80,165	\$ -
Current year set-aside requirement	139,764	139,764
Current year offsets	-	(124,385)
Qualifying disbursements	<u>(170,545)</u>	<u>(37,743)</u>
Total	<u>\$ 49,384</u>	<u>\$ (22,364)</u>
Cash balance carried forward to FY 2007	<u>\$ 49,384</u>	<u>\$ -</u>

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 17 - STATUTORY RESERVES - (Continued)**

The District did not have enough qualifying disbursements to reduce the set-aside amount below zero for the textbooks/instructional materials due to budget cuts. Restricted cash fund balance and a reservation of fund balance has been established in the General fund of \$49,384.

The District had enough qualifying expenditures to reduce the set-aside amount below zero for the capital acquisition reserve; however, this amount may not be carried forward to future years.

**NOTE 18 - CONTRACTUAL COMMITMENTS**

As of June 30, 2006, the District had the following contractual commitments outstanding related to the Construction Project described in Note 11.A. A summary of the primary contractual commitments follows:

	Contract	Amount Paid Through	Remaining Contract
<u>Contractor</u>	<u>Amount</u>	<u>June 30, 2006</u>	<u>Amount</u>
Mark Haynes	\$ 1,388,000	\$ 183,570	\$ 1,204,430
Adena	10,123,000	-	10,123,000
Guenther	3,577,000	-	3,577,000
Bromack	2,398,000	-	2,398,000
Vulcan	271,390	-	271,390
MJ Brown	1,351,000	-	1,351,000
Stone Creek Interior	897,000	-	897,000
Gilbane	1,419,183	343,833	1,075,350
Fanning / Howey	1,563,256	1,055,198	508,058
Total	<u>\$ 22,987,829</u>	<u>\$ 1,582,601</u>	<u>\$ 21,405,228</u>

**NOTE 19 – SUBSEQUENT EVENT**

In December 2006 a former School District employee plead not guilty to public corruption charges that occurred between 2002 and 2006. The charges stem from an investigation by the Seneca County Prosecutor’s Office, the Attica Police Department and the Federal Bureau of Investigation. As of today, we are unable to determine the affect of this investigation on the District’s financial statements. The District intends to seek restitution of all missing funds.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF STATEMENTS  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Seneca East Local School District  
Seneca County  
109 Seneca Street  
P.O. Box 468  
Attica, Ohio

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Seneca East Local School District, Seneca County as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Controls Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the District in a separate letter dated January 31, 2007.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated January 31, 2007.



**This report is intended for the information and use of management and the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.**

***Charles E. Harris & Associates, Inc.***  
January 31, 2007

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO  
For the Year Ended June 30,2006**

SCHEDULE OF PRIOR AUDIT FINDINGS

The prior audit, for the year ended June 30, 2005, reported no material citations or recommendations.



**Mary Taylor, CPA**  
Auditor of State

**SENECA EAST LOCAL SCHOOL DISTRICT**

**SENECA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 10, 2007**