



**Auditor of State  
Betty Montgomery**



**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management Discussion and Analysis For Fiscal Year Ended June 30, 2004 .....	3
Statement of Net Assets – Governmental Activities For the Fiscal Year Ended June 30, 2004 .....	12
Statement of Activities – Governmental Activities For the Fiscal Year Ended June 30, 2004 .....	13
Balance Sheet – Governmental Funds For the Fiscal Year Ended June 30, 2004 .....	14
Reconciliation of Total Governmental Fund Balances to Net Assets Of Governmental Activities for the Fiscal Year Ended June 30, 2004.....	15
Statement of Revenues, Expenses and Changes in Fund Balances - Governmental Funds For the Fiscal Year Ended June 30, 2004 .....	16
Reconciliation of the Statement of Revenues, Expenses and Changes in Fund Balances – Governmental Funds to the Statement of Activities For the Fiscal Year Ended June 30, 2004 .....	17
Statement of Revenues, Expenses and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual – General Fund For the Fiscal Year Ended June 30, 2004 .....	18
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds For the Fiscal Year Ended June 30, 2004 .....	19
Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 .....	21
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	45

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANT'S REPORT**

Southeastern Local School District  
Clark County  
195 Jamestown Street  
South Charleston, Ohio 45368

To the Board of Education:

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

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

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

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for - State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

Management Discussions 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 of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Betty Montgomery**  
Auditor of State

January 20, 2005

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED**

The discussion and analysis of Southeastern 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, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2004 are as follows:

- Current assets exceeded current liabilities at the close of the most recent fiscal year by \$2.90 million. Of this amount, \$1.10 million is unrestricted for the School District's discretionary use.
- General revenues accounted for \$6.40 million in revenue or 88.01 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$.87 million or 11.99 percent of total revenues of \$7.27 million.
- The School District had \$6.51 million in expenses related to governmental activities; only \$.87 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$6.40 million, along with cash balances, were adequate to provide for these programs.
- Among major funds, the general fund had \$6.44 million in revenues and \$5.49 in expenditures. The Permanent Improvement Fund had \$.26 million in revenue and \$1.03 million in expenditures and issued \$.80 million in debt obligations to fund the current year expenditures.

**Overview of the Financial Statements**

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

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

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

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

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The government-wide financial statements can be found on pages 12-13 of this report.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

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

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

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

The District maintains twenty-five individual governmental funds. Information is presented separately in the governmental fund balance sheet and the statement of fund revenues, expenditures and changes in fund balance for the general fund and permanent improvement fund which are considered major funds. Data from the other twenty-three governmental funds are combined into a single, aggregate presentation.

The District adopts an annual appropriation budget for all of its governmental funds. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 14-18 of this report.

**Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for governmental funds. The basic fiduciary fund financial statement can be found on page 19 of this report.

**Notes to the Financial Statement** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-44 of this report.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

**Government-Wide Financial Analysis**

Recall that the Statement of Net Assets provides the perspective of the District as a whole. Table 1 provides a comparison of the District's net assets for 2003 to 2004.

**Table 1  
Net Assets  
(in Millions)**

	<u>2003</u>	<u>2004</u>	<u>Change</u>
<b>Assets</b>			
Current and Other Assets	\$4.90	\$5.79	\$.89
Capital Assets (Net of Depreciation)	3.04	3.64	.60
Total Assets	<u>7.94</u>	<u>9.43</u>	<u>1.49</u>
<b>Liabilities</b>			
Long-term Liabilities	(0.36)	(1.17)	.81
Other Liabilities	(2.98)	(2.89)	(.09)
Total Liabilities	<u>(3.34)</u>	<u>(4.06)</u>	<u>.72</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	2.98	2.81	(.17)
Restricted for:			
Grants	0.03	0.02	(.01)
State Mandates	0.06	0.08	.02
Capital Improvements	0.53	0.57	.04
Unrestricted	1.00	1.89	.89
<b>Total Net Assets</b>	<u>\$4.60</u>	<u>\$5.37</u>	<u>\$.77</u>

Table 2 shows the revenue for fiscal year 2004.

**Table 2  
Revenues  
(in Millions)**

	<u>Total Revenue</u>
<b>Revenues</b>	
Program Revenues	
Charges for Services	\$0.55
Operating Grants	0.32
<i>General Revenues</i>	
Property Taxes	2.52
Income Taxes	.68
Unrestricted Grants	3.16
Investment Earnings	0.02
Other	0.02
<i>Total Revenues</i>	<u>\$7.27</u>

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

Graphs 1 and 2 break down the District's revenue into percentages by type of revenue.

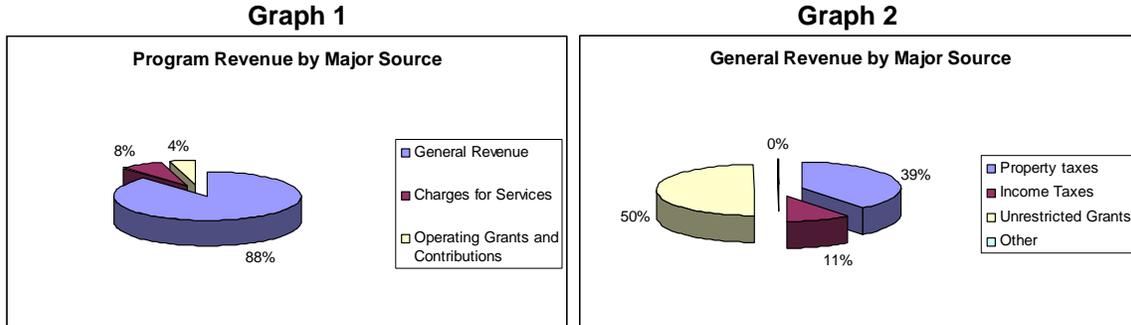


Table 3 shows total program expenses and cost per pupil.

**Table 3  
Total Program Expenses  
(in millions)**

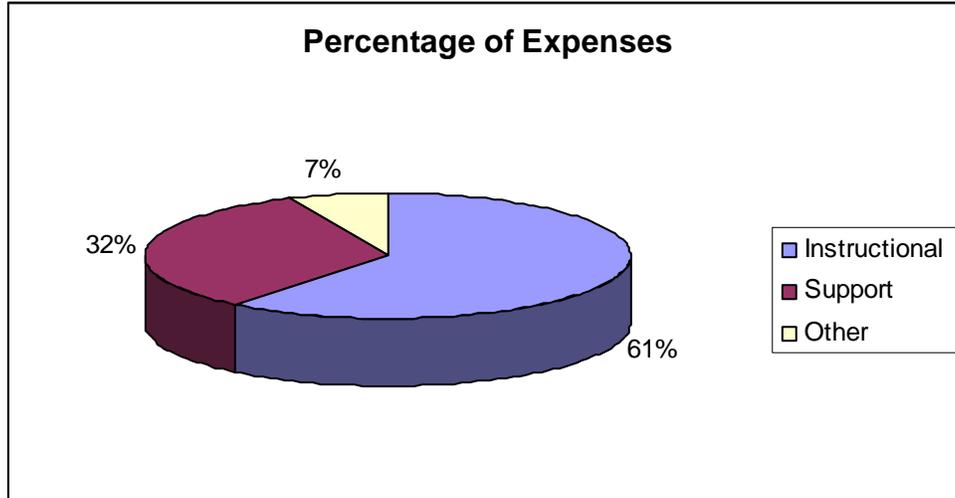
<b>Program Expenses</b>	<u>Program Expense</u>	<u>Net Program Expense</u>
Instruction		
Regular	\$3.12	\$2.72
Special	0.69	0.51
Other	0.15	0.15
Support Services:		
Pupil/Staff	0.58	0.58
Administration	0.84	0.84
Maintenance	0.51	0.51
Transportation	0.12	0.12
Other	0.07	0.07
Food Services/Latchkey	\$0.18	\$(0.01)
Extracurricular Activities	0.23	0.15
Interest and Fiscal Charges	0.03	0.02
<b>Total Expenses</b>	<u>6.52</u>	<u>\$5.64</u>
Net Change	.77	
Beginning Net Assets	4.60	
Ending Net Assets	<u>\$5.37</u>	

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

Graph 3 shows a breakdown of expenditures by percentages in the major categories.

**Graph 3**



**Capital Assets**

At the end of the year, the District had \$3,636,117 invested in land, buildings, equipment, textbooks, and vehicles less accumulated depreciation. Table 4 shows the breakdown of the individual classes for capital assets (see note 10 for more detailed information):

**Table 4  
Capital Assets**

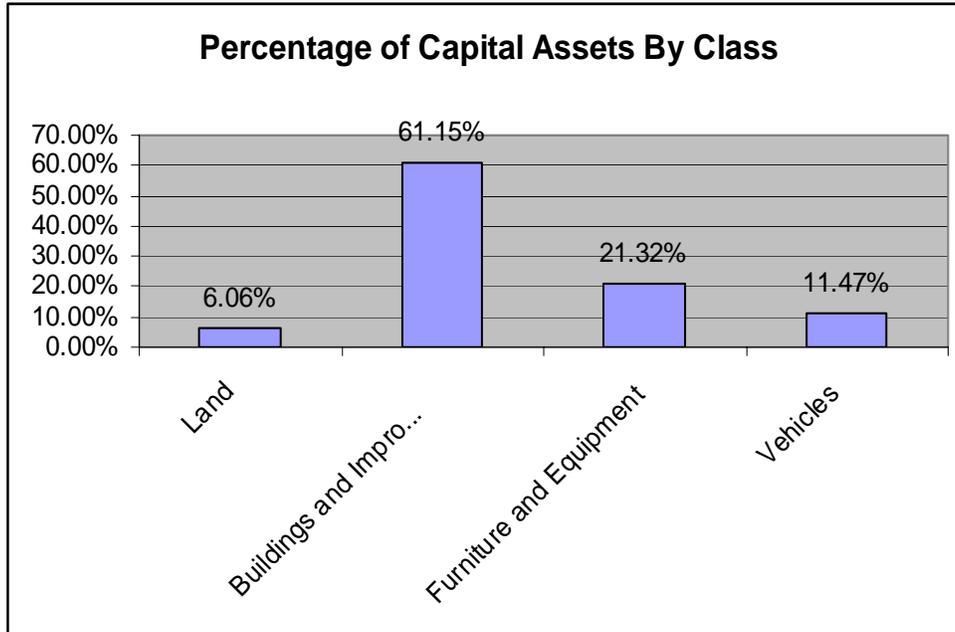
<b>Class</b>	<b>2003</b>	<b>2004</b>	<b>Percentage Change</b>
Land	\$557,140	\$557,140	0%
Buildings and Improvements	5,039,637	5,621,429	12%
Furniture and Equipment	2,001,594	1,960,112	(2%)
Vehicles	912,296	1,054,856	16%
Sub-Total	8,510,667	9,193,537	8%
Accumulated Depreciation	(5,467,497)	(5,557,420)	(2%)
Net Capital Assets	<u>\$3,043,170</u>	<u>\$3,636,117</u>	<u>19%</u>

SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)

Graph 4 shows the breakdown by percentage of the individual classes for capital assets:

Graph 4



**The Major Funds**

The District's major funds start on page 14. These funds are accounted for using the modified accrual basis of accounting, focusing on the near term financial resources of the District. The major funds are the General Fund and the Permanent Improvement Fund. Both accounted for 91.87% of the \$7.30 million in total revenue and 91.87% of the \$7.10 million in total expenses. The General Fund and Permanent Improvement Fund received a majority of their revenues from property taxes and intergovernmental revenues. Revenues exceeded expenses in the General Fund and Permanent Improvement Fund, creating a year end fund balance of \$2.16 million and \$.56 million, respectively.

The general fund recognized \$2.65 million in current liabilities for fiscal year 2004. Accrued salaries and benefits accounted for 17.04% and deferred revenue accounted for 77.98% of those liabilities. Taxes Receivable accounted for 99.60% of the \$2.60 million receivables in the general fund. However, the taxes receivable is offset by deferred revenue because those taxes are not intended to finance the 2004 fiscal year.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

**General Fund Budgetary**

There were no changes from original to final budget of revenues.

Table 5 depicts the change from the original to the final general fund revenue budgets for the fiscal year ended June 30, 2004.

**Table 5  
Original Final versus Actual Budget for General Fund Revenues**

	Budget	
	Final	Actual
<u>Revenues</u>		
Property Taxes	\$2,063,992	\$2,315,859
Intergovernmental	3,060,522	3,140,414
Tuition and Fees	160,690	305,823
Income Tax	728,141	655,015
Other	6,196	4,190
Total Revenues	<u>\$6,019,541</u>	<u>\$6,421,301</u>

The original/final revenue estimates come from the Tax Budget completed during January 2002. The County Auditor completes the tax estimates. The property tax actual amounts are higher due to a tax advance not budgeted at year-end. The intergovernmental actual amounts are higher due to an increase in monies received from monthly foundation payments. As in previous years, budgeted open enrollment was forecast as a net expenditure. APB opinion #20 states that incoming open enrollment must be recorded as revenue and outgoing open enrollment should be recorded as an expenditure, thus, posting revenue and expenditures at gross amount causes the variance in the tuition fee funds. Income tax variance was due to an unanticipated downturn in the economy.

Table 6 depicts the change from the original to the final general fund expenditure budgets for the fiscal year ended June 30, 2004.

**Table 6  
Original Budget versus Final Budget for General Fund Expenditures**

	Budget	
	Original	Final
<u>Expenditures</u>		
Instruction	\$3,495,129	\$3,244,103
Support Services	2,425,086	2,250,912
Other	182,118	169,038
Total Expenditures	<u>\$6,102,333</u>	<u>\$5,664,053</u>

The original budget comes for the Tax Budget filed during January of 2002. Traditionally the tax budget expenditures include all possible needs for the future year. A line in the budget is included for contingencies in the original budget. Although this money is not spent, it still shows in the original budget. The District is continually striving to hold expenditures down to ensure that the burden on the tax payers is held to a minimum, thus cutting planned expenditures where acceptable.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

**Debt Administration**

The District issued \$80,770 of energy conservation note, for high school gymnasium bleachers, commencing January, 2001, which had a balance of \$32,308 at June 30, 2004. The final principal and interest payment for the bond issue is June 30, 2005, all payments coming from the Permanent Improvement fund.

A long-term note was issued in September, 2003 for \$524,197 to update mechanical/energy conservation of both buildings. The final principal and interest payment for the HB264 note is August 15, 2018, all payments coming from the Permanent Improvement Fund.

The District issued bonds during November of 2003 to purchase four new buses for \$248,000 of which the principal will be paid out of the General Fund and the interest will be paid out of Permanent Improvement Fund. The final principal and interest payment for the bond will be due on January 1, 2009. For further information on the District's obligations, refer to note 16 of the financial statements.

**For the Future**

At this time, the District is financially stable. The District is proud of its community support of the public schools. However, as the State budget consistently decreases, the necessity for community support needs to increase.

Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward Districts with little property tax wealth. The legislators and government officials continue to negotiate the plan for improvement of the financing of public schools in the State of Ohio.

In today's struggling economy, the main focus must be on maintaining the current operating budget. The District has a 3 mill permanent improvement levy and a \$490,000 emergency levy that need renewed/replaced every five years. It is critical that we sustain these two levies. The District valuation consists mostly of a residential tax base, thus shifting more of the financial responsibility to our taxpayers.

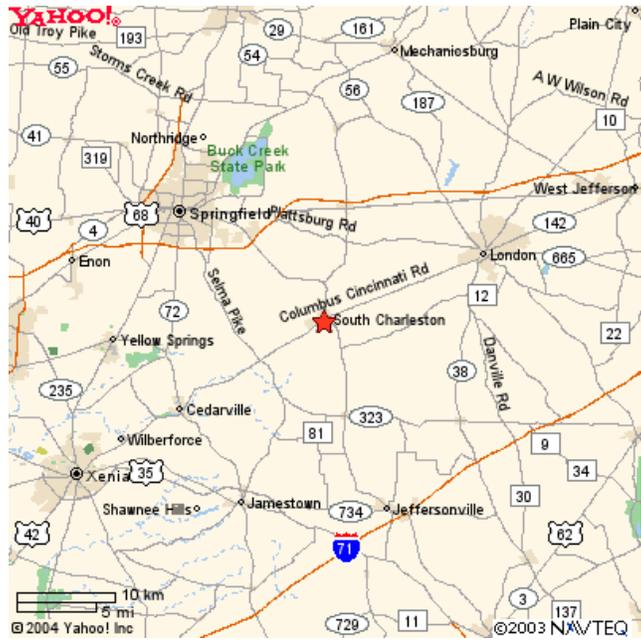
In conclusion, the District has committed itself to financial excellence for many years. The District's primary goal is to be pro-active in dealing with the financial woes of the State and the current economy. The District plans to continue its sound fiscal management to meet the challenges of the future.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, 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 Brad McKee, Treasurer, Southeastern Local Schools, 195 Jamestown St., South Charleston, OH 45368. Also see: [www.sels.us](http://www.sels.us)



**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**STATEMENT OF NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>Primary Government Governmental Activities</b>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$2,811,642
Cash in Segregated Accounts	
Cash with Fiscal Agents	1,225
Receivables:	
Property and Other Taxes	2,496,174
Income Tax	295,200
Accounts	2,193
Accrued Interest	
Intergovernmental	24,244
Materials and Supplies Inventory	32,224
Prepaid Items	51,349
Restricted Cash and Cash Equivalents	79,142
Capital Assets (net of accumulated depreciation):	3,636,117
Total Assets	9,429,510
<b>Liabilities</b>	
Payables:	
Accounts	71,536
Intergovernmental	134,981
Interest	991
Salaries and Employee Benefits	479,459
Matured Interest	1,225
Deferred Revenue	2,203,839
Noncurrent Liabilities:	
Due within one year	203,852
Due in more than one year	967,681
Total Liabilities	4,063,564
<b>Net Assets</b>	
Invested in capital assets, net of related debt	2,813,842
Restricted for:	
Grants	20,673
State Mandates	79,142
Capital Improvements	564,665
Unrestricted	1,887,624
Total Net Assets	\$5,365,946

*See accompanying notes to the basic financial statements.*

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Function/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$3,122,866	\$332,449	\$73,793	(\$2,716,624)
Special	686,454		177,166	(509,288)
Vocational	145,131			(145,131)
Other	6,942			(6,942)
Support Services:				
Pupils	282,271			(282,271)
Instructional Staff	301,710		3,708	(298,002)
Board of Education	22,589			(22,589)
Administration	596,514		5,942	(590,572)
Fiscal	223,554			(223,554)
Business				
Operation and Maintenance of Plant	513,310			(513,310)
Pupil Transportation	123,776			(123,776)
Central	48,251		2,500	(45,751)
Operation of Non-Instructional Services	3,381			(3,381)
Food Service	181,082	137,102	55,758	11,778
Capital Outlay				
Extracurricular Activities	229,340	83,596		(145,744)
Interest and Fiscal Charges	25,246			(25,246)
<b>Total Primary Government</b>	<b>\$6,512,417</b>	<b>\$553,147</b>	<b>\$318,867</b>	<b>(5,640,403)</b>
General Revenues:				
Property and Other Taxes				2,523,907
Income Taxes				682,417
Grants and Contributions not restricted to specific programs				3,160,978
Unrestricted investment earnings				21,488
Miscellaneous				15,187
<b>Total General Revenues</b>				<b>6,403,977</b>
Changes in Net Assets				763,574
Net Assets-Beginning (Restated)				4,602,372
<b>Net Assets-Ending</b>				<b>\$5,365,946</b>

See accompanying notes to the basic financial statements.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets and Other Debits</b>				
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$2,065,143	\$604,242	\$142,257	\$2,811,642
Cash with Fiscal Agents			1,225	1,225
Receivables:				
Property and Other Taxes	2,289,772	206,402		2,496,174
Income Taxes	295,200			295,200
Accounts	2,193			2,193
Interfund	2,408			2,408
Intergovernmental	5,743		18,501	24,244
Prepaid Items	48,648		2,701	51,349
Materials and Supplies Inventory	26,371		5,853	32,224
Restricted Assets:				
Cash and Cash Equivalents	79,142			79,142
<b>Total Assets</b>	<u>4,814,620</u>	<u>810,644</u>	<u>170,537</u>	<u>5,795,801</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Payables:				
Accounts	2,851	63,040	5,645	71,536
Due to Local Governments	129,111		5,870	134,981
Salaries and Employee Benefits	451,662		27,797	479,459
Interfund			2,408	2,408
Matured Interest			1,225	1,225
Deferred Revenue	2,066,957	182,939		2,249,896
<b>Total Liabilities</b>	<u>2,650,581</u>	<u>245,979</u>	<u>42,945</u>	<u>2,939,505</u>
<b>Fund Balances:</b>				
Designated for:				
Budget Stabilization	83,786			83,786
Reserved for:				
Encumbrances	88,598	12,605	5,691	106,894
Property Taxes	268,872	23,463		292,335
Textbook and Instructional Materials	16,459			16,459
Bus Purchase Allowance	43,631			43,631
Budget Stabilization	19,052			19,052
Unreserved, reported in:				
General	1,643,641			1,643,641
Special Revenue			126,494	126,494
Capital Projects		528,597		528,597
Permanent Fund			(4,593)	(4,593)
<b>Total Fund Balances</b>	<u>2,164,039</u>	<u>564,665</u>	<u>127,592</u>	<u>2,856,296</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$4,814,620</u>	<u>\$810,644</u>	<u>\$170,537</u>	<u>\$5,795,801</u>

See accompanying notes to the basic financial statements.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSET OF GOVERNMENTAL ACTIVITIES  
FOR THE YEARD ENDED JUNE 30, 2004**

<b>Total Governmental Fund Balances</b>	\$2,856,296
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***Amounts reported for governmental activities in  
the statement of net assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	3,636,117
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Some of the School District's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds	46,057
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. expenditures and, therefore, are deferred in the funds	<u>(1,172,524)</u>
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<b>Net Assets of Governmental Activities</b>	<u><u>\$5,365,946</u></u>
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**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property and Other Taxes	\$2,304,638	\$219,269		\$2,523,907
Intergovernmental	3,138,573	22,406	334,554	3,495,533
Charges for Services			137,102	137,102
Tuition and Fees	306,021			306,021
Interest		21,415	72	21,487
Income Tax	682,848			682,848
Gifts and Donations			6,405	6,405
Extracurricular Activities			110,221	110,221
Miscellaneous	10,189		5,134	15,323
<b>Total Revenues</b>	<b>6,442,269</b>	<b>263,090</b>	<b>593,488</b>	<b>7,298,847</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	2,627,295	567,422	75,145	3,269,862
Special	433,293		190,794	624,087
Vocational	138,092			138,092
Other	1,226			1,226
Support Services:				
Pupils	269,978		783	270,761
Instructional Staff	277,542	9,337	6,120	292,999
Board of Education	22,457			22,457
Administration	545,244		10,461	555,705
Fiscal	209,848	13,771		223,619
Operation and Maintenance of Plant	464,110	13,331		477,441
Pupil Transportation	304,601			304,601
Central	9,834		38,676	48,510
Operation of Non-Instructional Services			179,278	179,278
Extracurricular Activities	157,999		75,798	233,797
Capital Outlay	2,750	332,759		335,509
Debt Service:				
Principal Retirement	21,576	70,248		91,824
Interest and Fiscal Charges		26,266		26,266
<b>Total Expenditures</b>	<b>5,485,845</b>	<b>1,033,134</b>	<b>577,055</b>	<b>7,096,034</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	956,424	(770,044)	16,433	202,813
<b>Other Financing Sources (Uses):</b>				
Face Value from the Sale of Bonds		248,000		248,000
Face Value from the Sale of Notes		556,505		556,505
Transfers - In			1,963	1,963
Transfers - Out			(1,963)	(1,963)
<b>Total Other Financing Sources (Uses)</b>		<b>804,505</b>		<b>804,505</b>
Net Change in Fund Balances	956,424	34,461	16,433	1,007,318
Fund Balances - beginning (Restated)	1,207,615	530,204	111,159	1,848,978
Fund Balances - ending	<u>\$2,164,039</u>	<u>\$564,665</u>	<u>\$127,592</u>	<u>\$2,856,296</u>

See accompanying notes to the basic financial statements.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<b>Net Change in Governmental Fund Balances</b>	<b>\$1,007,318</b>
 <i>Amounts reported in governmental activities in the statement of activities are different because:</i>	
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 and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	592,947
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(16,110)
Repayment of long-term obligations is reported as an expenditure in governmental funds, the the repayment reduces long-term liabilities in the statement of net assets. In the current year, this amount is:	91,824
Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures/revenues in governmental funds.	<u>(912,405)</u>
<b>Change in net assets of governmental activities</b>	<b><u><u>\$763,574</u></u></b>

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL -  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Property and Other Local Taxes	\$2,063,992	\$2,063,992	\$2,315,859	\$251,867
Intergovernmental	3,060,522	3,060,522	3,140,414	79,892
Tuition and Fees	160,690	160,690	305,823	145,133
Income Tax	728,141	728,141	655,015	(73,126)
Miscellaneous	6,196	6,196	4,190	(2,006)
<b>Total Revenues</b>	<b>6,019,541</b>	<b>6,019,541</b>	<b>6,421,301</b>	<b>401,760</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	2,819,551	2,617,046	2,613,738	3,308
Special	514,362	477,420	462,711	14,709
Vocational	159,492	148,037	138,745	9,292
Other	1,724	1,600	1,226	374
Support Services:				
Pupils	394,737	366,386	359,227	7,159
Instructional Staff	304,582	282,706	275,019	7,687
Board of Education	26,335	24,444	22,951	1,493
Administration	590,772	548,342	545,411	2,931
Fiscal	232,057	215,390	208,610	6,780
Operation and Maintenance of Plant	532,434	494,194	492,974	1,220
Pupil Transportation	333,574	309,616	308,787	829
Central	10,595	9,834	9,834	
Extracurricular Activities	178,802	165,960	157,974	7,986
Capital Outlay	3,316	3,078	2,750	328
<b>Total Expenditures</b>	<b>6,102,333</b>	<b>5,664,053</b>	<b>5,599,957</b>	<b>64,096</b>
Excess of Revenues Over (Under) Expenditures	(82,792)	355,488	821,344	465,856
<b>Other Financing Sources (Uses):</b>				
Refund of Prior Year Expenditures	58,122	58,122	30,350	(27,772)
Advances In	16,442	16,442	1,440	(15,002)
Advances Out	(16,161)	(15,000)	(2,408)	12,592
Transfers In	45	45		(45)
<b>Total Other Financing Sources (Uses)</b>	<b>58,448</b>	<b>59,609</b>	<b>29,382</b>	<b>(30,227)</b>
Net Change in Fund Balance	(24,344)	415,097	850,726	435,629
Fund Balances at Beginning of Year	1,101,703	1,101,703	1,101,703	
Prior Year Encumbrances Appropriated	91,779	91,779	91,779	
<b>Fund Balance at End of Year</b>	<b>\$1,169,138</b>	<b>\$1,608,579</b>	<b>\$2,044,208</b>	<b>\$435,629</b>

See accompanying notes to the basic financial statements.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$11,466</u>
Total Assets	<u><u>11,466</u></u>
<b>Liabilities</b>	
Due to Students	<u>11,466</u>
Total Liabilities	<u><u>\$11,466</u></u>

*See accompanying notes to the basic financial statements.*

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**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Southeastern Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and federal guidelines. This Board of Education controls the School District's three instructional/support facilities staffed by thirty-eight non-certified, fifty-six certificated full-time teaching personnel and four administrative employees who provide services to eight hundred seventy-five students and other community members.

**Reporting Entity:**

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

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

The School District participates in five jointly governed organizations and one insurance purchasing pool. These organizations are discussed in Notes 18 and 19 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Clark County Family and Children First Council (the "Council")
- Springfield/Clark County Joint Vocational School (JVS)
- Miami Valley Educational Computer Association (MVECA)
- Southwestern Ohio Educational Purchasing Council (SOEPC)
- Southwestern Ohio Instructional Technology Association (SOITA)

Insurance Purchasing Pool:

- Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (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 more significant of the School District's accounting policies are described below.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program Revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within sixty days of the end of the fiscal period. Expenditures generally are recorded when a liability is expected to be liquidated with expendable, available resources. However, debt service expenditures, as well as compensated absences, are recorded only when payment is due.

Property taxes, grants and entitlements, tuition, fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the School District.

**Fund Accounting**

The School 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. The School District employs the use of two categories of funds: governmental and fiduciary.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Governmental Funds**

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

The School District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *permanent improvement* capital projects fund is used to account for all transaction related to the acquiring, constructing, or improving such permanent improvements as are authorized in ORC Chapter 5705.

**Fiduciary Fund**

*Fiduciary fund* reporting focuses on net assets and changes in net assets. The School District maintains two fiduciary funds: agency funds known as the Cafeteria Employee Plan and the Students Activities Fund. The Cafeteria Employee Plan was established to account for activity related to certain employee requested benefits. The Student Activities Fund was established to account for revenues generated by student managed activities. The School District's agency funds are custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

When both restricted and unrestricted resources are available for use, it is the School District's policy to use the restricted resources first, and then unrestricted resources, as they are needed.

**Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the fiscal year with the legal restriction that appropriations by fund cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Tax Budget** - Prior to January 15, 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 express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the County Budget Commission for rate determination.

**Estimated Resources** - By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School 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 the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board of Education.

**Appropriations** - Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The total of expenditures and encumbrances may not exceed the appropriation totals at the legal level of control.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, eight supplemental appropriations were legally enacted; however, these amendments were not significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts passed during the year, including all supplemental appropriations. Formal budgetary integration is employed as a management control device by the Board of Education during the year for all funds, other than agency funds at the fund level, consistent with statutory provisions.

**Encumbrances** - As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are 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 fiscal year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

**Lapsing of Appropriations** - At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash and Cash Equivalents**

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the statement of net assets and governmental fund balance sheet. The School District also utilizes a financial institution to service bonded debt as principal and interest come due. The balance in this account is presented on the statement of net assets and governmental fund balance sheet as "Cash and Cash Equivalents with Fiscal Agent" and represents deposits.

During fiscal year 2004, the School District did not have any investments.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the permanent improvement capital projects fund during fiscal year 2004 includes \$21,415 assigned from other funds. The food service and expendable trust funds were also credited \$8 and \$64 respectfully.

**Interfund Assets/Liabilities**

Short-term interfund loans are classified as "interfund receivables" and "interfund payables". These amounts are eliminated in the statement of net assets.

**Inventory**

Inventories of governmental funds are stated at cost and are determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

**Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include unexpended revenues restricted for the purchase of buses, and amounts required by statute to be set-aside for budget stabilization and the purchase of textbooks and other instructional materials. See Note 21 for additional information regarding set-asides.

**Capital Assets and Depreciation**

Capital assets, which include property, plant, equipment, and vehicles, are reported on the government-wide statements. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold \$500. The School District does not have any infrastructure.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 capitalized. Interest incurred during the construction of capital assets is also not capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of three to ten years, with building improvements being depreciated over twenty years and buildings over fifty years. Improvements to fund capital assets are depreciated over the remaining useful lives of the related assets.

**Accrued Liabilities and Long-Term Obligations**

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

In general, governmental fund payables and accrued liabilities are reported on the governmental fund financial statements as an obligation whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are considered not to have used current available financial resources. Capital leases payable and other long-term debt are reported as a liability on the statement of net assets.

**Compensated Absences**

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

The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The School District records a liability for accumulated unused sick leave for all employees after fifteen years of current service with the School District.

For governmental funds, unpaid compensated absences due and payable at the end of the fiscal year are recorded as matured leave payable in the fund financial statements. These amounts are reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The entire compensated absences liability is reported on the government-wide statement of net assets.

**Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchase funds. Flows of cash or goods from one fund to another without requirement for repayment are reported as interfund transfers. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Exchange/Non-Exchange Transactions**

Revenues 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.

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

**Deferred Revenues**

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, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

**Fund Balance Reserves and Designation**

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. The School District also designates a portion of fund balance to indicate tentative plans for future financial resource uses that reflect managerial plans or intent. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, textbooks and instructional materials, bus purchases and budget stabilization. A fund designation has been established for budget stabilization for amounts in excess of the statutory required amounts.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Estimates**

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

**Net Assets**

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

**Reconciliation of Government-wide and Fund Financial Statements**

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds”. The details of this (\$1,172,524) difference are as follows:

Capital Lease Payable	(\$39,556)
Long Term Pension Obligation	(65,304)
Compensated Absences	(283,954)
Accrued Interest Payable	(991)
Energy Conservation Notes Payable	(248,000)
Bond Payable	<u>(534,719)</u>
Net Adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u><u>(\$1,172,524)</u></u>

Another element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund”. The details of \$3,706,321 difference are as follows:

Capital Assets	\$9,193,537
Accumulated Depreciation	<u>(5,557,420)</u>
Net Adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u><u>\$3,636,117</u></u>

Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities:

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

An element of that reconciliation states that "Repayment of long-term obligations is reported as an expenditure in the government funds, the repayment reduces long-term liabilities in the statement of net assets". The details of this \$91,824 are as follows:

Principal reduction on lease obligation	\$21,576
Principal reduction on long term debt obligations	21,786
Principal reduction on energy conservation notes	48,462
Net Adjustment – current financial resources focus to reduce fund balance – total government funds to arrive at net assets – governmental activities	\$91,824

Another element of that reconciliation states that "capital additions are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense." The details of this \$575,666 are as follows:

Current capital additions	\$891,072
Loss on Disposal of Capital Assets	(6,746)
Depreciation Expense	(291,379)
Net Adjustment – capital assets to increase <i>fund balance</i> – <i>total governmental</i> to arrive at <i>net assets</i> – <i>governmental activities</i>	\$592,947

**3. BASIC FINANCIAL STATEMENT PRESENTATION**

For fiscal year 2004, the School District has implemented the following GASB Statements:

- GASB Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*"
- GASB Statement No. 37, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus.*"
- GASB Statement No. 38, "*Certain Financial Statement Note Disclosures.*"
- GASB Statement No. 6, "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*"

GASB Statements No. 34, No. 37 and No. 38 create and amend new basic financial statements and note disclosure for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

Implementation had the following effect of the School District's various fund balances and net assets for fiscal year ended June 30, 2003:

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**3. BASIC FINANCIAL STATEMENT PRESENTATION (Continued)**

	<u>General</u>	<u>Special Revenue</u>	<u>Expendable Trust</u>	<u>Enterprise</u>	<u>Governmental Activities</u>
6/30/03 Fund Balance/Net Assets	\$1,207,615	\$121,536	\$8,548	(\$14,374)	\$1,853,529
Fund Reclassification	0	(5,826)	(8,548)	14,374	0
Revenue recognized	0	0	0	0	62,167
Long Term Liabilities Allocated	0	0	0	0	(293,977)
Capital Asset, net depreciation	0	(4,553)	0	0	3,038,617
Capital Leases Payable	0	0	0	0	(61,132)
GASB Interpretation No. 6 Adjustments	331	2,837	0	0	3,168
Restated 6/30/03 Fund Balance/Net Assets	<u>\$1,207,946</u>	<u>\$113,994</u>	<u>\$0</u>	<u>\$0</u>	<u>\$4,602,372</u>

**4. ACCOUNTABILITY AND COMPLIANCE**

**Accountability**

The following funds had a deficit fund balance/retained earnings at June 30, 2004:

	<u>Deficit Fund Balance</u>
Nonmajor Special Revenue Funds:	(\$4,593)
Food Service	
DPIA	( 88)
Title I	( 708)

The general fund provides transfers to cover deficit balances; however, this is done when cash is required, not when accruals occur. The deficit in the food service fund is a result of lunch prices not covering operational costs. The School District will continue to monitor this deficit and raise lunch prices or make transfers from the general fund to alleviate this deficit, if necessary.

**5. BUDGETARY BASIS OF ACCOUNTING**

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

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

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**5. BUDGETARY BASIS OF ACCOUNTING (Continued)**

4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statement for the General Fund:

GAAP Net Change	\$956,424
Revenue Accruals	9,382
Expenditure Accruals	(14,033)
Advances	(968)
Encumbrances	<u>(100,079)</u>
Budgetary Net Change	<u><u>\$850,726</u></u>

**6. DEPOSITS AND INVESTMENTS**

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

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

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

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

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

Interim monies may 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;

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**6. 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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

**Cash on Hand** - At fiscal year-end, the School District had \$425 in undeposited cash on hand which is included in the basic financial statements of the School District as part of "Equity in Pooled Cash and Cash Equivalents."

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

**Deposits** - At fiscal year-end, the carrying amount of the School District's deposits was \$2,903,050 and the bank balance was \$2,964,890. Of the bank balance:

1. \$101,225 of the bank balance was covered by federal depository insurance; and
2. \$2,863,665 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District held to a successful claim by the FDIC.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**7. PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003, and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. 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 School District prior to June 30.

The School District receives property taxes from Clark County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the 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, 2004, 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, 2004, was \$268,872 in the general fund and \$23,463 in the permanent improvement capital projects fund.

The assessed values upon which the fiscal year 2004 taxes were collected are:

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**7. PROPERTY TAXES (Continued)**

	<b>2003 Second- Half Collections</b>		<b>2004 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential and Other Real Estate	\$64,958,910	76.14%	\$66,782,260	81.02%
Public Utility	4,599,140	5.39	4,328,820	5.25
Tangible Personal Property	15,757,940	18.47	11,313,159	13.73
Total Assessed Value	<u>\$85,315,990</u>	<u>100.00%</u>	<u>\$82,424,239</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$42.68		\$43.10	

**8. INCOME TAX**

The School District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1990, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue credited to the general fund during fiscal year 2004 was \$682,848.

**9. RECEIVABLES**

Receivables at June 30, 2004, consisted of property taxes, income tax, accounts (rent and tuition), intergovernmental grants, accrued interest and interfund. All receivables are considered collectible in full. A summary of the principal items of intergovernmental receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
General Fund	\$5,743
Non-Major Fund	
Food Service	5,501
Title VI-B	13,000
Totals	<u>\$24,244</u>

**10. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<b>Restated Balance 07/01/03</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 06/30/04</b>
<b>Governmental Activities</b>				
<i>Capital Assets, not depreciated</i>				
Land	\$557,140	\$ 0	\$ 0	\$ 557,140
<i>Capital Assets, being depreciated</i>				
Buildings and Improvements	5,039,637	581,792	0	5,621,429
Furniture and Equipment	2,001,594	66,720	(108,202)	1,960,112
Vehicles	912,296	242,560	(100,000)	1,054,856
Total at Historical Cost	<u>8,510,667</u>	<u>891,072</u>	<u>(208,202)</u>	<u>9,193,537</u>
Less Accumulated Depreciation	(5,467,497)	(291,379)	201,456	(5,557,420)
Governmental Activities Capital Assets, Net	<u>\$3,043,170</u>	<u>\$599,693</u>	<u>\$ 6,746</u>	<u>\$ 3,636,117</u>

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**10. CAPITAL ASSETS (Continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

Instruction:	
Regular	\$ 128,554
Special	31,510
Vocational	265
Support Services:	
Pupils	243
Instructional Staff	12,591
Administration	7,878
Fiscal	2,381
Operation and Maintenance of Plant	36,732
Pupil Transportation	25,461
Central	275
Non-Instructional	313
Extracurricular	929
Regular/Capital Outlay	<u>44,247</u>
Total Depreciation Expense	<u>\$ 291,379</u>

**11. RISK MANAGEMENT**

**Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2004, the School District contracted with Marsh Insurance Group for property and fleet, general liability, crime, and inland marine insurance.

Insurance coverage provided is as follows:

Blanket Building and Contents-replacement cost (\$1,000 deductible)	\$17,175,788
Boiler Machinery (\$2,500 deductible)	1,000,000
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured Motorists	1,000,000
General Liability	
Per occurrence	1,000,000
Total per year	3,000,000
Employee Liability	
Per occurrence	1,000,000
Total per year	1,000,000
Employee Benefits	
Per occurrence	1,000,000
Total per year	3,000,000
Umbrella	5,000,000

Settlement claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**11. RISK MANAGEMENT (Continued)**

**Workers' Compensation**

For fiscal year 2004, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control and actuarial services to the GRP.

**12. DEFINED BENEFIT PENSION PLANS**

**School Employees Retirement System**

The School 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 (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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 a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$90,540, \$83,318 and \$44,515 respectively; 49.04% percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

**State Teachers Retirement System**

The School 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.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**12. DEFINED BENEFIT PENSION PLANS (Continued)**

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. 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. The District had the following contributions under the new plan: defined contribution had \$461 member and \$484 District contributions and the members contributed \$581 to the combined plan for the current fiscal year.

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$362,389, \$353,200, and \$255,638 respectively; 83.64 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid. The remaining members of the board have elected SERS.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**13. POST-EMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and 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 on a pay-as-you-go basis.

All STRS benefit recipients and sponsored 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. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$27,876 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$47.6 billion. For the year ended June 30, 2003, net health care costs paid by STRS were \$34.2 billion and STRS had 105,000 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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$66,492.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**14. OTHER EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Eligible classified employees earn ten to twenty-two days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**14. OTHER EMPLOYEE BENEFITS (Continued)**

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 260 days for all certified and non-certified employees. Upon retirement, there are various limits for payment of unused sick leave credit as outlined in the School District's personnel policies.

**Health Care Benefits**

The School District has elected to provide employee medical/surgical benefits through United HealthCare. The employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract. Dental coverage is provided to employees through Coresource. Vision coverage is provided to employees through Vision Service Plan.

**Life Insurance**

The School District provides life insurance and accidental death and dismemberment insurance to all employees through Medical Life Insurance.

**15. CAPITALIZED LEASES - LESSEE DISCLOSURE**

In prior years, the School District entered into a capital lease for copiers. This lease met the criteria of a capital lease as defined by Statement of Financial Accounting Standards 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 combined financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets consisting of furniture and equipment that have been capitalized on the statement of net assets in the amount of \$107,880, with a corresponding liability recorded. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2004 totaled \$21,576 in the general fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2004.

Fiscal Year Ending June 30,	Governmental Activities
2005	\$21,576
2006	17,980
Total minimum lease payments	39,556
Less: amount representing interest	(0)
Present value of minimum lease payments	\$39,556

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**16. CHANGES IN LONG-TERM LIABILITIES**

Changes in long-term obligations of the School District during fiscal year 2004 were as follows:

	<b>Restated Amount Outstanding 6/30/03</b>	<b>Additions</b>	<b>Reductions</b>	<b>Amount Outstanding 6/30/04</b>	<b>Due within one year</b>
Notes Payable:					
HB 264	\$ 0	\$524,197	\$21,786	\$502,411	\$24,555
School Bus Purchases	0	248,000	0	248,000	47,000
Tax Anticipation Note – 3.24%	48,462	32,308	48,462	32,308	32,308
Capital Lease Payable	61,132	0	21,576	39,556	21,576
Compensated Absences Payable	150,935	309,379	176,360	283,954	13,109
Intergovernmental Payable	49,401	65,304	49,401	65,304	65,304
<b>Total Governmental Activities</b>	<b>\$309,930</b>	<b>\$1,179,188</b>	<b>\$317,585</b>	<b>\$1,171,533</b>	<b>\$203,852</b>

During fiscal year 2004, the School District refinanced the Tax Anticipation Note for the improvement, renovation, and furnishing of existing buildings, facilities and school sites in the amount \$32,308. The note is backed by the full faith and credit of the School District, and is payable from the permanent improvement capital projects fund, the fund which received the proceeds. The note carries an interest rate of 3.24 percent and matures on July 16, 2004.

The intergovernmental payable represents contractually required pension contributions paid outside the available period. Compensated absences and the intergovernmental payable will be paid from the funds from which the employees' salaries are paid. The capital lease obligation will be paid from the general fund.

The School District's overall legal debt margin was \$7,170,182, the unvoted debt margin was \$82,424 and energy conservation debt margin of \$239,407 at June 30, 2004.

Principal and interest requirements to retire the School District's outstanding long-term note at June 30, 2004, were:

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2005	\$103,863	\$34,620	\$138,483
2006	73,876	30,555	104,431
2007	76,268	27,714	103,982
2008	79,734	24,561	104,295
2009	83,279	21,087	104,366
2010-2014	177,648	74,085	251,733
2015-2018	188,051	21,727	209,778
	<b>\$782,719</b>	<b>\$234,349</b>	<b>\$1,017,068</b>

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**17. INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2004, consist of the following individual receivables and payables and transfers in the governmental fund balance sheets, such amounts are removed from the statement of net assets:

	<b>Interfund</b>		<b>Transfers</b>	
	<b>Receivable</b>	<b>Payable</b>	<b>In</b>	<b>Out</b>
General Fund	\$ 2,408	\$ 0	\$ 0	\$ 0
Non-major Funds				
Special Revenue	0	2,408	1,963	1,963
Total All Funds	<u>\$ 2,408</u>	<u>\$ 2,408</u>	<u>\$ 1,963</u>	<u>\$ 1,963</u>

**18. JOINTLY GOVERNED ORGANIZATIONS**

**Clark County Family and Children First Council** - The Clark County Family and Children First Council (the "Council") is a voluntary association established with the purpose to coordinate and integrate those services within Clark County which are available for families and to establish a comprehensive, coordinated, multi-disciplinary, interagency system for the delivery of such services in order to more effectively meet the needs of families and children.

The Board of Trustees is comprised of representatives of each of the members of the Council, and representatives of those additional entities required to be represented on the Council pursuant to Section 121.37 of the Ohio Revised Code. The school districts in Clark County must appoint a superintendent of one of the schools to represent them on the eighteen member Board. Currently, the superintendent of the Clark County Educational Service Center serves as this representative. All members are obligated to pay all dues as established by the Council to aid the financing of the operations and programs of the Council. The Southeastern Local School District does not pay any dues since the Clark County Educational Service Center represents the School District. Any member withdrawing from the Council must give one hundred eighty days written notice to the Council after formal action of the member's governing board. The School District made no financial contributions to the Council during fiscal year 2004. To obtain financial information, write to the Clark County Family and Children First Council, Marilyn Demma, who serves as Treasurer, at 6 West High Street, Suite 500, Springfield, Ohio 45502.

**Springfield/Clark County Joint Vocational School** - The Springfield/Clark County Joint Vocational School (JVS) is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one or two representatives from each of the eight participating school districts' and educational service center's elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following: Clark-Shawnee Local School District, Greenon Local School District, Northeastern Local School District, Northwestern Local School District, Southeastern Local School District, Tecumseh Local School District, and the Clark County Educational Service Center. Two members are appointed from the Springfield City School District. The School District made no financial contributions to the JVS during fiscal year 2004. To obtain financial information, write to the Springfield/Clark County Joint Vocational School, Pamela Ashbaugh, who serves as Treasurer, 1901 Selma Road, Springfield, Ohio 45505-4239.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**18. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**Miami Valley Educational Computer Association** - The School District is a participant in the Miami Valley Educational Computer Association (MVECA) which is a computer consortium. MVECA is an association of public school districts within the boundaries of Clark and Greene Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of MVECA consists of one representative from each county elected by majority vote of all charter member school districts within each county plus one representative from the fiscal agent. The School District paid MVECA \$23,274 for services provided during the year. Financial information can be obtained from Gary Bosserman, Director of MVECA at 330 Enon Road, Yellow Springs, Ohio 45387.

**Southwestern Ohio Educational Purchasing Council** -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

Payments to SOEPC are made from the general fund. During fiscal year 2004, the School District made no payments to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**Southwestern Ohio Instructional Technology Association** - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members as the State assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2004, the School District paid \$1,012 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**19. INSURANCE PURCHASING POOL**

**Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan** - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the 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.

**20. STATE SCHOOL FUNDING DECISION**

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

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

**21. SET-ASIDE CALCULATIONS AND FUND RESERVES**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. The amount reserved for budget stabilization represents refunds received from the Bureau of Workers' Compensation. Based upon legislative changes, this is the only money still required to be set-aside for this purpose.

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

	<b>Textbooks</b>	<b>Capital Acquisition</b>	<b>Budget Stabilization</b>	<b>Total</b>
Set-aside Reserve Balance as of June 30, 2003	\$4,776	(\$215,561)	\$19,052	(\$191,733)
Current Year Set-aside Requirement	114,432	114,432	0	228,864
Current Year Offsets	0	(196,403)	0	(196,403)
Qualifying Disbursements	(102,749)	0	0	(102,749)
<b>Totals</b>	<b>\$16,459</b>	<b>(\$297,532)</b>	<b>\$19,052</b>	<b>(262,021)</b>
Set-aside Balances Carried Forward to Future Fiscal Years	\$16,459	(\$196,402)	\$19,052	(160,891)
Sub-total Restricted Assets	\$16,459	\$0	\$19,052	35,511
School Bus Purchase Allowance				43,631
<b>Total Restricted Assets as of June 30, 2004</b>				<b>\$79,142</b>

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

**21. SET-ASIDE CALCULATIONS AND FUND RESERVES (CONTINUED)**

The negative amount for capital acquisitions may only be carried forward to the extent of proceeds from a property tax levy.

**22. CONTINGENCIES**

**Grants**

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

**23. SUBSEQUENT EVENT**

On July 16, 2004, the School District refinanced the Tax Anticipation Note for the improvement, renovation, and furnishing of existing buildings, facilities and school sites in the amount of \$16,154. The note carries an interest rate of 3.08 percent, and matures on July 15, 2005. The Board plans on repaying this note in full by June 30, 2004.



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Southeastern Local School District  
Clark County  
195 Jamestown Street  
P.O. Box Z  
South Charleston, Ohio 45368

To the Board of Education:

We have audited the financial statements of Southeastern Local School District, Clark County, (the District), as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated January 20, 2005 wherein we noted the District implemented Governmental Accounting Standards Board Statement Number 34. 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.

#### **Compliance**

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 grants, 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 an instance of noncompliance that was required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated January 20, 2005.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 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 do not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 20, 2005.

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

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

**Betty Montgomery**  
Auditor of State

January 7, 2005



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
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Facsimile 614-466-4490

**SOUTHEASTERN LOCAL SCHOOL DISTRICT**

**CLARK COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 8, 2005**