

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

**AUDIT REPORT**

**For the Year Ended June 30, 2005**

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





**Auditor of State  
Betty Montgomery**

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

We have reviewed the *Report of Independent Accountants* of the Seneca East Local School District, Seneca County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY  
Auditor of State

April 6, 2006

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**SENECA EAST LOCAL SCHOOL DISTRICT**  
**AUDIT REPORT**  
**For the Year Ended June 30, 2005**

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**REPORT OF INDEPENDENT ACCOUNTANTS**

Board of Education  
Seneca East Local School District  
Attica, Ohio

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

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

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

As disclosed in Note 3 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures* and GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*.

The management's discussion and analysis on pages 2 through 11 is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally on inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 20, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Charles E. Harris & Associates, Inc.*  
January 20, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

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

**Financial Highlights**

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities increased \$18,800,305 which represents a 2,661.77% increase from 2004.
- General revenues accounted for \$24,984,263 in revenue or 93.71% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,677,077 or 6.29% of total revenues of \$26,661,340.
- The District had \$7,861,035 in expenses related to governmental activities; \$1,677,077 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$24,984,263 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and classroom facilities fund. The general fund had \$6,983,033 in revenues and other financing sources and \$6,777,131 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance increased \$205,902 from a restated deficit balance of \$189,839 to a balance of \$16,063.
- The District's classroom facilities fund had \$10,152,989 in revenues and other financing sources and \$187,911 in expenditures. During fiscal year 2005, the classroom facilities fund's fund balance increased \$9,965,078 to a balance of \$9,965,078.

**Using these Basic Financial Statements**

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED

**Reporting the District as a Whole**

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

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

***Fund Financial Statements***

The analysis of the District's major governmental funds begins on page 8. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental funds are the general fund and classroom facilities fund.

***Governmental Funds***

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

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

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



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 21-47 of this report.

**The District as a Whole**

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

The table below provides a summary of the District's net assets for 2005 and 2004.

	<b>Net Assets</b>	
	Governmental Activities <u>2005</u>	Restated Governmental Activities <u>2004</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 30,731,560	\$ 2,441,544
Capital assets	<u>1,437,576</u>	<u>1,380,838</u>
Total assets	<u>32,169,136</u>	<u>3,822,382</u>
<b><u>Liabilities</u></b>		
Current liabilities	2,974,153	2,370,739
Long-term liabilities	<u>9,688,370</u>	<u>745,335</u>
Total liabilities	<u>12,662,523</u>	<u>3,116,074</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	1,141,797	1,227,791
Restricted	18,755,636	202,264
Unrestricted (deficit)	<u>(390,820)</u>	<u>(723,747)</u>
Total net assets	<u>\$ 19,506,613</u>	<u>\$ 706,308</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$19,506,613. Of this total, \$18,755,636 is restricted in use.

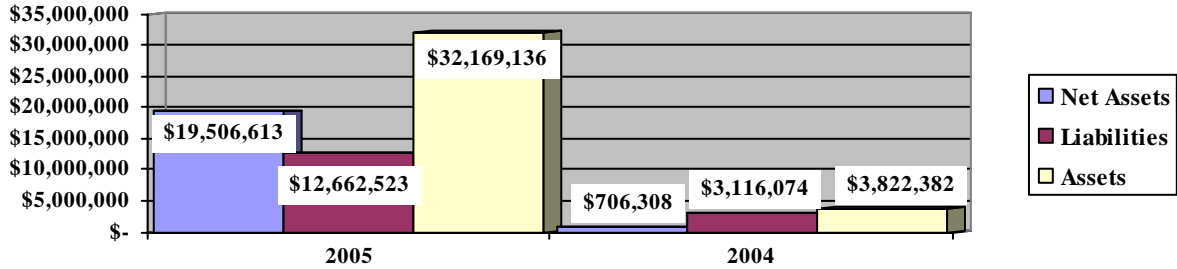
At year-end, capital assets represented 4.47% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$1,141,797. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$18,755,636, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$ 390,820.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
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**Governmental Activities**



The table below shows the change in net assets for fiscal year 2005 and 2004.

**Change in Net Assets**

	Governmental Activities 2005	Governmental Activities 2004
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 1,094,828	\$ 1,076,467
Operating grants and contributions	582,249	467,462
Capital grants and contributions	-	23,650
General revenues:		
Property taxes	1,809,123	1,680,073
School district income tax	804,343	767,428
Grants and entitlements	3,685,577	4,068,850
Grants for Ohio Schools Facilities construction	18,651,770	-
Investment earnings	24,238	5,747
Other	9,212	51,210
Total revenues	<u>26,661,340</u>	<u>8,140,887</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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	Change in Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
<b>Expenses</b>		
Program expenses:		
Instruction:		
Regular	\$ 3,822,660	\$ 4,215,467
Special	884,413	750,736
Vocational	193,319	209,233
Support services:		
Pupil	84,215	294,425
Instructional staff	289,131	342,415
Board of education	45,583	57,742
Administration	598,558	577,799
Fiscal	181,542	183,659
Operations and maintenance	557,336	606,793
Pupil transportation	502,031	522,835
Operations of non-instructional services	17,355	18
Food service operations	333,408	361,485
Extracurricular activities	295,675	275,954
Interest and fiscal charges	<u>55,809</u>	<u>5,072</u>
<b>Total expenses</b>	<u>7,861,035</u>	<u>8,403,633</u>
<b>Change in net assets</b>	18,800,305	(262,746)
<b>Net assets at beginning of year</b>	<u>706,308</u>	<u>969,054</u>
<b>Net assets at end of year</b>	<u>\$ 19,506,613</u>	<u>\$ 706,308</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$18,800,305. Total governmental expenses of \$7,861,035 were offset by program revenues of \$1,677,077 and general revenues of \$24,984,263. Program revenues supported 21.33% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, the school district income tax and grants and entitlements. These revenue sources represent 95.77% of total governmental revenue.

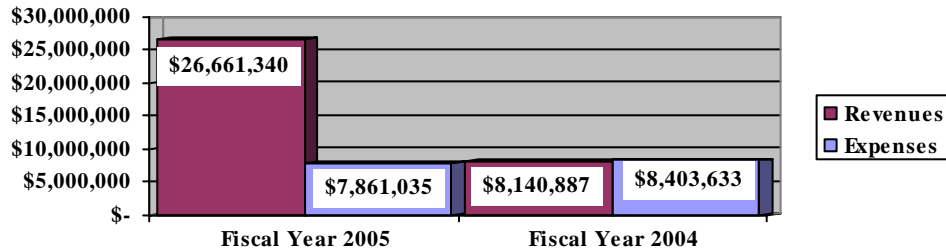
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,900,392 or 62.34% of total governmental expenses for fiscal 2005.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005 and 2004.

**Governmental Activities - Revenues and Expenses**



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

**Governmental Activities**

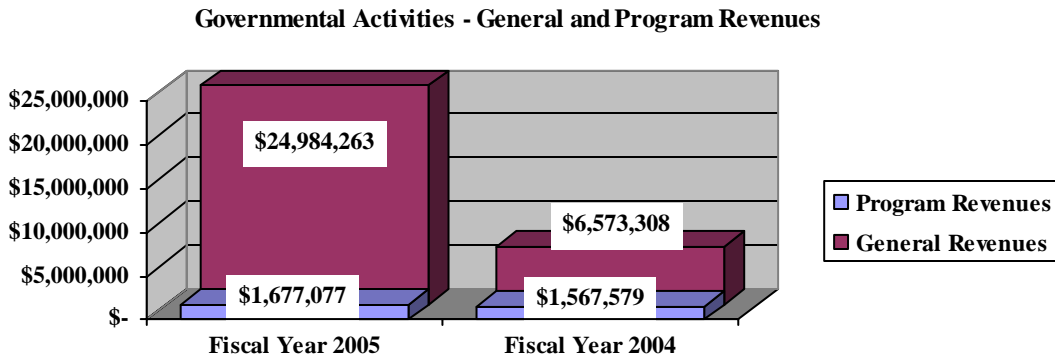
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
<b>Program expenses</b>				
Instruction:				
Regular	\$ 3,822,660	\$ 3,023,525	\$ 4,215,467	\$ 3,437,637
Special	884,413	586,013	750,736	665,357
Vocational	193,319	193,319	209,233	209,233
Support services:				
Pupil	84,215	84,034	294,425	148,889
Instructional staff	289,131	247,714	342,415	291,688
Board of education	45,583	45,583	57,742	57,742
Administration	598,558	559,217	577,799	572,379
Fiscal	181,542	178,217	183,659	183,659
Operations and maintenance	557,336	555,347	606,793	578,567
Pupil transportation	502,031	501,219	522,835	522,150
Operations of non-instructional services	17,355	17,355	18	18
Food service operations	333,408	(24,767)	361,485	11,763
Extracurricular activities	295,675	161,373	275,954	151,900
Interest and fiscal charges	55,809	55,809	5,072	5,072
<b>Total expenses</b>	<b>\$ 7,861,035</b>	<b>\$ 6,183,958</b>	<b>\$ 8,403,633</b>	<b>\$ 6,836,054</b>

The dependence upon tax and other general revenues for governmental activities is apparent, 77.60% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 78.67%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

The graph below presents the District's governmental activities revenue for fiscal year 2005 and 2004.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$10,203,272, which is higher than last year's total of \$5,028. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance	Restated Fund Balance	Increase (Decrease)	Percentage Change
	June 30, 2005	June 30, 2004		
General	\$ 16,063	\$ (189,839)	\$ 205,902	108.46 %
Classroom Facilities	9,965,078	-	9,965,078	100.00 %
Other Governmental	222,131	194,867	27,264	13.99 %
<b>Total</b>	<b>\$ 10,203,272</b>	<b>\$ 5,028</b>	<b>\$ 10,198,244</b>	<b>202,829.04 %</b>

**General Fund**

The District's general fund balance increased \$205,902 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund balance can be attributed to several items related to expenditures decreasing faster than revenues. Revenues exceed expenditures for fiscal year 2005 by \$231,276. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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	2005	Restated			
	Amount	2004	Increase	Percentage	
		Amount	(Decrease)	Change	
<b><u>Revenues</u></b>					
Taxes	\$ 2,575,835	\$ 2,470,506	\$ 105,329	4.26	%
Earnings on investments	6,346	5,405	941	17.41	%
Intergovernmental	3,685,577	4,068,850	(383,273)	(9.42)	%
Other revenues	<u>715,275</u>	<u>756,823</u>	<u>(41,548)</u>	(5.49)	%
Total	<u>\$ 6,983,033</u>	<u>\$ 7,301,584</u>	<u>\$ (318,551)</u>	(4.36)	%
<b><u>Expenditures</u></b>					
Instruction	\$ 4,422,503	\$ 4,844,083	\$ (421,580)	(8.70)	%
Support services	2,119,275	2,474,411	(355,136)	(14.35)	%
Non-instructional services	-	18	(18)	(100.00)	%
Extracurricular activities	158,613	159,528	(915)	(0.57)	%
Capital outlay	-	112,396	(112,396)	(100.00)	%
Debt service	<u>51,366</u>	<u>73,133</u>	<u>(21,767)</u>	(29.76)	%
Total	<u>\$ 6,751,757</u>	<u>\$ 7,663,569</u>	<u>\$ (911,812)</u>	(11.90)	%

***Classroom Facilities Fund***

The District's classroom facilities fund had \$10,152,989 in revenues and other financing sources and \$187,911 in expenditures. During fiscal year 2005, the classroom facilities fund's fund balance increased \$9,965,078 to a balance of \$9,965,078. The increase is primarily due the issue of \$9,000,000 in bond anticipation notes related to the District's local share of the Ohio Schools Facilities building project.

***General Fund Budgeting Highlights***

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

During the course of fiscal 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$6,975,979 and final budgeted revenues and other financing sources were \$7,033,854. Actual revenues and other financing sources for fiscal 2005 was \$7,061,172. This represents a \$27,318 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$7,011,946 were increased to \$7,023,952 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$6,943,610, which was \$80,342 below the final budgeted appropriations.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2005, the District had \$1,437,576 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
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**Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities	
	2005	Restated 2004
Land	\$ 75,706	\$ 75,706
Land improvements	9,943	10,728
Building and improvements	596,660	634,494
Furniture and equipment	392,092	442,392
Vehicles	171,973	217,518
Construction in progress	191,202	-
 Total	 \$ 1,437,576	 \$ 1,380,838

The overall increase in capital assets of \$56,738 is due to capital outlays of \$205,463 exceeding depreciation expense of \$148,725 in the fiscal year. \$191,202 of the increase in capital outlay is a result of construction in progress associated with the Ohio Schools Facilities Construction grant.

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

***Debt Administration***

At June 30, 2005, the District had \$9,000,000 in bond anticipation notes and \$104,577 in capital lease obligations outstanding. Of this total, \$9,039,702 is due within one year and \$64,875 is due within greater than one year. The following table summarizes the notes and lease obligations outstanding.

**Outstanding Debt, at Year End**

	Governmental	
	Activities	Activities
	2005	2004
Energy conservation loans	\$ -	\$ 3,927
Bond anticipation notes	9,000,000	-
Capital lease obligations	104,577	149,120
 Total	 \$ 9,104,577	 \$ 153,047

At June 30, 2005, the District's overall legal debt margin was \$8,080,219, an unvoted debt margin of \$89,780, and an energy conservation debt margin of \$808,019.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
UNAUDITED**

**Current Financial Related Activities**

As the preceding information shows, the Seneca East Local School District relies heavily upon state foundation monies (54% of revenues), general property tax (25%), income tax (10%), and open enrollment (9%) making up the majority of the remaining balance. The District ended fiscal year 2005 with a cash balance in the General Fund of \$360,263. This increase over the previous year's cash balance of \$14,598 is primarily due to a zero percent pay increase in fiscal year 2005 and the redesign of the insurance program. The income tax that expires on December 31, 2005 was renewed in November for another five years.

As with all schools, Seneca East Local School District is experiencing a decline in support from the state for education funding. The Board of Education and Administration have done as much as they can at the local level to try and combat the loss in revenues. Since the District passed levy in February of 2005 for a new building through the Ohio School Facilities, money spent at the current time out of the general fund for non-routine repairs and capital improvement items will be reduced. In addition, the operating costs at one site compared to the three sites we operate now are expected to be less. Currently, the District is in the initial stages of the building project.

**Contacting the District's Financial Management**

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



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

STATEMENT OF NET ASSETS  
JUNE 30, 2005

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 10,693,934
Cash with fiscal agent . . . . .	960
Receivables:	
Taxes. . . . .	2,409,057
Intergovernmental . . . . .	17,521,617
Accrued interest . . . . .	11,383
Prepayments . . . . .	57,608
Materials and supplies inventory . . . . .	37,001
Capital assets:	
Land . . . . .	75,706
Construction in progress . . . . .	191,202
Depreciable capital assets, net . . . . .	1,170,668
Capital assets, net. . . . .	1,437,576
 Total assets. . . . .	 32,169,136
<b>Liabilities:</b>	
Accounts payable. . . . .	43,359
Contracts payable. . . . .	107,825
Accrued wages and benefits . . . . .	582,085
Pension obligation payable. . . . .	162,588
Intergovernmental payable . . . . .	46,555
Deferred revenue . . . . .	1,982,803
Accrued interest payable . . . . .	48,938
Long-term liabilities:	
Due within one year. . . . .	9,053,874
Due in more than one year . . . . .	634,496
Total liabilities . . . . .	12,662,523
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	1,141,797
Restricted for:	
Capital projects . . . . .	18,532,059
State funded programs . . . . .	4,315
Federally funded programs . . . . .	4,175
Student activities . . . . .	11,557
Other purposes . . . . .	203,530
Unrestricted (deficit) . . . . .	(390,820)
Total net assets . . . . .	\$ 19,506,613

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 3,822,660	\$ 706,063	\$ 93,072	\$ (3,023,525)
Special . . . . .	884,413	-	298,400	(586,013)
Vocational . . . . .	193,319	-	-	(193,319)
Support services:				
Pupil . . . . .	84,215	-	181	(84,034)
Instructional staff . . . . .	289,131	-	41,417	(247,714)
Board of education . . . . .	45,583	-	-	(45,583)
Administration . . . . .	598,558	-	39,341	(559,217)
Fiscal . . . . .	181,542	-	3,325	(178,217)
Operations and maintenance . . . . .	557,336	-	1,989	(555,347)
Pupil transportation . . . . .	502,031	-	812	(501,219)
Operation of non-instructional . . . . .	17,355	-	-	(17,355)
Food service operations . . . . .	333,408	255,663	102,512	24,767
Extracurricular activities . . . . .	295,675	133,102	1,200	(161,373)
Interest and fiscal charges . . . . .	55,809	-	-	(55,809)
Total governmental activities . . . . .	\$ 7,861,035	\$ 1,094,828	\$ 582,249	(6,183,958)

**General Revenues:**

Property taxes levied for:	
General purposes . . . . .	1,789,192
Capital projects . . . . .	19,931
School district income tax . . . . .	804,343
Grants and entitlements not restricted to specific programs . . . . .	3,685,577
Grants restricted for Ohio Schools	
Facilities construction . . . . .	18,651,770
Investment earnings . . . . .	24,238
Miscellaneous . . . . .	9,212
Total general revenues . . . . .	24,984,263
Change in net assets . . . . .	18,800,305
<b>Net assets at beginning of year (restated) .</b>	<b>706,308</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 19,506,613</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 280,098	\$ 10,061,558	\$ 272,113	\$ 10,613,769
Cash with fiscal agent . . . . .	-	-	960	960
Receivables:				
Taxes. . . . .	2,018,007	-	391,050	2,409,057
Intergovernmental . . . . .	-	17,516,270	5,347	17,521,617
Accrued interest . . . . .	38	11,345	-	11,383
Interfund receivable . . . . .	2,021	-	-	2,021
Prepayments . . . . .	57,608	-	-	57,608
Materials and supplies inventory . . . . .	25,858	-	11,143	37,001
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	80,165	-	-	80,165
Total assets . . . . .	<u>\$ 2,463,795</u>	<u>\$ 27,589,173</u>	<u>\$ 680,613</u>	<u>\$ 30,733,581</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 40,121	\$ -	\$ 3,238	\$ 43,359
Contracts payable . . . . .	-	107,825	-	107,825
Accrued wages and benefits . . . . .	530,003	-	52,082	582,085
Pension obligation payable. . . . .	141,207	-	21,381	162,588
Intergovernmental payable. . . . .	41,679	-	4,876	46,555
Interfund payable. . . . .	-	-	2,021	2,021
Deferred revenue. . . . .	1,694,722	17,516,270	374,884	19,585,876
Total liabilities . . . . .	<u>2,447,732</u>	<u>17,624,095</u>	<u>458,482</u>	<u>20,530,309</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	118,627	10,777	9,801	139,205
Reserved for materials and supplies inventory. . . . .	25,858	-	11,143	37,001
Reserved for prepayments . . . . .	57,608	-	-	57,608
Reserved for property tax unavailable for appropriation . . . . .	72,712	-	19,492	92,204
Reserved for textbooks. . . . .	80,165	-	-	80,165
Unreserved, undesignated (deficit), reported in:				
General fund . . . . .	(338,907)	-	-	(338,907)
Special revenue funds. . . . .	-	-	101,538	101,538
Capital projects funds. . . . .	-	9,954,301	80,157	10,034,458
Total fund balances . . . . .	<u>16,063</u>	<u>9,965,078</u>	<u>222,131</u>	<u>10,203,272</u>
Total liabilities and fund balances . . . . .	<u>\$ 2,463,795</u>	<u>\$ 27,589,173</u>	<u>\$ 680,613</u>	<u>\$ 30,733,581</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005

<b>Total governmental fund balances</b>		\$	10,203,272
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			1,437,576
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	83,477	
Intergovernmental revenue		<u>17,519,596</u>	
Total			17,603,073
In the statement of activities interest is accrued on outstanding notes, whereas in the governmental funds, interest expenditures are reported when due			(48,938)
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(583,793)	
Bond anticipation notes payable		(9,000,000)	
Capital lease obligation payable		<u>(104,577)</u>	
Total			<u>(9,688,370)</u>
<b>Net assets of governmental activities</b>		\$	<u><u>19,506,613</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 2,575,835	\$ -	\$ 19,931	\$ 2,595,766
Tuition. . . . .	632,930	-	-	632,930
Charges for services. . . . .	-	-	255,663	255,663
Earnings on investments. . . . .	6,346	17,489	403	24,238
Classroom materials and fees . . . . .	39,145	-	-	39,145
Extracurricular. . . . .	-	-	133,102	133,102
Other local revenues. . . . .	43,200	-	1,200	44,400
Intergovernmental - State. . . . .	3,685,577	1,135,500	118,573	4,939,650
Intergovernmental - Federal . . . . .	-	-	459,149	459,149
Total revenue . . . . .	<u>6,983,033</u>	<u>1,152,989</u>	<u>988,021</u>	<u>9,124,043</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	3,679,336	-	89,259	3,768,595
Special. . . . .	552,516	-	332,409	884,925
Vocational. . . . .	190,651	-	-	190,651
Support services:				
Pupil. . . . .	82,228	-	179	82,407
Instructional staff . . . . .	239,749	-	40,560	280,309
Board of education . . . . .	45,583	-	-	45,583
Administration. . . . .	551,111	-	39,357	590,468
Fiscal . . . . .	177,263	-	3,325	180,588
Operations and maintenance. . . . .	557,853	-	2,083	559,936
Pupil transportation . . . . .	465,488	-	643	466,131
Food service operations . . . . .	-	-	346,461	346,461
Extracurricular activities. . . . .	158,613	-	127,880	286,493
Facilities Acquisition and Construction . . .	-	187,911	-	187,911
Debt service:				
Principal retirement . . . . .	44,543	-	3,927	48,470
Interest and fiscal charges . . . . .	6,823	-	48	6,871
Total expenditures . . . . .	<u>6,751,757</u>	<u>187,911</u>	<u>986,131</u>	<u>7,925,799</u>
Excess of revenues over expenditures . . . .	<u>231,276</u>	<u>965,078</u>	<u>1,890</u>	<u>1,198,244</u>
<b>Other financing sources (uses):</b>				
Sale of notes . . . . .	-	9,000,000	-	9,000,000
Transfers in . . . . .	-	-	25,374	25,374
Transfers (out). . . . .	<u>(25,374)</u>	<u>-</u>	<u>-</u>	<u>(25,374)</u>
Total other financing sources (uses) . . . . .	<u>(25,374)</u>	<u>9,000,000</u>	<u>25,374</u>	<u>9,000,000</u>
Net change in fund balances . . . . .	205,902	9,965,078	27,264	10,198,244
<b>Fund balances (deficit)</b>				
at beginning of year (restated). . . . .	<u>(189,839)</u>	<u>-</u>	<u>194,867</u>	<u>5,028</u>
Fund balances at end of year. . . . .	<u>\$ 16,063</u>	<u>\$ 9,965,078</u>	<u>\$ 222,131</u>	<u>\$ 10,203,272</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**Net change in fund balances - total governmental funds** \$ 10,198,244

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

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

Capital asset additions	\$	205,463	
Current year depreciation		(148,725)	
Total			56,738

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

Taxes		17,700	
Intergovernmental		17,519,596	
Total			17,537,296

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

48,470

Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on the bond anticipation notes.

(48,938)

Proceeds of bond anticipation notes are recorded as other financing sources in the funds, however, on the statement of activities they are not reported as revenues as they increase liabilities on the statement of net assets.

(9,000,000)

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

8,495

**Change in net assets of governmental activities** \$ 18,800,305

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 2,612,436	\$ 2,634,110	\$ 2,640,758	\$ 6,648
Tuition. . . . .	627,722	632,930	632,930	-
Earnings on investments. . . . .	5,468	5,513	6,308	795
Classroom materials and fees . . . . .	38,787	39,109	39,145	36
Other local revenues . . . . .	25,420	25,631	45,470	19,839
Intergovernmental - State . . . . .	<u>3,655,252</u>	<u>3,685,577</u>	<u>3,685,577</u>	<u>-</u>
Total revenue . . . . .	<u>6,965,085</u>	<u>7,022,870</u>	<u>7,050,188</u>	<u>27,318</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	3,734,447	3,818,704	3,814,660	4,044
Special. . . . .	668,205	599,935	554,875	45,060
Vocational. . . . .	193,165	191,344	188,992	2,352
Support services:				
Pupil. . . . .	99,266	95,606	93,090	2,516
Instructional staff . . . . .	280,379	249,579	243,503	6,076
Board of education . . . . .	45,665	20,295	20,292	3
Administration. . . . .	567,438	557,866	556,955	911
Fiscal . . . . .	186,548	190,055	179,097	10,958
Operations and maintenance. . . . .	595,010	624,309	622,052	2,257
Pupil transportation . . . . .	453,094	487,187	482,562	4,625
Operation of non-instructional services . . . . .	20	20	-	20
Extracurricular activities. . . . .	<u>152,659</u>	<u>158,483</u>	<u>158,382</u>	<u>101</u>
Total expenditures . . . . .	<u>6,975,896</u>	<u>6,993,383</u>	<u>6,914,460</u>	<u>78,923</u>
Excess of revenues over expenditures. . . . .	<u>(10,811)</u>	<u>29,487</u>	<u>135,728</u>	<u>106,241</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure. . . . .	10,894	10,984	10,984	-
Refund of prior year receipt. . . . .	(50)	(2,350)	(2,270)	80
Transfers (out) . . . . .	(36,000)	(25,219)	(24,859)	360
Advances (out) . . . . .	<u>-</u>	<u>(3,000)</u>	<u>(2,021)</u>	<u>979</u>
Total other financing sources (uses) . . . . .	<u>(25,156)</u>	<u>(19,585)</u>	<u>(18,166)</u>	<u>1,419</u>
Net change in fund balance . . . . .	(35,967)	9,902	117,562	107,660
<b>Fund balance at beginning of year . . . . .</b>	<b>79,707</b>	<b>79,707</b>	<b>79,707</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>11,548</b>	<b>11,548</b>	<b>11,548</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b><u>\$ 55,288</u></b>	<b><u>\$ 101,157</u></b>	<b><u>\$ 208,817</u></b>	<b><u>\$ 107,660</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2005

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 99,688	\$ 40,416
Total assets. . . . .	99,688	\$ 40,416
<b>Liabilities:</b>		
Accounts payable. . . . .	22	\$ 6,458
Due to students . . . . .	-	33,958
Total liabilities . . . . .	22	\$ 40,416
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	99,666	
Total net assets . . . . .	\$ 99,666	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 467
Gifts and contributions. . . . .	11,495
	11,962
Total additions. . . . .	11,962
<b>Deductions:</b>	
Scholarships awarded . . . . .	10,480
	1,482
Change in net assets . . . . .	1,482
<b>Net assets at beginning of year. . . . .</b>	<b>98,184</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 99,666</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

The District was established in 1971. The District serves an area of approximately 154 square miles and is located in Seneca and Huron Counties. The District is the 489<sup>th</sup> largest in the State of Ohio among the 614 public school districts in terms of enrollment. It is staffed by 76 certified employees and 53 non-certified teaching personnel who provide services to 1,010 students and other community members. The District currently operates 2 elementary schools, an elementary/junior high school, a high school, and an administration building.

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

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

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food services, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

*JOINTLY GOVERNED ORGANIZATIONS*

Northern Ohio Educational Computer Association (NOECA)

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

Vanguard-Sentinel Career Center

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

Bay Area Council

The Bay Area Council was established in 1986 to carry out a cooperative program for the purchase of natural gas among boards of education located in Erie, Huron, Ottawa, Sandusky, Seneca, and Wood Counties. The Bay Area Council is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member boards of education. The Bay Area Council is governed by a Board of Directors. This Board is elected by an Assembly consisting of a representative from each participating school district. The District paid \$54,709 to Bay Area Council during fiscal year 2005 for gas usage and related fees. Financial information can be obtained from the Erie County Educational Service Center, who serves as fiscal agent, 2902 Columbus Avenue, Sandusky, Ohio 44870.

Northwestern Ohio Educational Research Council, Incorporated

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

*RELATED ORGANIZATION*

Seneca East Public Library

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

*INSURANCE PURCHASING POOLS*

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

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

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

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

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

*PROPRIETARY FUND*

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

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation and Measurement Focus**

*Government-wide Financial Statements* - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

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

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

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

*Deferred Revenue* - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, (see Note 6) have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**E. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2005 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Seneca County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final amended certificates issued for fiscal year 2005.

**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund and function must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2005; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

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

**F. Cash and Investments**

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

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

During fiscal year 2005, investments were limited to federal securities and a U.S. Government money market. These investments are reported at fair market value.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund, capital projects fund and the private-purpose trust fund. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$6,346, which includes \$5,368 assigned from other funds.



**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

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

**G. Inventory**

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

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

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

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2005, the District decreased its capitalization threshold from \$5,000 to \$1,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**I. Interfund Balances**

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

**J. Compensated Absences**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with ten or more years of service with the District were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

**K. Accrued Liabilities and Long-Term Obligations**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, 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 are due for payment during the current year. Loans are recognized as a liability on the fund financial statements when due.

**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**L. Fund Balance Reserves**

The 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. 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, materials and supplies inventory, prepayments, textbooks and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**M. Net Assets**

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

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

**N. Prepayments**

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

**O. Estimates**

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

**P. Interfund Activity**

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

Inter-fund activity between governmental funds is eliminated in the statement of activities.

**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

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

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

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

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ (138,544)	\$ -	\$ 208,127	\$ 69,583
GASB Technical Bulletin No. 2004-2	(51,295)	-	(13,260)	(64,555)
Restated Fund Balances, June 30, 2004	<u>\$ (189,839)</u>	<u>\$ -</u>	<u>\$ 194,867</u>	<u>\$ 5,028</u>

**B. Restatement of Net Assets**

The beginning net assets of the governmental activities have been restated due to the District decreasing its capitalization threshold from \$5,000 to \$1,500. This restatement had the following effect on net assets at June 30, 2004:

	<u>Governmental Activities</u>
Net assets, June 30, 2004	\$ 570,550
Adjustment for capital assets	135,758
Restated net assets, July 1, 2005	<u>\$ 706,308</u>

**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

**C. Deficit Fund Balances**

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

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Food Service	\$ 9,606
Management Information	75
Summer School Subsidy	291
Title VI-B	14,099
Title I	12,244
Miscellaneous Federal Grants	3

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

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

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

Protection of District's deposits is provided by 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.

**A. Cash on Hand**

At year-end, the District had \$2,419 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**B. Cash with Fiscal Agent**

At fiscal year-end, the District had \$960 in cash and cash equivalents held by the North Central Ohio Educational Service Center. This amount is included on the balance sheet as "Cash with Fiscal Agent". The North Central Ohio Educational Service Center holds this flow through grant money for the District together with that of other school districts and therefore the District cannot classify this money by risk under GASB Statement No. 3.

**SENECA EAST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**C. Deposits with Financial Institutions**

At June 30, 2005, the carrying amount of all District deposits was \$1,825,801. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$1,554,702 of the District's bank balance of \$1,854,702 was exposed to custodial risk as discussed below, while \$300,000 was covered by Federal Deposit Insurance Corporation.

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

**D. Investments**

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance</u> <u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 months or</u> <u>less</u>	<u>7 to 12</u> <u>months</u>	<u>13 to 18</u> <u>months</u>
FHLB Discount Note	\$ 3,492,300	\$ 3,492,300	\$ -	\$ -
FNMA Discount Note	2,950,200	2,950,200	-	-
FNMA	1,988,000	-	-	1,988,000
U.S. Government Money Market	575,318	575,318	-	-
	<u>\$ 9,005,818</u>	<u>\$ 7,017,818</u>	<u>\$ -</u>	<u>\$ 1,988,000</u>

The weighted average maturity of investments is .41 years.

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

*Credit Risk:* The District's investments were rated AAA and Aaa by Standard and Poor's and Moody's Investor Services respectively.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB Discount Note	\$ 3,492,300	38.78
FNMA Discount Note	2,950,200	32.76
FNMA	1,988,000	22.07
U.S. Government Money Market	575,318	6.39
	<u>\$ 9,005,818</u>	<u>100.00</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**E. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,825,801
Investments	9,005,818
Cash on hand	2,419
Total	\$ 10,834,038
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 10,693,934
Private-purpose trust funds	99,688
Agency funds	40,416
Total	\$ 10,834,038

**NOTE 5 - INTERFUND TRANSACTIONS**

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

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 25,402

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

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

- B.** Interfund balances at June 30, 2005 as reported on the fund statements consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>		
General Fund	Nonmajor governmental funds	\$	2,021

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the statement of net assets.



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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 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, 2005 was \$72,712 in the general fund and \$19,492 in the permanent improvement fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$128,620 in the general fund.

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

**SENECA EAST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second		2005 First	
	Half Collections		Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 76,567,770	85.29	\$ 78,356,316	86.23
Public utility personal	10,795,360	12.02	10,206,890	11.24
Tangible personal property	<u>2,416,783</u>	<u>2.69</u>	<u>2,300,569</u>	<u>2.53</u>
<b>Total</b>	<b>\$ 89,779,913</b>	<b>100.00</b>	<b>\$ 90,863,775</b>	<b>100.00</b>
Tax rate per \$1,000 of assessed valuation	\$ 30.30		\$ 30.30	

**NOTE 7 - SCHOOL DISTRICT INCOME TAX**

The voters of the District passed a 1% school district income tax at the November 7, 2000 election that became effective January 1, 2001. This tax is effective for five years. School district income tax revenue received by the general fund during fiscal year 2005 was \$804,343.

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2005 consisted of property and income taxes, accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

<b>Governmental Activities:</b>		
Taxes		\$ 2,409,057
Accrued interest		11,383
Intergovernmental		<u>17,521,617</u>
<b>Total</b>		<b>\$ 19,942,057</b>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 9 - CAPITAL ASSETS**

- A. The capital asset balances of the governmental activities have been restated due to the District decreasing its capitalization threshold. See Note 2.H. for detail:

	Balance		Restated
	06/30/04	Adjustments	Balance
			06/30/04
<b>Governmental Activities</b>			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 64,458	\$ 11,248	\$ 75,706
Total capital assets, not being depreciated	64,458	11,248	75,706
<i>Capital assets, being depreciated:</i>			
Land improvements	24,300	3,200	27,500
Buildings and improvements	1,515,886	22,446	1,538,332
Furniture and equipment	556,405	583,205	1,139,610
Vehicles	908,108	2,700	910,808
Total capital assets, being depreciated	3,004,699	611,551	3,616,250
<i>Less: accumulated depreciatoin:</i>	(1,824,077)	(487,041)	(2,311,118)
Governmental activities capital assets, net	\$ 1,245,080	\$ 135,758	\$ 1,380,838

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

	Restated			Balance
	Balance	Additions	Disposals	Balance
	06/30/04			06/30/05
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 75,706	\$ -	\$ -	\$ 75,706
Construction in progress	-	191,202	-	191,202
Total capital assets, not being depreciated	75,706	191,202	-	266,908
<i>Capital assets, being depreciated:</i>				
Land improvements	27,500	-	-	27,500
Buildings and improvements	1,538,332	-	-	1,538,332
Furniture and equipment	1,139,610	14,261	(29,047)	1,124,824
Vehicles	910,808	-	-	910,808
Total capital assets, being depreciated	3,616,250	14,261	(29,047)	3,601,464
<i>Less: accumulated depreciation</i>				
Land improvements	(16,772)	(785)	-	(17,557)
Buildings and improvements	(903,838)	(37,834)	-	(941,672)
Furniture and equipment	(697,218)	(64,561)	29,047	(732,732)
Vehicles	(693,290)	(45,545)	-	(738,835)
Total accumulated depreciation	(2,311,118)	(148,725)	29,047	(2,430,796)
Governmental activities capital assets, net	\$ 1,380,838	\$ 56,738	\$ -	\$ 1,437,576

**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 9 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>		
Regular		\$ 62,179
Special		1,288
Vocational		3,313
<u>Support Services:</u>		
Pupil		385
Instructional staff		6,663
Administration		7,087
Operations and Maintenance		3,466
Pupil transportation		48,094
Extracurricular		12,528
Food service operations		<u>3,722</u>
Total depreciation expense		<u>\$ 148,725</u>

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

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

Capital assets consisting of equipment have been capitalized in the amount of \$268,183. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2005 totaled \$44,543 paid by the general fund.

**SENECA EAST LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE- (Continued)**

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 43,464
2007	25,473
2008	19,612
2009	19,612
2010	<u>4,903</u>
Total minimum lease payments	113,064
Less amount representing interest	<u>(8,487)</u>
Total	<u>\$ 104,577</u>

**NOTE 11 - LONG-TERM OBLIGATIONS**

A. During fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	<u>Interest</u>	<u>Balance at</u>			<u>Balance at</u>	<u>Due in</u>
	<u>Rate</u>	<u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/05</u>	<u>One Year</u>
<b>Governmental Activities:</b>						
Bond anticipation notes	3.45%	\$ -	\$ 9,000,000	\$ -	\$ 9,000,000	\$ 9,000,000
Energy conservation notes payable	5.35%	3,927	-	(3,927)	-	-
Capital lease		149,120	-	(44,543)	104,577	39,702
Compensated absences		<u>592,288</u>	<u>65,554</u>	<u>(74,049)</u>	<u>583,793</u>	<u>14,172</u>
Total governmental activities long-term liabilities		<u>\$ 745,335</u>	<u>\$ 9,065,554</u>	<u>\$ (122,519)</u>	<u>\$ 9,688,370</u>	<u>\$ 9,053,874</u>

**Bond Anticipation Notes:** On May 3, 2005, the District issued \$9,000,000 in bond anticipation notes to begin various District building projects associated with the Ohio Schools Facilities Commission. The notes bear an annual interest rate of 3.45% and mature on November 3, 2005. The notes will be retired using a portion of the proceeds from the District's \$11,845,986 bond issue on November 1, 2005. In accordance with FASB Statement No. 6 "Classification of Short-Term Obligations Expected to Be Refinanced", the bond anticipation notes were classified as long-term obligations because they have been replaced with long-term bonds before the financial statements have been issued.

**SENECA EAST LOCAL SCHOOL DISTRICT  
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FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

FY 2000 Energy Conservation Loan - On November 16, 1999, the District obtained a loan, in the amount of \$30,000, from Sutton Bank to provide funds for an energy conservation lighting project for the District. The loan was issued under the authority of Ohio Revised Code Section 133.06 for a five-year period, with final maturity in fiscal year 2005. The loan was retired through the Bond Retirement debt service fund.

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

**B. Legal Debt Margin**

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

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$8,177,740 and an unvoted debt margin of \$90,864.

**NOTE 12 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the District contracted for the following insurance coverages:

Coverages provided by Lindsey Insurance are as follows:

Buildings and contents - replacement cost (\$2,500 deductible)	\$15,190,709
Computer equipment (\$250 deductible)	443,003
Contractor's equipment (\$250 deductible)	46,518
Miscellaneous radio (\$250 deductible)	17,213
Musical instruments	173,837
Automobile liability	1,000,000
Uninsured motorists	100,000
Medical payments - per person	5,000
Comprehensive (\$1,000 deductible)	
Collision (\$1,000 deductible)	
Umbrella liability (per occurrence)	2,000,000
Umbrella liability (aggregate)	2,000,000
General liability	1,000,000 (per occurrence)
	2,000,000 (aggregate)
Professional errors and omissions	1,000,000 (each loss)
	1,000,000 (aggregate)
Sexual misconduct liability	1,000,000 (each loss)
	1,000,000 (aggregate)
Employers stop gap liability	1,000,000 (each accident loss)
	1,000,000 (each employee limit)
	2,000,000 (aggregate)

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 12 - RISK MANAGEMENT - (Continued)**

Coverages provided by Ohio Mutual Insurance Association are as follows:

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

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

**B. Health Insurance**

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

**C. Workers' Compensation Plan**

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

The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will than either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 13 - DEFINED BENEFIT PENSION PLAN**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. 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. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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 adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$105,250, \$82,674, and \$72,565, respectively; 50.46% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$52,140 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 13 - DEFINED BENEFIT PENSION PLAN - (Continued)**

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.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$446,004, \$464,617 and \$440,243, respectively; 84.13% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$70,475 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the Combined Plans for fiscal 2005 were \$4,687.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

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

The State Teachers Retirement 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 Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$34,308 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)**

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$51,786 during the 2005 fiscal year.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING – (Continued)**

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

<b>Net Change in Fund Balance</b>		<u>General Fund</u>
Budget basis		\$ 117,562
Net adjustment for revenue accruals		(67,155)
Net adjustment for expenditure accruals		11,257
Net adjustment for other sources/uses		(7,208)
Adjustment for encumbrances		<u>151,446</u>
GAAP basis		<u>\$ 205,902</u>

**NOTE 16 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

**C. 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 plan is unconstitutional.

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

**SENECA EAST LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 17 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2004	\$ (294)	\$ -
Current year set-aside requirement	145,951	145,951
Qualifying disbursements	<u>(65,492)</u>	<u>(157,962)</u>
Total	<u>\$ 80,165</u>	<u>\$ (12,011)</u>
Cash balance carried forward to FY 2006	<u>\$ 80,165</u>	<u>\$ -</u>

The District did not have enough qualifying disbursements to reduce the set-aside amount below zero for the textbooks/instructional materials due to budget cuts. Restricted cash fund balance and a reservation of fund balance has been established in the General fund of \$80,165.

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

**NOTE 18 - CONTRACTUAL COMMITMENTS**

As of June 30, 2005, the District had the following contractual commitments outstanding related to the Construction Project described in Note 11.A. A summary of the primary contractual commitments follows:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Paid Through June 30, 2005</u>	<u>Remaining Contract Amount</u>
Fanning Howey Architects	\$ 1,590,530	\$ (78,163)	\$ 1,512,367
Total	<u>\$ 1,590,530</u>	<u>\$ (78,163)</u>	<u>\$ 1,512,367</u>

**NOTE 19 – SUBSEQUENT EVENTS**

On November 1, 2005 the District issued \$11,845,986 in various general obligation bonds to finance the District's portion of the Ohio Schools Facilities Project. The issue consisted of the following:

1. \$3,305,000 in current interest serial bonds with interest rates ranging from 3.500% to 4.125% with a final maturity date of December 1, 2017.
2. \$8,495,000 in current term bonds with interest rates ranging from 4.250% to 4.500% with a final maturity date of December 1, 2033.
3. \$45,986 in capital appreciation bonds with a final maturity date of December 1, 2020.

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

Board of Education  
Seneca East Local School District  
Attica, Ohio

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Seneca East Local School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 20, 2006, wherein we noted the District implemented GASB Statement No. 40 and GASB Technical Bulletin No. 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Controls Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the District in a separate letter dated January 20, 2006.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated January 20, 2006.

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

***Charles E. Harris & Associates, Inc.***  
January 20, 2006

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY, OHIO  
For the Year Ended June 30,2005**

SCHEDULE OF PRIOR AUDIT FINDINGS

The prior audit, for the year ended June 30, 2004, reported no material citations or recommendations.







**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**SENECA EAST LOCAL SCHOOL DISTRICT**

**SENECA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 17, 2006**