

Southeastern Local School District
Ross County
Single Audit
July 1, 2006 Through June 30, 2007
Fiscal Year Audited Under GAGAS: 2007

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Mary Taylor, CPA
Auditor of State

Board of Education
Southeastern Local School District
2003 Lancaster Road
Chillicothe, Ohio 45601

We have reviewed the *Independent Auditor's Report* of the Southeastern Local School District, Ross County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2006 through June 30, 2007. 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 Southeastern Local School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 23, 2008

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Southeastern Local School District

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Southeastern Local School District
2003 Lancaster Road
Chillicothe, Ohio 45601

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southeastern Local School District, Ross County, Ohio, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

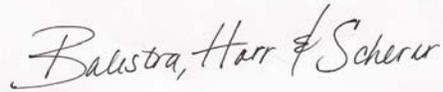
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2007, and the respective changes in financial position and cash flows thereof, where applicable, and the respective budgetary comparison schedule for the general fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

December 31, 2007

Southeastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

The discussion and analysis of the Southeastern Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2007 are as follows:

- Net assets of governmental activities increased \$397,492.
- General revenues accounted for \$8,073,208 or 71% of all revenues. Program specific revenues in the form of charges for services and sales, operating and capital grants and contributions, accounted for \$3,349,702 or 29% of total revenues of \$11,422,910.
- The School District had \$11,025,418 in expenses related to governmental activities; only \$3,349,702 of these expenses were offset by program specific charges for services and sales, operating and capital grants and contributions.

USING THIS ANNUAL FINANCIAL REPORT

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 Southeastern Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School 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 School District's most significant funds with all other non-major funds presented in total in one column.

Southeastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School 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 School 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, most of the School District's programs and services are reported as governmental activities including instruction, support services, operation of non instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial statements provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Classroom Facilities Capital Projects Fund.

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating receipts over (under) operating disbursements and changes in net assets. Proprietary funds are classified as enterprise or internal service and the School District only has an internal service fund which is used to account for their self-insurance program for employee medical and dental claims. This fund is reported using the accrual basis of accounting.

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. The School District's fiduciary funds are agency funds and private purpose trust funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

Southeastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

The School District's fiduciary funds are agency funds which are used to maintain financial activity of the School District's Student Managed Activities, and private purpose trust funds which are used to maintain the financial activity of the School District's Scholarship Funds.

THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2007 compared to 2006.

Table 1
Net Assets

	Governmental Activities	
	2007	2006
Assets		
Current and Other Assets	\$7,009,732	\$5,866,572
Capital Assets	26,077,716	27,077,303
Total Assets	<u>33,087,448</u>	<u>32,943,875</u>
Liabilities		
Current and Other Liabilities	2,824,261	3,094,151
Long-term Liabilities	5,541,926	5,525,955
Total Liabilities	<u>8,366,187</u>	<u>8,620,106</u>
Net Assets		
Invested in Capital Assets, Net of Debt	21,083,653	22,040,886
Restricted	1,395,204	1,384,313
Unrestricted	2,242,404	898,570
Total Net Assets	<u>\$24,721,261</u>	<u>\$24,323,769</u>

Total net assets of the District as a whole increased \$397,492. The increase to Current and Other Assets is due to an increase in cash on hand with the District at fiscal year end. This is primarily due to an increase in intergovernmental revenues.

Southeastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2007 and June 30, 2006.

Table 2
Changes in Net Assets

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
Revenues		
Program Revenues		
Charges for Services and Sales	\$ 970,009	\$ 743,800
Operating Grants and Contributions	2,328,063	1,726,006
Capital Grants and Contributions	51,630	28,674
Total Program Revenues	<u>3,349,702</u>	<u>2,498,480</u>
General Revenues		
Property Taxes	1,829,840	1,832,216
Income Taxes	35,941	122,968
Grants and Entitlements Not Restricted to Specific Programs	5,831,574	5,983,853
Investment Earnings	172,357	124,610
Gain on Sale of Capital Assets	-	102,651
Gifts and Donations	-	22,000
Miscellaneous	203,496	52,039
Total General Revenues	<u>8,073,208</u>	<u>8,240,337</u>
Total Revenues	<u>11,422,910</u>	<u>10,738,817</u>
Program Expenses		
Instruction:		
Regular	5,273,742	4,539,719
Special	1,164,813	1,098,345
Other	21,111	-
Support Services:		
Pupils	420,070	408,061
Instructional Staff	354,772	376,218
Board of Education	16,220	26,400
Administration	502,461	518,218
Fiscal	163,124	184,461
Business	250,172	352,994
Operation and Maintenance of Plant	1,130,431	1,079,756
Pupil Transportation	722,074	1,016,244
Central	4,692	-
Operation of Non-Instructional Services	377,188	400,633
Extracurricular Activities	318,343	354,707
Interest and Fiscal Charges	306,205	287,717
Total Expenses	<u>11,025,418</u>	<u>10,643,473</u>
Increase in Net Assets	397,492	95,344
Net Assets, Beginning of Year	<u>24,323,769</u>	<u>24,228,425</u>
Net Assets, End of Year	<u>\$ 24,721,261</u>	<u>\$ 24,323,769</u>

Southeastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Income tax revenue is down as the levy expired December 30, 2004 and the only collections are for delinquencies. Charges for services and sales increased due to an increase in open enrollment for fiscal year 2007.

Operating Grants and Contributions increased from the prior year due to an increase in intergovernmental monies received for the current year, as well as the District receiving the new CORE grant.

The most significant program expenses for the District are Regular Instruction, Operation and Maintenance of Plant and Special Instruction. These programs account for 70 percent of the total governmental activities. Regular Instruction, which accounts for 48 percent of the total, represents costs associated with providing general educational services. Operation and Maintenance of Plant, which represents 11 percent of the total, represents costs associated with operating and maintaining the District's facilities. Special Instruction, which represents 11 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Regular instruction increased from the prior year due to the District approving a 2% wage increase. Pupil Transportation decreased due to the District purchasing a bus in the previous fiscal year.

The majority of the funding for the most significant programs indicated above is from program revenue operating grants, property taxes, and grants and entitlements not restricted for specific programs. Program revenue operating grants, property taxes, and grants and entitlements not restricted for specific programs account for 95 percent of total revenues for governmental activities.

The Statement of Activities shows the cost of program services and the charges for services and sales, operating and capital grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3
 Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2007		2006	
Program Expenses				
Instruction:				
Regular	\$5,273,742	\$4,388,754	\$4,539,719	\$3,845,126
Special	1,164,813	302,977	1,098,345	224,209
Other	21,111	11,919	0	0
Support Services:				
Pupils	420,070	351,573	408,061	340,718
Instructional Staff	354,772	186,449	376,218	172,568
Board of Education	16,220	14,660	26,400	24,909
Administration	502,461	454,168	518,218	485,964
Fiscal	163,124	124,639	184,461	172,691
Business	250,172	209,426	352,994	327,958
Operation and Maintenance of Plant	1,130,431	1,019,165	1,079,756	1,018,046
Pupil Transportation	722,074	235,133	1,016,244	950,457
Central	4,692	4,241	0	0
Operation of Non-Instructional Services	377,188	(90,049)	400,633	62,453
Extracurricular Activities	318,343	199,610	354,707	238,218
Interest and Fiscal Charges	306,205	263,051	287,717	281,676
Total	\$11,025,418	\$7,675,716	\$10,643,473	\$8,144,993

Southeastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

THE SCHOOL DISTRICT'S FUNDS

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$14,513,618 and expenditures and other financing uses of \$13,369,154.

The School District has two major funds; the General Fund and the Classroom Facilities Capital Projects Fund. The General Fund had \$9,249,563 in revenues and \$8,151,082 in expenditures and other financing uses. The General Fund's balance increased \$1,098,481. This increase is due primarily to the increase in intergovernmental revenue and the decrease of transfers out.

The Classroom Facilities Capital Projects Fund had \$27,544 in revenues. The Classroom Facilities Capital Projects Fund's balance increased by \$27,544 from interest earnings.

General Fund Budgeting Highlights

The School 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 year 2007, the School District amended its General Fund budget.

For the General Fund, final budget basis revenue was \$9,188,647, which increased from the original estimates of \$8,752,811. For the General Fund, final budget basis expenditures were \$9,517,537, which increased from the original estimates of \$9,304,093. The School District's actual budget basis expenditures were \$1,011,630 below final estimates. This difference primarily due to over budgeting by the District for instruction costs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2007, the School District had \$26,077,716 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, and library and textbooks. For additional information on capital assets, see Note 9 to the basic financial statements. Table 4 shows fiscal year 2007 balances compared to 2006.

Table 4
 Capital Assets
 (Net of Depreciation)

	Governmental Activities	
	2007	2006
Land	\$705,000	\$705,000
Land Improvements	2,487,498	2,643,069
Buildings and Improvements	21,688,786	22,436,186
Furniture and Equipment	426,723	450,206
Vehicles	516,864	546,236
Library Books and Textbooks	252,845	296,606
Totals	\$26,077,716	\$27,077,303

The overall decrease in capital assets of \$999,587 is due primarily to current year depreciation expense of \$1,091,629 exceeding capital additions in the current period.

Southeastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Debt

At June 30, 2007, the School District had \$4,994,063 in bonds and certificate of participation outstanding with \$177,000 due within one year. Table 5 summarizes the bond and notes outstanding. The bonds were issued for school construction.

Table 5
Outstanding Debt at Year End

	<u>2007</u>	<u>2006</u>
2000 General Obligation Bonds	\$600,530	\$3,557,417
2007 General Obligation Refunding Bonds	2,945,533	0
Certificate of Participation	1,448,000	1,479,000
	<u>\$4,994,063</u>	<u>\$5,036,417</u>

For additional information on debt, see Note 14 to the basic financial statements.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Phil Hartman, Treasurer at Southeastern Local School District, 2003 Lancaster Road, Chillicothe, Ohio 45601.

Southeastern Local School District
Statement of Net Assets
June 30, 2007

	Governmental Activities
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 4,350,901
Cash and Cash Equivalents with fiscal agents	457,886
Cash and Cash Equivalents with Trustee	141,272
Intergovernmental Receivable	206,063
Taxes Receivable	1,783,662
Unamortized Bond Issuance Costs	69,948
Noncurrent Assets:	
Nondepreciable Capital Assets	705,000
Depreciable Capital Assets, Net	25,372,716
<i>Total Assets</i>	33,087,448
Liabilities	
Current Liabilities:	
Accounts Payable	65,510
Accrued Wages and Benefits Payable	672,076
Intergovernmental Payable	250,809
Accrued Interest Payable	37,134
Deferred Revenue	1,566,729
Claims Payable	232,003
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	202,483
Due In More Than One Year	5,339,443
<i>Total Liabilities</i>	8,366,187
Net Assets	
Invested in Capital Assets, Net of Related Debt	21,083,653
Restricted for:	
Debt Service	373,193
Capital Outlay	1,013,050
Other Purposes	8,961
Unrestricted	2,242,404
<i>Total Net Assets</i>	\$ 24,721,261

See accompanying notes to the basic financial statements.

Southeastern Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2007

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 5,273,742	\$ 376,880	\$ 465,131	\$ 42,977	\$ (4,388,754)
Special	1,164,813	72,138	789,698	-	(302,977)
Other	21,111	1,078	8,114	-	(11,919)
Support Services:					
Pupils	420,070	37,529	22,336	8,632	(351,573)
Instructional Staff	354,772	13,102	155,200	21	(186,449)
Board of Education	16,220	1,560	-	-	(14,660)
Administration	502,461	48,293	-	-	(454,168)
Fiscal	163,124	12,697	25,788	-	(124,639)
Business	250,172	21,100	19,646	-	(209,426)
Operation and Maintenance of Plant	1,130,431	107,434	3,832	-	(1,019,165)
Pupil Transportation	722,074	65,345	421,596	-	(235,133)
Central	4,692	451	-	-	(4,241)
Operation of Non-Instructional Services					
	377,188	154,013	313,224	-	90,049
Extracurricular Activities					
	318,343	51,090	67,643	-	(199,610)
Interest and Fiscal Charges					
	306,205	7,299	35,855	-	(263,051)
Totals	\$ 11,025,418	\$ 970,009	\$ 2,328,063	\$ 51,630	(7,675,716)
General Revenues					
Property Taxes Levied for:					
General Purposes					1,489,057
Debt Service					310,498
Special Purposes					30,285
Income Taxes					35,941
Grants and Entitlements not Restricted to Specific Programs					
					5,831,574
Investment Earnings					
					172,357
Miscellaneous					
					203,496
Total General Revenues					8,073,208
Change in Net Assets					
					397,492
Net Assets Beginning of Year					
					24,323,769
Net Assets End of Year					
					\$ 24,721,261

See accompanying notes to the basic financial statements.

Southeastern Local School District
Balance Sheet
Governmental Funds
June 30, 2007

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 2,722,285	\$ 832,134	\$ 613,521	\$ 4,167,940
Cash and Cash Equivalents with Trustee	-	-	141,272	141,272
Interfund Receivable	146,297	-	-	146,297
Receivables:				
Intergovernmental	-	-	206,063	206,063
Taxes	1,447,884	-	335,778	1,783,662
<i>Total Assets</i>	<u>\$ 4,316,466</u>	<u>\$ 832,134</u>	<u>\$ 1,296,634</u>	<u>\$ 6,445,234</u>
Liabilities				
Accounts Payable	\$ 60,054	\$ -	\$ 5,456	\$ 65,510
Accrued Wages and Benefits Payable	535,460	-	136,616	672,076
Interfund Payable	-	-	146,297	146,297
Intergovernmental Payable	204,767	-	46,042	250,809
Deferred Revenue	1,328,147	-	351,995	1,680,142
<i>Total Liabilities</i>	<u>2,128,428</u>	<u>-</u>	<u>686,406</u>	<u>2,814,834</u>
Fund Balances				
Reserved:				
Reserved for Encumbrances	21,064	-	37,796	58,860
Reserved for Property Taxes	119,737	-	29,460	149,197
Unreserved, Undesignated, Reported in:				
General Fund	2,047,237	-	-	2,047,237
Special Revenue Funds	-	-	53,874	53,874
Debt Service Funds	-	-	334,394	334,394
Capital Projects Funds	-	832,134	154,704	986,838
<i>Total Fund Balances</i>	<u>2,188,038</u>	<u>832,134</u>	<u>610,228</u>	<u>3,630,400</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 4,316,466</u>	<u>\$ 832,134</u>	<u>\$ 1,296,634</u>	<u>\$ 6,445,234</u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 For the Fiscal Year Ended June 30, 2007*

Total Governmental Fund Balances		\$ 3,630,400
Amounts reported for governmental activities in the statement of activities are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		26,077,716
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	67,736	
Unamortized Financing Costs	69,948	
Intergovernmental	45,677	
Total		183,361
An internal service fund is used by management to charge the cost of insurance to individuals. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		408,844
Long-Term Liabilities, including bonds, certificate of participation obligations and the long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
Accrued Interest Payable	(37,134)	
Compensated Absences	(547,863)	
Certificate of Participation Obligations	(1,448,000)	
Refunding Bonds	(2,850,000)	
Accreted Debt from Refunding Bonds	(1,618)	
Unamortized Premiums	(93,915)	
General Obligation Bonds	(450,000)	
Accreted Debt from General Obligation Bonds	(150,530)	
Total		(5,579,060)
Net Assets of Governmental Activities		\$24,721,261

See accompanying notes to the basic financial statements.

Southeastern Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$ 1,480,109	\$ -	\$ 338,829	\$ 1,818,938
Income Taxes	35,941	-	-	35,941
Intergovernmental	6,698,982	-	1,475,393	8,174,375
Interest	144,782	27,544	31	172,357
Tuition and Fees	745,001	-	-	745,001
Rent	35,275	-	-	35,275
Extracurricular Activities	-	-	35,721	35,721
Customer Sales and Services	-	-	154,013	154,013
Miscellaneous	109,473	-	94,023	203,496
<i>Total Revenues</i>	<u>9,249,563</u>	<u>27,544</u>	<u>2,098,010</u>	<u>11,375,117</u>
Expenditures				
Current:				
Instruction:				
Regular	3,893,234	-	562,603	4,455,837
Special	752,840	-	408,616	1,161,456
Other	4,137	-	9,785	13,922
Support Services:				
Pupils	387,083	-	29,840	416,923
Instructional Staff	134,319	-	187,174	321,493
Board of Education	16,220	-	-	16,220
Administration	495,651	-	-	495,651
Fiscal	147,798	-	31,100	178,898
Business	219,400	-	30,264	249,664
Operation and Maintenance of Plant	1,114,255	-	4,621	1,118,876
Pupil Transportation	675,166	-	-	675,166
Central	4,692	-	-	4,692
Operation of Non-Instructional Services	-	-	371,134	371,134
Extracurricular Activities	159,812	-	81,576	241,388
Capital Outlay	-	-	90,324	90,324
Debt Service:				
Principal	31,000	-	125,000	156,000
Interest	75,894	-	187,115	263,009
Issuance Costs	-	-	74,611	74,611
<i>Total Expenditures</i>	<u>8,111,501</u>	<u>-</u>	<u>2,193,763</u>	<u>10,305,264</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,138,062</u>	<u>27,544</u>	<u>(95,753)</u>	<u>1,069,853</u>
Other Financing Sources and Uses:				
Transfers In	-	-	39,581	39,581
Refunding Bonds Issued	-	-	2,850,000	2,850,000
Premium on Refunding Bonds	-	-	248,920	248,920
Payments to Refunded Bond Escrow Agent	-	-	(3,024,309)	(3,024,309)
Transfers Out	(39,581)	-	-	(39,581)
<i>Total Other Financing Sources and Uses</i>	<u>(39,581)</u>	<u>-</u>	<u>114,192</u>	<u>74,611</u>
<i>Net Change in Fund Balances</i>	1,098,481	27,544	18,439	1,144,464
<i>Fund Balances at Beginning of Year</i>	<u>1,089,557</u>	<u>804,590</u>	<u>591,789</u>	<u>2,485,936</u>
<i>Fund Balances at End of Year</i>	<u>\$ 2,188,038</u>	<u>\$ 832,134</u>	<u>\$ 610,228</u>	<u>\$ 3,630,400</u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
*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, 2007*

Net Change in Fund Balances-Total Governmental Funds		\$ 1,144,464
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 depreciation exceeded capital outlays in the current period.		
Capital Asset Additions	92,042	
Depreciation Expense	<u>(1,091,629)</u>	
Total		(999,587)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	10,902	
Intergovernmental	<u>36,891</u>	
Total		47,793
Premiums on issuance of debt are recorded as revenues in the governmental funds but are not reported on the statement of activities.		
		(248,920)
The amortization of premium from the sale of bonds is recorded as a reduction of liability in the statement of net assets, but does not result in an expenditure in the governmental funds.		
		15,558
Bond issuance costs are recorded as an expenditure in the governmental funds, but are recognized as an asset and are not recorded in the statement of activities.		
		74,611
The amortization of debt issuance costs are reported in the statement of activities but are not reported as expenditures in the governmental funds.		
		(4,663)
Deferred amounts on refunding are included as expenditures in the funds, but are deferred and amortized over the life of the bonds in the government-wide financial statements.		
		(34,862)
Payments to refunded to bond escrow agent are report as other financing uses in the governmental funds, but the payment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.		
		3,024,309
Repayment of bond principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.		
		125,000
Repayment of certificate of participation obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.		
		31,000
Proceeds and premiums from the sale of notes in the statement of revenues, expenditures, and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities.		
		(2,850,000)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The expense of the internal service fund is allocated among the governmental activities.		
		150,343
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Increase in Compensated Absences	(58,325)	
Decrease in Interest Payable	502	
Increase in Accreted Interest	<u>(19,731)</u>	
Total		<u>(77,554)</u>
Net Change in Net Assets of Governmental Activities		<u>\$ 397,492</u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual (Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Total Revenues and Other Financing Sources	\$ 8,943,505	\$ 8,997,952	\$ 9,394,773	\$ 396,821
Total Expenditures and Other Financing Uses	<u>9,304,093</u>	<u>9,517,537</u>	<u>8,505,907</u>	<u>1,011,630</u>
Net Change in Fund Balance	(360,588)	(519,585)	888,866	1,408,451
Fund Balance at Beginning of Year	1,487,588	1,487,588	1,487,588	-
Prior Year Encumbrances Appropriated	<u>311,961</u>	<u>311,961</u>	<u>311,961</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 1,438,961</u>	<u>\$ 1,279,964</u>	<u>\$ 2,688,415</u>	<u>\$ 1,408,451</u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
Statement of Fund Net Assets
Governmental Activities
Internal Service Fund
June 30, 2007

ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 182,961
Cash and Cash Equivalents with Fiscal Agents	<u>457,886</u>
<i>Total Current Assets</i>	<u>640,847</u>
<i>Total Assets</i>	<u>640,847</u>
LIABILITIES:	
Current Liabilities:	
Claims Payable	<u>232,003</u>
<i>Total Current Liabilities</i>	<u>232,003</u>
<i>Total Liabilities</i>	<u>232,003</u>
NET ASSETS:	
Unrestricted	<u>408,844</u>
<i>Total Net Assets</i>	<u><u>\$ 408,844</u></u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
*Statement of Revenues, Expenses and
Changes In Fund Net Assets
Governmental Activities
Internal Service Fund
For the Fiscal Year Ended June 30, 2007*

Operating Revenues:	
Charges for Services	<u>\$1,210,917</u>
<i>Total Operating Revenues</i>	<u>1,210,917</u>
Operating Expenses:	
Purchased Services	275,293
Claims Expense	<u>785,281</u>
<i>Total Operating Expenses</i>	<u>1,060,574</u>
Net Change in Net Assets	150,343
Net Assets at Beginning of Year	<u>258,501</u>
Net Assets at End of Year	<u><u>\$408,844</u></u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
Statement of Cash Flows
Governmental Activities
Internal Service Fund
For the Fiscal Year Ended June 30, 2007

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Customers	\$1,210,917
Cash Payments for Purchased Services	(275,293)
Cash Payments for Claims	<u>(699,189)</u>

Net Cash Provided by Operating Activities 236,435

Cash Flows from Noncapital Financing Activities:

Loan from Other Governments	<u>24,797</u>
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Net Increase in Cash and Cash Equivalents 261,232

Cash and Cash Equivalents at Beginning of Year 379,615

Cash and Cash Equivalents at End of Year \$640,847

***Reconciliation of Operating Income to Net Cash
Provided by Operating Activities***

Operating Income \$150,343

Changes in Assets and Liabilities:

Increase in Claims Payable	<u>86,092</u>
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Net Cash Provided by Operating Activities \$236,435

See accompanying notes to the basic financial statements.

Southeastern Local School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

	Private Purpose Trust Fund	Agency Fund
ASSETS:		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 28,829	\$ 25,898
<i>Total Assets</i>	28,829	25,898
LIABILITIES:		
Current Liabilities:		
Undistributed Monies	-	25,898
<i>Total Liabilities</i>	-	\$ 25,898
NET ASSETS:		
Held in Trust for Scholarships	28,829	
<i>Total Net Assets</i>	\$ 28,829	

See accompanying notes to the basic financial statements.

Southeastern Local School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2007

	<u>Private Purpose Trust Fund</u>
ADDITIONS:	
Gifts and Contributions	\$ 24,257
Interest	3,444
Total Additions	<u>27,701</u>
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>3,000</u>
Change in Net Assets	24,701
Net Assets Beginning of Year	<u>4,128</u>
Net Assets End of Year	<u><u>\$ 28,829</u></u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1938 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 140 square miles. It is located in Ross County, and includes the Hamlets of Londonderry, Higby, Harrison and Richmond Dale, and portions of Liberty, Jefferson, Harrison, Springfield, Franklin and Scioto Townships. It is staffed by 72 non-certificated employees, and 74 certificated full-time teaching personnel who provide services to 1,205 students and other community members. The School District currently operates a K-12 instructional building.

Reporting Entity:

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

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

The following entities which perform activities within the School District’s boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District.

- Parent Teacher Organization
- Ross-Pike Educational Service District

The School District participates in six organizations, four of which are defined as jointly governed organizations, and two are insurance purchasing pools. These organizations are the South Central Ohio Computer Association, the Pickaway-Ross Career and Technology Center, the Great Seal Education Network of Tomorrow, School Study Council of Ohio, the Ross County School Employees Insurance Consortium, and the Ohio School Boards Association Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Southeastern Local School 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 more significant of the School District's accounting policies are described below.

A. Basis of Presentation

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

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

Fund Financial Statements:

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds used by this School District can be classified using three categories, governmental, proprietary, and fiduciary.

Governmental Funds

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

General Fund

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

Classroom Facilities Fund

The Classroom Facilities fund is a fund provided to account for monies received and expended in connection with contracts entered into by the school district and the Ohio Department of Education for the building and equipping of classroom facilities.

The other governmental funds of the School District account for grants and other resources, debt service, and capital projects, whose use is restricted to a particular purpose.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no Enterprise Funds. The following is a description of the School District's internal service fund:

Internal Service Fund

The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the self-insurance program for employee medical and dental benefits.

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. The School District's fiduciary funds are agency funds and private purpose trust funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

The School District's fiduciary funds are agency funds which are used to maintain financial activity of the School District's Student Managed Activities, and private purpose trust funds which are used to maintain the financial activity of the School District's Scholarship Funds.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus

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

Fund Financial Statements - All governmental 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.

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

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. The fund financial statements are prepared using either the modified accrual basis of accounting for governmental funds or the accrual basis of accounting for proprietary and fiduciary funds. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "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 School District, available means expected to be received within 60 days of year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities as payments come due each period upon the occurrence of employee resignations and retirements. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

C. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer maintains budgetary information at the fund and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement are based on estimates made. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

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

D. Cash and Cash Equivalents

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During fiscal year 2007, the School District's investments were limited to certificate of deposits and the State Treasury Assets Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2007.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund amounted to \$144,782, \$27,544 to the Classroom Facilities Fund and \$31 to the Other Governmental Funds.

The School District has \$457,886 in a bank account set aside for the self insurance program which is recorded as "Cash and Cash Equivalents with Fiscal Agents." The School District has \$141,272 in a bank account set aside for the OASBO School Pool Asset Financing Program which is recorded as "Cash and Cash Equivalents with Trustee".

For presentation on the 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 School District are considered to be cash equivalents.

E. Capital Assets and Depreciation

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000 dollars. The School District does not have any infrastructure.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. All reported capital assets except, are depreciated. Depreciable capital assets are depreciated using the straight-line method over an estimated useful life of 20 to 50 years for buildings and improvements, 5 to 20 years for furniture and equipment, 10 to 25 years for land improvements, 5 to 15 years for textbooks and library books, and 10 years for vehicles.

F. 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 financial statements. Interfund transfers are eliminated in the statement of activities.

G. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after 10 years of current service with the School District.

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

On the 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. These amounts are recorded in the account “matured compensated absences payable” in the fund from which the employee will be paid.

H. Accrued Liabilities and Long-Term Obligations

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

All payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

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

I. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances and property taxes.

The reserve for property taxes represents taxes recognized as revenue under accounting principles generally accepted in the United States of America but not available for appropriations under State statute.

J. Estimates

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

K. 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 improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes represents balances in special revenue funds for grants whose use is restricted by grant agreements.

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

Of the District’s \$1,395,204 restricted net assets, \$0 is restricted by enabling legislation.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Interfund Balances

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

M. Operating Revenues and Expenses

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

NOTE 3 – ACCOUNTABILITY

At June 30, 2007, the Lunchroom, EMIS, Summer Intervention, Poverty Based, Title 1, Drug Free, and Improving Teacher Quality Special Revenue Funds had deficit fund balances of \$68,594, \$500, \$16,026, \$37,101, \$7,883, \$567, and \$7,350 respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (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 GAAP (modified accrual) basis are as follows:

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

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

Net Change in Fund Balance	
	<u>General</u>
GAAP Basis	\$1,098,481
Adjustments:	
Revenue Accruals and Other Financing Sources	145,210
Expenditure Accruals and Other Financing Uses	(279,636)
Encumbrances	(75,189)
Budget Basis	<u>\$888,866</u>

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 5 – DEPOSITS AND INVESTMENTS

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

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

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

Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

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

1. United States treasury notes, bills, bonds, or other obligations of or security issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lend securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's total average portfolio.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 5 – DEPOSITS AND INVESTMENTS (continued)

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District’s deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District’s policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

As of June 30, 2007, the School District’s bank balance of \$3,676,832 was either covered by FDIC or collateralized by the financial institution’s public entity deposit pools in the manner described above. The bank balance excludes Cash and Cash Equivalents with Fiscal Agents as it is held by a third party as a part of a cash pool.

Investments

As of June 30, 2007, the School District had the following investments and maturities:

	<u>Carrying/Fair Value</u>	<u>Maturities 6 months or less</u>
STAR Ohio	\$ 1,081,020	\$ 1,081,020

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting investment portfolio maturities to five years or less.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District limits its investments to STAR Ohio and money market accounts. Investments in STAROhio were rated AAAM by Standard & Poor’s.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 5 – DEPOSITS AND INVESTMENTS (continued)

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The District’s investment policy allows investments in STAR Ohio, Repurchase Agreements, Certificates of Deposit or investments within financial institutions within the State of Ohio as designated by the Federal Reserve Board. The District has invested 100% of its investments in STAROhio.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the School District’s securities are held in the name of the School District.

NOTE 6 – PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, 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 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 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 2007 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006.

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.

Ohio House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed at the level of calendar year 2004 assessed values for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 6 – PROPERTY TAXES (continued)

The assessed values upon which fiscal year 2007 taxes were collected are:

	2006 Second- Half Collections		2007 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$60,423,340	81.93%	\$62,400,420	84.58%
Public Utility	9,063,010	12.29%	8,567,030	11.61%
Tangible Personal Property	4,260,970	5.78%	2,812,460	3.81%
Total Assessed Value	\$73,747,320	100.00%	\$73,779,910	100.00%
Tax rate per \$1,000 of assessed valuation	\$33.30		\$33.30	

The School District receives property taxes from Ross County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2007, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 was levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

The amount available as an advance at June 30, 2007, was \$119,737 in the General Fund and \$29,460 in the Other Governmental Funds.

NOTE 7 – INCOME TAX

The School District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2000, for five years. This levy expired on December 31, 2004 and was not renewed. The District continues to receive delinquent income taxes. Income tax revenue is credited to the General Fund. Income tax revenues received during the year were \$35,941.

NOTE 8 – RECEIVABLES

Receivables at June 30, 2007, consisted of property and income taxes, intergovernmental grants and interfund amounts. 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.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 8 – RECEIVABLES (continued)

A summary of the principal items of the intergovernmental receivables follows:

	<u>Amounts</u>
Non-Major Special Revenue Funds:	
Special Education, Title VI-B	\$78,492
Title 1	51,265
Improving Teacher Quality	12,468
Safe & Drug Free Schools	2,006
Lunchroom	26,802
Total Non-Major Special Revenue Funds	171,033
Non-Major Capital Projects Fund	
Safe School Helpline	35,030
Total All Funds	\$206,063

NOTE 9 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Ending Balance 06/30/06</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance 06/30/07</u>
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 705,000	\$ -	\$ -	\$ 705,000
Total Capital Assets, Not Being Depreciated	705,000	-	-	705,000
Capital Assets Being Depreciated				
Land Improvements	3,111,420	-	-	3,111,420
Buildings and Improvements	24,983,910	7,102	-	24,991,012
Furniture and Equipment	567,898	13,935	-	581,833
Vehicles	1,567,995	71,005	-	1,639,000
Library Books and Textbooks	406,010	-	-	406,010
Total Capital Assets, Being Depreciated	30,637,233	92,042	-	30,729,275
Less Accumulated Depreciation:				
Land Improvements	(468,351)	(155,571)	-	(623,922)
Buildings and Improvements	(2,547,724)	(754,502)	-	(3,302,226)
Furniture and Equipment	(117,692)	(37,418)	-	(155,110)
Vehicles	(1,021,759)	(100,377)	-	(1,122,136)
Library Books and Textbooks	(109,404)	(43,761)	-	(153,165)
Total Accumulated Depreciation	(4,264,930)	(1,091,629)	-	(5,356,559)
Total Capital Assets Being Depreciated, Net	26,372,303	(999,587)	-	25,372,716
Governmental Activities Capital Assets, Net	\$ 27,077,303	\$ (999,587)	\$ -	\$ 26,077,716

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 9 – CAPITAL ASSETS (continued)

Depreciation expense was charged to government functions as follows:

Instruction:	
Regular	\$ 846,660
Other	119
Support Services:	
Instructional Staff	31,362
Business	508
Administration	313
Operation and Maintenance of Plant	8,713
Pupil Transportation	113,616
Operation of Non-Instructional Services	5,748
Extracurricular Activities	84,590
Total Depreciation Expense	\$ 1,091,629

NOTE 10 – RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the School District contracted with Indiana Insurance for property and fleet insurance, liability insurance and inland marine coverage. Coverage provided by Indiana Insurance was as follows:

Building and Contents replacement cost (\$2,500 deductible)	\$33,658,370
Inland Marine Coverage (\$500 deductible)	350,000
Builders Risk (\$2,500 deductible)	500,000
Automobile Liability (\$500 deductible)	
Bodily Injury - Each person	100,000
Bodily Injury - Each accident	1,000,000
Property Damage - Each accident	50,000
General Liability:	
Per occurrence	2,000,000
Total per year	5,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. The School District is now carrying builders risk insurance to protect itself throughout the construction phase. The School District also no longer carries boiler and machinery coverage because of the construction of the new building. The School District has chosen to make repairs as necessary on these assets.

For fiscal year 2007, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate.

Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 10 – RISK MANAGEMENT (continued)

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The School District is a member of a claims servicing pool (Note 17), consisting of fourteen school districts within Ross County and its surrounding area, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District’s behalf. The claims liability of \$232,003 reported in the internal service fund at June 30, 2007, is based on an estimate provided by the third party administrator and the requirements of *GASB Statement No. 30 “Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,”* which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2006	\$189,806	\$668,156	\$712,051	\$145,911
2007	145,911	785,281	699,189	232,003

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School 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 State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800)878-5853, or visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District’s contribution is used to fund health care benefits; for fiscal year 2007, 10.68% of annual covered salary was the portion allocated to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS’ Retirement Board. The School District’s required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$160,857, \$227,614, and \$330,862, respectively. 47% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits, to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614)227-4090, or by visiting www.strsoh.org.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

New members have a choice of three retirement plan options, 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 divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13% was the portion allocated to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$563,646, \$527,924, and \$534,510, respectively; 83% has been contributed for fiscal year 2007 and 100% for fiscal years 2006 and 2005.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$42,757 for fiscal year 2007.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006 (the latest information available), net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2% of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$85,680.

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 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available), were \$158,751,207. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

NOTE 13 – EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. There is no limit of sick leave accumulation for all personnel. Upon retirement, payment is made for one-fourth of up to 120 days of their accrued, but unused sick leave credit for all employees. Certified employees receive additional amounts based on length of service as follows:

<u>Length of Service</u>	<u>Additional Compensation</u>
10 years	\$10 per day over 120
11 - 20 years	\$20 per day over 120
21 years and over	\$30 per day over 120

B. Insurance Benefits

The School District provides life and accidental death and dismemberment insurance to all full-time employees through Professional Risk Management.

C. Deferred Compensation

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 14 – LONG-TERM OBLIGATIONS

The changes in the School District’s long-term obligations during fiscal year 2007 were as follows:

	Amount Outstanding 6/30/06	Additions	Deductions	Amount Outstanding 6/30/07	Due in One Year
2000 General Obligation Bonds - 5.84%	3,425,000	0	2,975,000	450,000	135,000
2000 Capital Appreciation Bonds	132,417	18,113	0	150,530	0
2007 General Obligation Refunding Bonds - 3.70%-4.00%	0	2,730,000	0	2,730,000	10,000
Premium	0	283,782	15,558	268,224	0
Accounting Loss	0	(174,309)	0	(174,309)	0
2007 Capital Appreciation Bonds - 16.99%	0	121,618	0	121,618	0
Total Long-Term Bonds and Loans	3,557,417	2,979,204	2,990,558	3,546,063	145,000
Certificate of Participation Payable	1,479,000	0	31,000	1,448,000	32,000
Compensated Absences	489,538	547,863	489,538	547,863	25,483
Total General Long-Term Obligations	\$5,525,955	\$3,527,067	\$3,511,096	\$5,541,926	\$202,483

2000 General Obligation Bonds - The School District issued \$3,982,000 in voted general obligation bonds in 2000 for the purpose of constructing a new K-12 facility. The bonds were issued for a twenty-three year period with final maturity in December 2022. During fiscal year 2007, a portion of these bonds were advance refunded. The bonds will be retired from the debt service fund.

The capital appreciation bonds, issued at \$27,000, are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2010 and 2011. The maturity amount of the capital appreciation bonds is \$350,000. For fiscal year 2007, the capital appreciation bonds were accreted \$18,113.

2007 General Obligation Refunding Bonds – The School District issued \$2,850,000 in refunding bonds in 2007 for the purpose of repaying a portion of the general obligation bonds issued in 2000. The refunding bonds consisted of \$2,730,000 in serial bonds and \$120,000 in capital appreciation bonds. The serial bonds were issued for a fifteen year period with final maturity in December 2022. The capital appreciation bonds of \$255,000 will mature in 2015 and \$265,000 in 2016. The bonds will be retired from the debt service fund.

The serial bonds, issued at \$2,730,000 maturing on or after December 1, 2017, are subject to optional redemption, in whole or in part on any date at the option of the Issuer on or after June 1, 2017 at par, which is 100% of the face value of the Current Interest Refunding Bonds.

The capital appreciation bonds, issued at \$120,000, are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2015 and 2016. The maturity amount of the capital appreciation bonds is \$520,000. For fiscal year 2007, the capital appreciation bonds were accreted \$1,618.

This refunding resulted in an accounting loss of \$174,309 which will be amortized over the remaining life of the refunded bonds. The District actually lowered its aggregate debt service payments and had an economic gain of \$563,385.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 14 – LONG-TERM OBLIGATIONS (continued)

In prior years, the School District has entered into a certificate of participation obligation for the construction of a new athletic complex. The School District is leasing the project from Rickenbacker Port Authority. Rickenbacker Port Authority will retain title to the project during the certificate term. Rickenbacker Port Authority has assigned US Bank as trustee. US Bank deposited \$1,525,000 in the School District’s name with an escrow agent for the construction of the complex. Amounts will be paid to contractors by the School District as the work progresses. The School District will then submit the invoices to the agent for reimbursement. The School District will make semi-annual payments to US Bank. Interest rates are based on a calculation of the TBMA Index. The certificate is renewable annually and expires in 2032. The intention of the School District is to renew the certificate annually.

Principal payments in fiscal year 2007 totaled \$31,000 in the governmental funds.

At year-end, capital assets being constructed under this certificate have been capitalized as part of buildings and improvements in the statement of net assets for governmental activities in the amount of \$1,767,146. The School District has contributed additional monies for this project.

The following table represents the payments required on the Certificate of Participation for the amount outstanding at June 30, 2007:

Fiscal Year Ending June 30,	
2008	\$107,308
2009	107,057
2010	106,693
2011	107,195
2012	106,561
2013-2017	530,706
2018-2022	527,715
2023-2027	517,053
2028-2032	516,354
Total	2,626,637
Less: Amount Representing Interest and Admin Fees	(1,178,637)
Total Principal Outstanding	\$1,448,000

Compensated absences will be paid from the fund from which the employees’ salaries are paid, with the General fund being the most significant. The certificate of participation will be paid from the General Fund.

The School District’s overall legal debt margin was \$3,411,192 with an unvoted debt margin of \$73,780 at June 30, 2007.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 14 – LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire Classroom Facilities Bonds outstanding at June 30, 2007, are as follows:

Fiscal Year Ending June 30,	2000 Serial Bonds Principal	2000 Serial Bonds Interest	2000 Capital Appreciation Principal	2007 Capital Appreciation Principal	2007 Serial Bonds Principal	2007 Serial Bonds Interest
2008	\$135,000	\$180,581	\$0	\$0	\$10,000	\$108,985
2009	150,000	173,348	-	-	40,000	108,000
2010	165,000	84,761	-	-	40,000	106,400
2011	-	-	175,000	-	40,000	104,800
2012	-	-	175,000	-	50,000	103,000
2013-2017	-	-	-	520,000	690,000	377,000
2018-2022	-	-	-	-	1,520,000	227,200
2023	-	-	-	-	340,000	6,800
Total	<u>\$450,000</u>	<u>\$438,690</u>	<u>\$350,000</u>	<u>\$520,000</u>	<u>\$2,730,000</u>	<u>\$1,142,185</u>

NOTE 15 – INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the year ended June 30, 2007, were as follows:

Fund	Transfer From	Transfer To
Major Fund:		
General	\$39,581	\$0
Nonmajor Special Revenue Funds:		
Lunchroom	0	34,640
EMIS	0	4,941
Total Nonmajor Special Revenue Funds	<u>0</u>	<u>39,581</u>
Total	<u>\$39,581</u>	<u>\$39,581</u>

The transfers were made from the General Fund (a major fund) to the Lunchroom Fund and the EMIS fund to provide support for activities of that fund.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 15 – INTERFUND ACTIVITY (continued)

Interfund balances at June 30, 2007, consist of the following individual fund receivables and payables, which are expected to be repaid during the 2008 fiscal year:

<u>Interfund Loans</u>	<u>Receivable</u>	<u>Payable</u>
Major Fund:		
General Fund	\$ 146,297	\$ -
Nonmajor Special Revenue Funds		
Lunchroom		65,309
Athletic		23,142
Summer Intervention		16,027
Title VI-B		12,290
Title I		22,464
Drug Free Schools		498
Improving Teacher Quality		6,067
EMIS	-	500
Total Nonmajor Special Revenue Funds	-	146,297
 Total Interfund Receivables/Payables	 <u>\$ 146,297</u>	 <u>\$ 146,297</u>

Advances were made from the general fund to nonmajor special revenue funds in anticipation of grant monies, student food service charges, athletic receipts, and other operating receipts not received during the current fiscal year.

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association - The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The School District paid SCOCA \$115,636 for services provided during the year. Financial information can be obtained from their fiscal agent, the Vern Riffe Career and Technology Center, Tonya Cooper who serves as Treasurer, at P.O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

Pickaway-Ross Career and Technology Center - The Pickaway-Ross Career and Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of eleven representatives from the various City and County Boards within Pickaway and Ross Counties, which possesses its own budgeting and taxing authority. To obtain financial information write to the Pickaway-Ross Career and Technology Center, Ben VanHorn who serves as Treasurer, at 895 Crouse Chapel Road, Chillicothe, Ohio 45601.

Great Seal Education Network of Tomorrow - The Great Seal Education Network of Tomorrow is a regional council of governments (the "Council") consisting of twelve city, local, and joint vocational school districts, two educational service centers and the Ohio University-Chillicothe Campus for the purpose of promoting the use of advanced telecommunications and technology to provide enhanced educational opportunities to the communities of Ross and Pickaway Counties. The Council is operated under the direction of a Board of Directors consisting of one representative (the superintendent or another person appointed by the board of education) of each of the members. The Council possesses its own budgeting and taxing authority. To obtain financial information, write to the Ohio University-Chillicothe Campus, who acts as fiscal agent, at 571 West Fifth Street, Chillicothe, Ohio 45601.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS (continued)

School Study Council of Ohio (SSCO) – The School Study Council of Ohio (SSCO), created in 1965, is a non-profit consortium of fifty-six school districts, eleven educational service centers, four colleges of education, and eight related educational schools and agencies from thirty counties. It is owned and governed by the member organizations with the Board of Trustees representing member organizations. The District’s Superintendent represents the District on the Board of Trustees. Their mission is to enable district improvement through planning assistance, professional development, funding and related resource acquisition, research, system assessment and impact evaluation, leadership development, and other personalized technical assistance. The District has no ongoing financial interest or ongoing financial responsibility to the Council. To obtain the SSCO annual report, write to School Study Council of Ohio, 4795 Evanswood Drive, Floor 3, Columbus, Ohio 43229-7216.

NOTE 17 – CLAIMS SERVICING AND INSURANCE PURCHASING POOLS

Ross County School Employees Insurance Consortium - The School District is a member of the Ross County School Employees Insurance Consortium (the “Consortium”), a claims servicing pool consisting of fourteen school districts within Ross County and its surrounding area. Medical/surgical insurance is administered through a third party administrator, Medical Mutual of Ohio. The Consortium’s business and affairs are managed by a Council consisting of one representative for each participating school. The participating school districts pay an administrative fee to the fiscal agent to cover the costs of administering the Consortium. To obtain financial information, write to the Westfall Local School District, Scott Glandon, who serves as Treasurer, at 19463 Pherson Pike, Williamsport, Ohio 43164.

Ohio School Boards Association Workers’ Compensation Group Rating Plan - The School District participates in the Ohio School Boards Association Workers’ Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP’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 OSBA. 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.

NOTE 18 – SET-ASIDE CALCULATIONS

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

The following information describes the change in the year-end set aside amounts for textbooks and instructional materials and capital maintenance.

	Textbooks	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2006	(\$274,315)	(\$442,363)
Current Year Set-aside Replacement	190,316	190,316
Qualifying Disbursements	(219,362)	(139,817)
Set-aside Reserve Balance as of June 30, 2007	(\$303,361)	(\$391,864)

The School District had offsetting and qualifying disbursements during the year that reduced the set-aside amounts below zero in the Textbooks Reserve and the Capital Acquisition Reserve. These amounts may be carried forward and used to reduce the set-aside requirements of future years.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

NOTE 19 – CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

B. Litigation

The School District is party to legal proceedings. The School District's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the School District.

Southeastern Local School District
Ross County

Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2007

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
National School Breakfast Program	05PU	10.553	\$ 44,663	\$ -	\$ 44,663	\$ -
National School Lunch Program	LLP4	10.555	172,358	-	172,358	-
Total Nutrition Cluster			217,021	-	217,021	-
Food Distribution Program	NA	10.550	\$ -	\$ 65,724	\$ -	\$ 65,724
Total United States Department of Agriculture - Nutrition Cluster			217,021	65,724	217,021	65,724
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	C1S1	84.010	228,617	-	256,703	-
Special Education Grants to States	6BSF	84.027	267,466	-	303,499	-
Safe and Drug-Free Schools and Communities State Grants	DRS1	84.186	8,548	-	9,663	-
State Grants for Innovative Programs	C2S1	84.298	1,961	-	1,961	-
Education Technology State Grants	TJS1	84.318	2,614	-	2,358	-
Improving Teacher Quality State Grants	TRS1	84.367	63,906	-	70,708	-
Total United States Department of Education			573,112	-	644,892	-
Total Federal Financial Assistance			\$ 790,133	\$ 65,724	\$ 861,913	\$ 65,724

See Notes to the Schedule of Federal Awards Expenditures.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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

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**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Southeastern Local School District
2003 Lancaster Road
Chillicothe, Ohio 45601

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiency in internal control over financial reporting that we consider to be material weaknesses, as define above.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the District in a separate letter dated December 31, 2007.

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



Balestra, Harr & Scherer, CPAs, Inc.

December 31, 2007

BALESTRA, HARR & SCHERER CPAs, INC.

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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Southeastern Local School District
2003 Lancaster Road
Chillicothe, Ohio 45601

Compliance

We have audited the compliance of the Southeastern Local School District, , (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance.

Internal Control Over Compliance (Continued)

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Balestra, Harr & Scherer, CPAs, Inc.

December 31, 2007

Southeastern Local School District
 Schedule of Findings and Questioned Costs
 OMB Circular A-133 Section .505
 For the Fiscal Year Ended June 30, 2007

SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Fund, CFDA #84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

Southeastern Local School District
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Fiscal Year Ended June 30, 2007

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

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

Southeastern Local School District
 Schedule of Prior Audit Findings
 June 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2006-001	Ohio Rev. Code Section 3317.03(E)- Education Management Information System Records	Yes	
2006-002	Ohio Rev. Code Section 9.833(C)(2) and 5705.13(A) – Self-Insurance Fund	Yes	



Mary Taylor, CPA
Auditor of State

SOUTHEASTERN LOCAL SCHOOL DISTRICT

ROSS 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
FEBRUARY 5, 2008**