



Dave Yost • Auditor of State

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southeast Local School District, Wayne County, Ohio (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Southeast Local School District, Wayne County, Ohio, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General and Schoolwide Building Program funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Federal Awards Receipts and Expenditures presents 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 financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

March 20, 2014

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Southeast Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

The discussion and analysis of Southeast 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, 2013. 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 the financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2013 are as follows:

- Net position of governmental activities increased \$772,240, which represents a 16 percent increase from 2012.
- For governmental activities, general revenues accounted for \$13.6 million in revenue or 75.5 percent of all revenues. Program specific revenues in the form of charges for services and operating grants, contributions and interest accounted for \$4.4 million or 24.5 percent of total revenues of \$18.0 million.
- The School District had \$17.2 million in expenses related to governmental activities; \$4.4 million of these expenses were offset by program specific charges for services and operating grants, contributions and interest. General revenues of \$13.6 million were adequate to provide for these programs.
- The general fund, the main operating major fund, had \$14.5 million in revenues and \$9.5 million in expenditures. The general fund's balance increased \$1,269,307 to \$1,865,467.

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 Southeast 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.

The statement of net position 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 present 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 nonmajor funds presented in total in one column.

Southeast Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2013?" The statement of net position and the statement of activities answer this question. These statements include all non-fiduciary assets, deferred outflows, and liabilities and deferred inflows 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 position and changes in this position. This change in net position 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 current 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 position and the statement of activities, the School District's activities are considered to be all Governmental Activities:

Governmental Activities - Most of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services and extracurricular.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 12. Fund financial reports 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 only major governmental funds are the general fund and schoolwide building program fund.

Southeast Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

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 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 government operations and the basic services it provides. Governmental fund information helps 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 position and the statement of activities) and governmental funds is reconciled in the financial statements.

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2013 compared to 2012:

Table 1
Net Position

	Governmental Activities	
	2013	2012
Assets		
Current and other assets	\$ 11,924,589	\$ 10,495,130
Capital assets	3,393,442	3,493,460
<i>Total assets</i>	15,318,031	13,988,590
Liabilities		
Current liabilities	1,901,841	2,068,049
Long-term liabilities	675,058	731,323
<i>Total liabilities</i>	2,576,899	2,799,372
Deferred inflows of resources		
Property taxes	7,139,152	6,359,478
Net Position		
Net investment in capital assets	3,393,442	3,448,650
Restricted	771,812	795,386
Unrestricted	1,436,726	585,704
<i>Total net position</i>	\$ 5,601,980	\$ 4,829,740

Southeast Local School District
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Unaudited

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the School District's assets exceeded liabilities and deferred inflows of resources by \$5,601,980, an increase of \$772,240 from net position at June 30, 2012. Capital assets reported on the government-wide statements represent the largest portion of the School District's net position for fiscal year 2013. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles which are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net position, \$771,812 represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted assets, \$569,205 is restricted for capital projects and \$202,607 is restricted for other purposes. Unrestricted net position reported a \$1,436,726 balance.

Southeast Local School District
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For the Fiscal Year Ended June 30, 2013
Unaudited

Table 2 reflects the changes in net position for fiscal year 2013 compared to 2012:

Table 2
Changes in Net Position

	Governmental Activites	
	<u>2013</u>	<u>2012</u>
Revenue:		
Program revenues:		
Charges for services	\$ 1,705,284	\$ 1,606,462
Operating grants and contributions	2,711,565	2,876,590
General revenues:		
Property taxes	7,740,539	8,560,748
Grants and entitlements	5,793,013	5,922,815
Investment earnings	6,768	9,292
Miscellaneous	45,328	8,781
Gain on sale of capital assets	-	10,400
Total Revenues	<u>18,002,497</u>	<u>18,995,088</u>
Expenses:		
Instructions:		
Regular	6,644,516	6,704,170
Special	1,990,468	2,742,027
Vocational	159,398	230,392
Other	961,761	919,895
Support services:		
Pupils	682,916	703,719
Instructional staff	831,169	851,624
Board of education	35,829	31,410
Administration	1,575,113	1,592,928
Fiscal	394,512	392,932
Operation and maintenance of plant	1,002,560	1,198,292
Pupil transportation	1,266,610	1,238,743
Central	209,384	214,552
Operation of non-instructional services	886,117	874,472
Extracurricular activities	588,847	553,819
Interest and fiscal charges	1,057	4,060
Total Expenses	<u>17,230,257</u>	<u>18,253,035</u>
Change in net position	772,240	742,053
Net position beginning of year	<u>4,829,740</u>	<u>4,087,687</u>
Net position end of year	<u>\$ 5,601,980</u>	<u>\$ 4,829,740</u>

Southeast Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Governmental Activities

Several revenue sources fund our governmental activities with property tax and school foundation revenues being the largest contributors. Property tax levies generated over \$7.7 million in 2013. General revenues from grants and entitlements, such as the school foundation program, generated approximately \$5.8 million. With the combination of taxes and intergovernmental funding comprising approximately 75.2% of all revenues, the School District monitors both of these revenue sources very closely for fluctuations.

Instructional expenses of the School District include activities directly related to the teaching of pupils as well as the interaction between teacher and pupil and the purchase of textbooks and instructional supplies and materials. These expenses totaled \$9,756,143, or 56.6% of the total program expenses of the School District. Expenses of these School District programs decreased \$840,341 from the prior year mainly due to conservative spending for regular, special and other instruction.

Support services expenses for the pupils and instruction staff programs totaled \$1,514,085, or 8.8% of the total program expenses of the School District. These expenses include library, guidance, speech and hearing, and psychological services.

Board of education, administration and fiscal classifications reflect expenses associated with establishing and administering school operation policies, financial operations and activities concerned with purchasing, receiving and maintaining goods and services for the School District. Current year expenses were \$2,005,454, which represents 11.6% of the total program expenses. Expenses of these School District programs decreased \$11,816 from the prior year mainly due to conservative spending.

Costs associated with the operation and maintenance of plant represent those expenses necessary for the care and upkeep of School District's buildings, grounds and equipment. Current year expenses of \$1,002,560 made up 5.8% of all governmental expenses.

Southeast Local School District
Management's Discussion and Analysis
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Unaudited

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services <u>2013</u>	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2013</u>	Net Cost of Services <u>2012</u>
Program Expenses				
Instruction:				
Regular	\$ 6,644,516	\$ 6,704,170	\$ 4,575,031	\$ 5,363,797
Special	1,990,468	2,742,027	1,455,067	1,333,107
Vocational	159,398	230,392	159,398	230,392
Other	961,761	919,895	961,761	919,895
Support services:				
Pupils	682,916	703,719	489,947	556,363
Instructional staff	831,169	851,624	447,553	358,156
Board of education	35,829	31,410	35,829	31,410
Administration	1,575,113	1,592,928	1,377,349	1,518,188
Fiscal	394,512	392,932	394,512	392,932
Operation and maintenance of plant	1,002,560	1,198,292	998,905	1,191,368
Pupil transportation	1,266,610	1,238,743	1,266,610	1,238,688
Central	209,384	214,552	198,584	199,454
Operation non-instructional services	886,117	874,472	41,617	56,818
Extracurricular activities	588,847	553,819	410,188	375,355
Interest and fiscal charges	<u>1,057</u>	<u>4,060</u>	<u>1,057</u>	<u>4,060</u>
Total	<u>\$ 17,230,257</u>	<u>\$ 18,253,035</u>	<u>\$ 12,813,408</u>	<u>\$ 13,769,983</u>

The School District depends on both property taxes and State funding which fund approximately 78.5% of the program expenses of the School District.

Southeast Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The total revenues for governmental funds were \$18,001,215, and total expenditures were \$17,270,770. Table 4 shows fiscal year 2013 balances compared to fiscal year 2012.

Table 4
Fund Balances

	<u>Fund Balance</u> <u>June 30, 2013</u>	<u>Fund Balance</u> <u>June 30, 2012</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>Percent</u> <u>Change</u>
General	\$ 1,865,467	\$ 596,160	\$ 1,269,307	213%
Schoolwide building program	(521,173)	(3,202)	(517,971)	16176%
Other governmental	<u>778,991</u>	<u>804,532</u>	<u>(25,541)</u>	-3%
Total	<u>\$ 2,123,285</u>	<u>\$ 1,397,490</u>	<u>\$ 725,795</u>	

General fund

The general fund is reporting a fund balance of \$1,865,467, an increase of \$1,269,307 from 2012. This increase in fund balance can be attributed to a decrease in expenditures in the current fiscal year. Table 5 assists in illustrating the financial activities of the general fund.

Schoolwide building program fund

The schoolwide building program is reporting a fund balance of (\$521,173), a decrease of (\$517,971) from 2012. This decrease in fund balance can be attributed to current year expenditures exceeding current year revenues and an increase in activity within the fund compared to the prior year.

Southeast Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Table 5
General Fund Changes in Revenues and Expenditures

	2013 <u>Amount</u>	2012 <u>Amount</u>	Increase (Decrease)	Percent Change
<u>Revenues:</u>				
Taxes	\$ 7,480,186	\$ 8,259,925	\$ (779,739)	-9.44%
Intergovernmental	5,756,069	5,866,294	(110,225)	-1.88%
Interest	1,477	832	645	77.52%
Tuition and fees	901,958	839,105	62,853	7.49%
Extracurricular activities	80,242	100,298	(20,056)	-20.00%
Gifts and donations	7,911	4,657	3,254	69.87%
Charges for services	244,293	263,377	(19,084)	-7.25%
Rent	3,655	3,755	(100)	-2.66%
Miscellaneous	<u>97,697</u>	<u>37,468</u>	<u>60,229</u>	160.75%
Total revenues	<u>14,573,488</u>	<u>15,375,711</u>	<u>(802,223)</u>	
<u>Expenditures:</u>				
<u>Current:</u>				
<u>Instruction:</u>				
Regular	2,806,792	6,336,079	(3,529,287)	-55.70%
Special	616,381	1,306,060	(689,679)	-52.81%
Vocational	159,970	248,598	(88,628)	-35.65%
Other	961,761	897,745	64,016	7.13%
<u>Support services:</u>				
Pupils	516,181	673,917	(157,736)	-23.41%
Instructional staff	241,839	389,466	(147,627)	-37.90%
Board of education	35,829	31,410	4,419	14.07%
Administration	1,017,436	1,582,070	(564,634)	-35.69%
Fiscal	392,862	381,449	11,413	2.99%
Operation and maintenance of plant	996,797	1,078,619	(81,822)	-7.59%
Pupil transportation	1,123,810	1,154,984	(31,174)	-2.70%
Central	194,937	191,004	3,933	2.06%
Operation of non-instructional services	43,698	62,382	(18,684)	-29.95%
Extracurricular	387,011	383,060	3,951	1.03%
<u>Debt service:</u>				
Principal retirement	44,810	57,164	(12,354)	-21.61%
Interest and fiscal charges	<u>1,206</u>	<u>4,250</u>	<u>(3,044)</u>	-71.62%
Total expenditures	<u>\$ 9,541,320</u>	<u>\$ 14,778,257</u>	<u>\$ (5,236,937)</u>	

Southeast Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

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 fiscal year 2013, the School District amended its appropriation budget several times. Budget revisions are presented to the Board of Education for approval.

For the general fund, the final budget basis revenue estimate was \$14,820,518 which was \$451,477 higher than the original budget, primarily due from intergovernmental and tuition revenues that were not known during the original budget process. Actual receipts of \$14,820,631 were \$113 higher than the final budget basis estimate. This was not due to any specific item.

The general fund's original expenditures estimate equaled \$14,254,755. The final expenditures estimate equaled \$14,601,767 which was \$347,012 higher than the original budget mainly due from costs related to instruction. Actual expenditures and other financing uses total \$14,156,157, or \$445,610 less than the final amount budgeted.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013, the School District had \$3,393,442 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 6 shows fiscal year 2013 balances compared to fiscal year 2012:

Table 6
Capital Assets (Net of Depreciation)

	Governmental Activities	
	2013	2012
Land	\$ 588,680	\$ 588,680
Construction in Progress	13,642	-
Land improvements	23,383	36,170
Buildings and improvements	1,707,645	1,706,549
Furniture and equipment	431,680	515,340
Vehicles	628,412	646,721
Total capital assets	\$ 3,393,442	\$ 3,493,460

The decrease in capital assets was due to depreciation exceeding additions, for the year. The School District continued its ongoing commitment to maintaining and improving its capital assets. For more information on capital assets, refer to Note 10 in the basic financial statements.

Southeast Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Debt Administration

The Board of Education for the School District issued general obligation notes in the amount of \$640,609 under House Bill 264 Energy Conservation Program on March 3, 1998. The School District is eligible for funding from the Ohio School Facilities Commission under which the State will fund 36% of the School District's future facility needs after the issuance of bonds.

During the fiscal year 2013, the School District paid off their debt. See Note 11 to the basic financial statement for detail. Table 7 summarizes the outstanding debt.

Table 7
Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2013	2012
General Obligation Notes	\$ -	\$ 44,810

Current Issues Affecting Financial Condition

The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. The financial future of the School District is not without its challenges though. These challenges stem from issues that are local and at the State level. The local challenges will continue to exist, as the School District must rely heavily on property taxes to fund its operations. State level challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system. Although the School District relies heavily on its property taxpayers to support its operations, the community support for the School District is quite strong.

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

In conclusion, the School District's system of budgeting and internal controls is well regarded and will be needed to meet the challenges of the future.

Contacting the School District's Financial Management

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

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Southeast Local School District
Statement of Net Position
June 30, 2013

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 2,887,723
Cash and cash equivalents:	
With fiscal agents	756,383
Receivables:	
Taxes	7,870,457
Accounts	106,787
Intergovernmental	296,773
Inventory held for resale	4,264
Materials and supplies inventory	2,202
Capital assets:	
Non-depreciable capital assets	588,680
Depreciable capital assets, net	<u>2,804,762</u>
Total assets	<u>15,318,031</u>
<u>Liabilities:</u>	
Accounts payable	68,766
Accrued wages	1,181,503
Compensated absences payable	57,134
Intergovernmental payable	403,184
Claims payable	191,254
Long-term liabilities:	
Due within one year	172,531
Due in more than one year	<u>502,527</u>
Total liabilities	<u>2,576,899</u>
<u>Deferred inflows of resources:</u>	
Property taxes	<u>7,139,152</u>
<u>Net position:</u>	
Net investment in capital assets	3,393,442
Restricted for:	
Capital projects	569,205
Other purposes	202,607
Unrestricted	<u>1,436,726</u>
Total net position	<u>\$ 5,601,980</u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2013

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants, Contributions and Interest	Revenue and Change in Net Position
				Governmental Activities
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$ 6,644,516	\$ 1,105,513	\$ 963,972	\$ (4,575,031)
Special	1,990,468	8,884	526,517	(1,455,067)
Vocational	159,398	-	-	(159,398)
Other	961,761	-	-	(961,761)
Support services:				
Pupils	682,916	132,278	60,691	(489,947)
Instructional staff	831,169	-	383,616	(447,553)
Board of education	35,829	-	-	(35,829)
Administration	1,575,113	-	197,764	(1,377,349)
Fiscal	394,512	-	-	(394,512)
Operation and maintenance of plant	1,002,560	3,655	-	(998,905)
Pupil transportation	1,266,610	-	-	(1,266,610)
Central	209,384	-	10,800	(198,584)
Operation of non-instructional services	886,117	278,767	565,733	(41,617)
Extracurricular activities	588,847	176,187	2,472	(410,188)
Interest and fiscal charges	1,057	-	-	(1,057)
Total governmental activities	<u>\$ 17,230,257</u>	<u>\$ 1,705,284</u>	<u>\$ 2,711,565</u>	<u>(12,813,408)</u>

General Revenues:

Property taxes levied for:		
General purposes		7,470,218
Capital projects		270,321
Grants and entitlements not restricted to specific programs		5,793,013
Investment earnings		6,768
Miscellaneous		45,328
Total general revenues		<u>13,585,648</u>
Change in net position		772,240
Net position beginning of year		<u>4,829,740</u>
Net position end of year		<u>\$ 5,601,980</u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Balance Sheet
Governmental Funds
June 30, 2013

	General	Schoolwide Building Program	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in pooled cash and cash equivalents	\$ 1,978,397	\$ 41,052	\$ 848,332	\$ 2,867,781
<u>Receivables:</u>				
Taxes	7,596,411	-	274,046	7,870,457
Accounts	103,464	-	3,323	106,787
Intergovernmental	52,235	179,911	64,627	296,773
Interfund	5,610	-	-	5,610
Inventory held for resale	-	-	4,264	4,264
Materials and supplies inventory	-	-	2,202	2,202
Total assets	\$ 9,736,117	\$ 220,963	\$ 1,196,794	\$ 11,153,874
<u>Liabilities, deferred inflows of resources and fund balances:</u>				
<u>Liabilities:</u>				
Accounts payable	\$ 9,214	\$ 12,541	\$ 47,011	\$ 68,766
Accrued wages	537,486	578,508	65,509	1,181,503
Interfund payable	-	-	5,610	5,610
Intergovernmental payable	244,497	120,263	38,424	403,184
Compensated absences payable	57,134	-	-	57,134
Total liabilities	848,331	711,312	156,554	1,716,197
<u>Deferred inflows of resources</u>				
Property taxes	6,890,469	-	248,683	7,139,152
Unavailable revenue - delinquent property taxes	131,850	-	4,842	136,692
Unavailable revenue - other	-	30,824	7,724	38,548
Total deferred inflows of resources	7,022,319	30,824	261,249	7,314,392
<u>Fund balances:</u>				
Restricted	-	-	781,585	781,585
Assigned	1,240,565	-	-	1,240,565
Unassigned	624,902	(521,173)	(2,594)	101,135
Total fund balances	1,865,467	(521,173)	778,991	2,123,285
Total liabilities, deferred inflows of resources and fund balances	\$ 9,736,117	\$ 220,963	\$ 1,196,794	\$ 11,153,874

See accompanying notes to the basic financial statements.

Southeast Local School District
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2013

Total governmental fund balances			\$	2,123,285
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.				3,393,442
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable revenue in the funds:				
Property taxes	\$	136,692		
Intergovernmental		<u>38,548</u>		
Total				175,240
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.				585,071
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:				
Compensated absences				<u>(675,058)</u>
Net position of governmental activities			\$	<u>5,601,980</u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	General	Schoolwide Building Program	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 7,480,186	\$ -	\$ 270,700	\$ 7,750,886
Intergovernmental	5,756,069	1,165,014	1,534,535	8,455,618
Interest	1,477	-	414	1,891
Tuition and fees	901,958	-	-	901,958
Extracurricular activities	80,242	-	67,528	147,770
Gifts and donations	7,911	-	2,443	10,354
Charges for services	244,293	-	278,713	523,006
Rent	3,655	-	-	3,655
Miscellaneous	97,697	-	108,380	206,077
Total revenues	<u>14,573,488</u>	<u>1,165,014</u>	<u>2,262,713</u>	<u>18,001,215</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,806,792	3,684,334	71,440	6,562,566
Special	616,381	875,628	492,877	1,984,886
Vocational	159,970	-	-	159,970
Other	961,761	-	-	961,761
Support services:				
Pupils	516,181	152,661	14,968	683,810
Instructional staff	241,839	268,038	314,946	824,823
Board of education	35,829	-	-	35,829
Administration	1,017,436	470,659	84,547	1,572,642
Fiscal	392,862	-	7,391	400,253
Operation and maintenance of plant	996,797	-	8,874	1,005,671
Pupil transportation	1,123,810	-	19,801	1,143,611
Central	194,937	-	13,933	208,870
Operation of non-instructional services	43,698	-	847,742	891,440
Extracurricular	387,011	-	191,304	578,315
Capital outlay	-	-	210,307	210,307
Debt service:				
Principal retirement	44,810	-	-	44,810
Interest and fiscal charges	1,206	-	-	1,206
Total expenditures	<u>9,541,320</u>	<u>5,451,320</u>	<u>2,278,130</u>	<u>17,270,770</u>
Excess of revenues over (under) expenditures	<u>5,032,168</u>	<u>(4,286,306)</u>	<u>(15,417)</u>	<u>730,445</u>
Other financing sources (uses):				
Transfers in	10,349	3,768,335	225	3,778,909
Transfers out	(3,773,210)	-	(10,349)	(3,783,559)
Total other financing sources (uses)	<u>(3,762,861)</u>	<u>3,768,335</u>	<u>(10,124)</u>	<u>(4,650)</u>
Net change in fund balances	1,269,307	(517,971)	(25,541)	725,795
Fund balances beginning of year	<u>596,160</u>	<u>(3,202)</u>	<u>804,532</u>	<u>1,397,490</u>
Fund balances end of year	<u>\$ 1,865,467</u>	<u>\$ (521,173)</u>	<u>\$ 778,991</u>	<u>\$ 2,123,285</u>

See accompanying notes to the basic financial statements.

Southeast 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, 2013

Net change in fund balances - total governmental funds \$ 725,795

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 capital assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Net capital asset additions	\$ 210,307	
Depreciation expense	<u>(310,325)</u>	
Excess of net depreciation over capital outlay expense		(100,018)

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

Property taxes	\$ (10,347)	
Intergovernmental	38,495	
Charges for services	<u>(31,854)</u>	
Net change in deferred inflows of resources during the year		(3,706)

Repayments of debt are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position. 44,810

Some items 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. These activities consist of:

Decrease in compensated absences	\$ 11,455	
Decrease in accrued interest	<u>149</u>	
Total additional expenses		11,604

The internal service fund used by management to charge the costs of dental and healthcare claims to individual funds is not reported in the statement of activities. The net revenue (expense) of the internal service fund is reported in the government-wide statements. 93,755

Change in net position of governmental activities \$ 772,240

See accompanying notes to the basic financial statements.

Southeast Local School District
Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	\$ 7,595,684	\$ 7,830,602	\$ 7,830,602	\$ -
Intergovernmental	5,548,855	5,726,264	5,726,264	-
Interest	1,351	1,394	1,477	83
Tuition and fees	837,609	864,389	864,419	30
Charges for services	235,854	243,395	243,395	-
Rent	3,542	3,655	3,655	-
Miscellaneous	40,560	41,857	41,857	-
Total revenues	<u>14,263,455</u>	<u>14,711,556</u>	<u>14,711,669</u>	<u>113</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	3,270,041	3,501,784	3,378,483	123,301
Special	842,119	760,553	726,222	34,331
Vocational	178,627	185,329	161,241	24,088
Other	979,350	1,009,663	963,104	46,559
Support services:				
Pupils	386,048	399,412	394,471	4,941
Instructional staff	260,710	269,465	256,386	13,079
Board of education	35,829	36,938	35,837	1,101
Administration	1,066,428	1,101,847	1,073,456	28,391
Fiscal	396,172	408,071	396,587	11,484
Operation and maintenance of plant	1,068,551	1,103,334	1,063,943	39,391
Pupil transportation	1,087,337	1,120,992	1,170,597	(49,605)
Central	195,207	201,249	199,564	1,685
Operation of non-instructional services	50,679	52,248	44,894	7,354
Extracurricular activities	427,274	440,499	384,369	56,130
Debt service:				
Principal retirement	44,810	44,810	44,810	-
Interest and fiscal charges	1,206	1,206	1,206	-
Total expenditures	<u>10,290,388</u>	<u>10,637,400</u>	<u>10,295,170</u>	<u>342,230</u>
Excess of revenues over expenditures	<u>3,973,067</u>	<u>4,074,156</u>	<u>4,416,499</u>	<u>342,343</u>
<u>Other financing sources (uses):</u>				
Proceeds from the sale of capital assets	-	1,353	1,353	-
Refund of prior year expenditures	6,067	4,908	4,908	-
Advances in	89,491	92,352	92,352	-
Advances out	(87,777)	(87,777)	(87,777)	-
Transfers in	10,028	10,349	10,349	-
Transfers out	(3,876,590)	(3,876,590)	(3,773,210)	103,380
Total other financing sources (uses)	<u>(3,858,781)</u>	<u>(3,855,405)</u>	<u>(3,752,025)</u>	<u>103,380</u>
Net change in fund balance	114,286	218,751	664,474	445,723
Fund balance at beginning of year	1,192,663	1,192,663	1,192,663	-
Prior year encumbrances appropriated	34,883	34,883	34,883	-
Fund balance at end of year	<u>\$ 1,341,832</u>	<u>\$ 1,446,297</u>	<u>\$ 1,892,020</u>	<u>\$ 445,723</u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget (Non-GAAP Basis) and Actual
Schoolwide Building Program Fund
For the Fiscal Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Intergovernmental	\$ 1,216,890	\$ 1,015,927	\$ 1,015,927	\$ -
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	3,169,663	3,207,765	3,208,139	(374)
Special	763,295	765,295	763,216	2,079
Support services:				
Pupils	134,734	135,234	134,658	576
Instructional staff	228,327	243,327	227,795	15,532
Administration	426,241	432,641	426,147	6,494
Total expenditures	4,722,260	4,784,262	4,759,955	24,307
Excess of revenues under expenditures	(3,505,370)	(3,768,335)	(3,744,028)	24,307
<u>Other financing sources:</u>				
Transfers in	3,768,335	3,768,335	3,768,335	-
Net change in fund balance	262,965	-	24,307	24,307
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	\$ 262,965	\$ -	\$ 24,307	\$ 24,307

See accompanying notes to the basic financial statements.

Southeast Local School District
Statement of Fund Net Position
Internal Service Fund
For the Fiscal Year Ended June 30, 2013

	<u>Self Insurance</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 19,942
Cash and cash equivalents:	
With fiscal agent	<u>756,383</u>
Total assets	<u>\$ 776,325</u>
<u>Liabilities:</u>	
Claims payable	<u>\$ 191,254</u>
<u>Net position:</u>	
Unrestricted	<u>585,071</u>
Total liabilities and net position	<u>\$ 776,325</u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Statement of Revenues, Expenses and Changes in Fund Net Position
Internal Service Fund
For the Fiscal Year Ended June 30, 2013

	<u>Self Insurance</u>
<u>Operating revenues:</u>	
Charges for services	<u>\$ 2,618,375</u>
<u>Operating expenses:</u>	
Fringe benefits	44,635
Purchased services	528,944
Claims	<u>1,960,679</u>
Total operating expenses	<u>2,534,258</u>
Operating income	<u>84,117</u>
<u>Non-operating revenues</u>	
Interest	<u>4,988</u>
Income before transfers	<u>89,105</u>
Transfers in	4,650
Change in net position	93,755
Net position beginning of year	<u>491,316</u>
Net position end of year	<u><u>\$ 585,071</u></u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2013

	Self Insurance
<u>Cash flows from operating activities:</u>	
Cash received from interfund services provided	\$ 2,618,375
Cash payments to suppliers for goods and services	(528,944)
Cash payments for employee benefits	(44,635)
Cash payments for claims	<u>(1,972,039)</u>
Net cash provided by operating activities	<u>72,757</u>
<u>Cash flows from noncapital financing activities:</u>	
Transfer in	4,650
Advances out	<u>(5,000)</u>
Net cash used for noncapital financing activities	<u>(350)</u>
<u>Cash flows from investing activities:</u>	
Interest on investments	<u>4,988</u>
Net cash provided by investing financing	<u>4,988</u>
Net increase in cash and cash equivalents	77,395
Cash and cash equivalents at beginning of year	<u>698,930</u>
Cash and cash equivalents at end of year	<u>\$ 776,325</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 84,117</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease (increase) in liabilities:	
Claims payable	<u>(11,360)</u>
Net cash provided by operating activities	<u>\$ 72,757</u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Statement of Assets and Liabilities
Agency Fund
June 30, 2013

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	<u>\$ 16,194</u>
<u>Liabilities:</u>	
Accounts payable	\$ 692
Due to students	<u>15,502</u>
Total liabilities	<u>\$ 16,194</u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 1 – Summary of Significant Accounting Policies

A. Description of the School District

The Southeast Local School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is governed by a five-member Board of Education (the Board) elected by its citizens and is responsible for the provision of public education to residents of the School District. The board oversees the operations of the School District's six instructional and support facilities. Average daily membership was 1,482. The School District employed 129 certified and 103 non-certified employees.

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as it applies to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's more significant accounting policies are described below.

B. Reporting Entity

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

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

The School District participates in one joint venture with the Midland Council of Governments (COG). Also the School District is associated with two jointly governed organizations the Wayne County Career Center and the Tri-County Computer Service Association (TCCSA). In addition, the School District is associated with the Beacon Hill Community School. These organizations are discussed in Notes 12, 13 and 14 to the basic financial statements.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

C. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net position 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 position 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 activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net position presents the financial condition of the 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, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental activity is self-financing or draws from the general revenues of the School District.

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

D. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into three categories: governmental, proprietary and fiduciary.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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

General Fund

The general fund is the 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 balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Schoolwide Building Program Fund

The schoolwide building program fund is used for the pooling of Federal, State and local funds to be used to upgrade the overall instructional program of a school building where at least 40 percent of the children are from low-income families.

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

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds. The School District's only proprietary fund is the internal service fund:

Internal Service Fund

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

Fiduciary Fund Type Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the 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. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are agency funds. The School District's agency funds are for student activities.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

E. Measurement Focus

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

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

Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use a modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Difference in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows of resources, 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. 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 sixty days of year-end.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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

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

Deferred Outflows/Inflows of Resources In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The District did not have any deferred outflows of resources at year end.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance the fiscal year 2014 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District, unavailable revenue includes delinquent property taxes, and intergovernmental grants. These amounts are deferred and recognized as inflows of resources in the period the amounts become available.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the fund financial statements as intergovernmental revenue and an expenditure of operation of non-instructional services. In addition, this amount is reported on the statement of activities as an expense with a like amount reported within the "Operating Grants, Contributions and Interest" program revenue account.

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

F. Budgets and Budgetary Accounting

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

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

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

G. Cash and Investments

To improve cash management, all cash received by the School District is pooled at various banks. Monies for all funds, including proprietary funds, are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "Equity in pooled cash and cash equivalents" on the basic financial statements. Also, the School District maintains segregated accounts for the internal service fund, which is presented as "Cash and cash equivalents with fiscal agent".

Southeast Local School District
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For the Fiscal Year Ended June 30, 2013

During fiscal year 2013, the School District's investments were limited to a government sponsored securities, open-ended mutual fund and STAR Ohio, an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes.

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

H. Inventory

Inventories are presented at cost on a first in, first out basis and are expended/expensed when used. Inventories consist of materials and supplies held for consumption and donated and purchased food.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure is reported in the year in which services are consumed. The School District did not record any prepaid items at June 30, 2013.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position 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 \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	5-50 years
Buildings and Improvements	8-50 years
Furniture and Equipment	5-20 years
Vehicles	7-10 years

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

K. 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, in accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The entire compensated absence liability is reported on the government-wide financial statements.

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

L. Accrued Liabilities and Long-term Obligations

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

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

M. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted fund balance category includes amounts that can be spent only for the specific purpose stipulated by constitution, external resource providers, or through enabling legislation. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance classifications are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

N. Estimates

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

O. Net Position

Net position represents the difference between assets, liabilities and deferred inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is 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.

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

P. 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 the employee self-insurance program. Operating expenses are necessary costs incurred to provide services that are the primary activity of the fund.

Note 2 –Implementation of New Accounting Standards

For fiscal year 2013, the District has implemented Governmental Accounting Standards Board Statement (GASBS) No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”.

GASBS No. 63 established standards for the reporting of net position which was previously referred to as net assets. The School District’s implementation had no effect on the amount of beginning net position.

For fiscal year 2013, the District has also implemented Governmental Accounting Standards Board Statement (GASBS) No. 65, “Items Previously Reported as Assets and Liabilities”.

GASBS No. 65 established standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities. The School District’s implementation had no effect on the amount of beginning net position.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 3 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Schoolwide Building Program	Other Governmental Funds	Total Governmental Funds
<u>Restricted for</u>				
Food service	\$ -	\$ -	\$ 125,059	\$ 125,059
Special trust	-	-	580	580
Athletics and music	-	-	49,484	49,484
Auxiliary services	-	-	11,620	11,620
Instructional programs	-	-	668	668
Special education	-	-	1,855	1,855
Data communications	-	-	10,800	10,800
Entry year programs	-	-	800	800
Telecommunity	-	-	16,356	16,356
Capital improvements	-	-	564,363	564,363
Total restricted	<u>-</u>	<u>-</u>	<u>781,585</u>	<u>781,585</u>
<u>Assigned</u>				
Public school support	31,526	-	-	31,526
Encumbrances	31,286	-	-	31,286
Next year's appropriation	1,177,753	-	-	1,177,753
Total assigned	<u>1,240,565</u>	<u>-</u>	<u>-</u>	<u>1,240,565</u>
Unassigned (deficit)	<u>624,902</u>	<u>(521,173)</u>	<u>(2,594)</u>	<u>101,135</u>
Total fund balances	<u>\$ 1,865,467</u>	<u>\$ (521,173)</u>	<u>\$ 778,991</u>	<u>\$ 2,123,285</u>

Note 4 – Budgetary Basis of Accounting

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

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

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
4. Encumbrances are treated as expenditures (budget basis) rather than restricted or assigned fund balance (GAAP basis).
5. The revenues, expenditures and other financing sources and uses of the general fund include activity that is budgeted within special revenue funds (GAAP basis). However, on the budgetary basis, the activity of the special revenue funds is excluded resulting in perspective differences.

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

	Net Change in Fund Balance	
	<u>General</u>	<u>Schoolwide Building Program</u>
GAAP basis	\$ 1,269,307	\$ (517,971)
Revenue accruals	284,631	(149,087)
Advances in	92,352	-
Expenditure accruals	(838,045)	708,110
Advances out	(87,777)	-
Budgeted as part of special revenue fund:		
Revenues	(140,189)	-
Expenditures	138,994	-
Encumbrances (Budget Basis) outstanding at year end	<u>(54,799)</u>	<u>(16,745)</u>
Budget basis	<u>\$ 664,474</u>	<u>\$ 24,307</u>

Note 5 – Accountability and Compliance

As of June 30, 2013, several funds had deficit fund balances/net position. These deficits were caused by the application of GAAP; namely in the reporting of various liabilities attributable to the fiscal year. This deficit balance will be eliminated by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

<u>Fund</u>	<u>Amount</u>
Schoolwide building program	\$ 521,173
Special revenue funds	
Title I	\$ 1,474
Miscellaneous federal grants	1,120

Note 6 – Deposits and Investments

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptance and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

A. Deposits

Custodial credit risk for a deposit is the risk that, in the event of a bank failure, the School District's deposits may not be returned. 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.

The carrying value of the School District's deposits totaled \$105,112. The School District's bank balance of \$446,362 was not exposed to custodial credit risk as it was insured or collateralized by securities held by the School District's agent in the School District's name.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

B. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Percentage of investments</u>	<u>Maturity Days</u>	<u>Rating</u>
STAROhio	\$ 2,492,782	70.12%	57.5 ⁽¹⁾	AAAm ⁽²⁾
Open-ended mutual fund	306,023	8.61%	48 ⁽³⁾	AAAm ⁽²⁾
OME-RESA pool	<u>756,383</u>	21.27%	n/a	n/a
	<u>\$ 3,555,188</u>			

⁽¹⁾ Days (average)

⁽²⁾ Standard and Poor's rating

⁽³⁾ Weighted average maturity

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 Securities Exchange Commission 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, 2013.

OME-RESA pool represents the School District's portion of the insurance purchasing pool for health insurance benefits. More information may be found in Note 15.

Credit risk is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. Standard and Poor's has assigned the open-ended mutual fund an AAAm rating. The School District's investment policy requires certain credit ratings for some investments as allowed by state law.

Interest rate risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. The School District's investment policy does not address limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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 during fiscal year 2013 amounted to \$1,477, which includes \$1,152 assigned from other School District funds.

Note 7 – Property Taxes

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

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Property taxes include amounts levied against all real, public utility and tangible personal property (used in public utility) located in the School District. Real property tax revenue received in calendar 2013 represents collections of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed value listed as of January 1, 2012, the lien date. Assessed values for real property taxes are established by State law at 35 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 2013 represents collections of calendar year 2012 taxes. Public utility real and tangible personal property taxes received in calendar year 2013 became a lien December 31, 2011, were levied after April 1, 2012 and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phased out the tax on tangible personal property of general businesses, telephone and telecommunications companies and railroads. The tax on general business and railroad property was eliminated in calendar year 2009, and the tax on telephone and telecommunications property was eliminated in calendar year 2011. The tax was phased out by reducing the assessment rate on the property over several years. The bill provided reimbursements to the School District equivalent to the revenue lost due to the phasing out of the tax. In calendar years 2006-2010, the School District was fully reimbursed for the lost revenue. House Bill No. 153 was signed into law on June 30, 2011. This bill dramatically reduced these reimbursements to the School District. Under the current state law, the District will continue to be reimbursed at this reduced level.

The School District receives property taxes from Wayne, Holmes and Stark County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half property tax payments collected by the County by June 30, 2013, are intended to finance fiscal year 2013 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2013 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes.

The amounts available to the School District as an advance at June 30 are recognized as revenue. The amount available as an advance at June 30, 2013 was \$594,613. \$574,092 was available to the general fund, and \$20,521 to the permanent improvement capital projects fund.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

On the accrual basis, collectible delinquent property taxes have been recorded as revenue on the statement of activities.

The assessed values upon which the fiscal year 2013 taxes were collected are:

<u>Property Category</u>	<u>2012 Assessed Value</u>	<u>2011 Assessed Value</u>
Real property		
Residential and agricultural	\$ 234,216,600	\$ 232,096,580
Commercial , industrial and mineral	32,226,290	32,357,110
Public utilities	1,980	1,200
Tangible personal property		
Public utilities	<u>9,106,740</u>	<u>8,549,370</u>
Total	<u>\$ 275,551,610</u>	<u>\$ 273,004,260</u>

Note 8 – Receivables

Receivables at year-end consisted of taxes, accounts (tuition and excess costs), and intergovernmental grants and entitlements. All receivables are considered collectable in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of Federal funds. The general fund reported an intergovernmental receivable for \$52,235 for a workers' compensation dividend and monies due from a related organization and the schoolwide building program fund reported an intergovernmental receivable for \$179,911 for federal grants. Other nonmajor governmental funds recorded intergovernmental receivables for state and federal grants and reimbursements in the amount of \$64,627.

Note 9 – Contingencies

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, 2013.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 10 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	<u>Balance 7/1/2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2013</u>
Governmental Activities				
Nondepreciable capital assets				
Land	\$ 588,680	\$ -	\$ -	\$ 588,680
Construction in progress	<u>-</u>	<u>13,642</u>	<u>-</u>	<u>13,642</u>
Total capital assets, not being depreciated	<u>588,680</u>	<u>13,642</u>	<u>-</u>	<u>602,322</u>
Depreciable capital assets				
Land improvements	551,867	-	-	551,867
Buildings and improvements	4,967,479	84,735	-	5,052,214
Furniture and equipment	2,903,027	-	(1,815)	2,901,212
Vehicles	<u>1,929,237</u>	<u>111,930</u>	<u>(80,382)</u>	<u>1,960,785</u>
Total depreciable capital assets	<u>10,351,610</u>	<u>196,665</u>	<u>(82,197)</u>	<u>10,466,078</u>
Less accumulated depreciation:				
Land improvements	(515,697)	(12,787)	-	(528,484)
Buildings and improvements	(3,260,930)	(83,639)	-	(3,344,569)
Furniture and equipment	(2,387,687)	(83,660)	1,815	(2,469,532)
Vehicles	<u>(1,282,516)</u>	<u>(130,239)</u>	<u>80,382</u>	<u>(1,332,373)</u>
Total accumulated depreciation	<u>(7,446,830)</u>	<u>(310,325)</u>	<u>82,197</u>	<u>(7,674,958)</u>
Depreciable capital assets, net				
Governmental activities	<u>2,904,780</u>	<u>(113,660)</u>	<u>-</u>	<u>2,791,120</u>
Capital assets, net	<u>\$ 3,493,460</u>	<u>\$ (100,018)</u>	<u>\$ -</u>	<u>\$ 3,393,442</u>

Depreciation expense was charged to governmental functions as follows:

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Instruction:	
Regular	\$ 142,273
Special	14,470
Support services:	
Pupils	558
Instructional staff	278
Administration	2,756
Fiscal	1,075
Operation and maintenance of plant	11,624
Pupil transportation	122,011
Operation of non-instructional services	<u>15,280</u>
Total depreciation expense	<u>\$ 310,325</u>

Note 11 – Long-term Debt and Other Obligations

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

	Balance 7/1/2012	Addition	Deletion	Balance 6/30/2013	Due within One Year
Governmental Activities					
General obligation notes, 5.05%	\$ 44,810	\$ -	\$ (44,810)	\$ -	\$ -
Compensated absences payable	<u>686,513</u>	<u>132,037</u>	<u>(143,492)</u>	<u>675,058</u>	<u>172,531</u>
Total governmental activities Long-term liabilities	<u>\$ 731,323</u>	<u>\$ 132,037</u>	<u>\$ (188,302)</u>	<u>\$ 675,058</u>	<u>\$ 172,531</u>

General obligation notes All obligations were general obligations of the School District for which the full faith and credit of the School District is pledged for repayment. General obligation notes were retired through the general fund.

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

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 264 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 66 days for both classified and certified employees.

The final payment on the debt outstanding was made during the fiscal year.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 12 – Joint Venture

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

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

The COG is funded by member fees and state grants. The Executive Committee determines and sets the member fees for all services to the COG. Fees are billed to member districts annually around July 1st. The School District paid \$112,867 in fees for the fiscal year 2013. The School District has no equity interest in the COG.

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

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

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

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

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

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 13– Jointly Governed Organizations

A. Wayne County Career Center

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

B. Tri-County Computer Service Association

The School District is a member of the Tri-County Computer Service Association (TCCSA), a jointly governed organization which provides computer services to the school districts within the boundaries of Wayne, Holmes, and Ashland Counties. Each District's superintendent serves as a representative on the Board, which consists of 20 member districts. However, TCCSA is primarily governed by a five-member executive Board that meets monthly to address any current issues. During the year ended June 30, 2013, the School District paid approximately \$86,536 to TCCSA for basic service charges.

Note 14 – Related Organization

During fiscal year 2013, the School District provided educational management information systems coordinating services and other administrative services to the Beacon Hill Community School. As of June 30, 2013, the Beacon Hill Community School owes \$22,430 to the School District for these services; which were recorded as an intergovernmental receivable. The Beacon Hill Community School issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to Beacon Hill Community School, 9048 Dover Road, Apple Creek, Ohio 44606.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 15 – Risk Management

Comprehensive The School District is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, the School District contracted with private carriers for property and fleet insurance, liability insurance, and inland marine coverage. Coverage provided by these carriers is as follows:

Building and Contents - replacement cost - \$37,038,858 (\$1,000 deductible)

Inland Marine Coverage - \$819,115 (\$500 deductible)

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

Uninsured Motorists - \$1,000,000

General Liability - \$2,000,000 aggregate/each per occurrence

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

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

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

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

The School District has also contracted with the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA). OME-RESA self-insurance plan is a risk-sharing, claims servicing, and insurance purchasing pool, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The plan offers medical and prescription drug coverage on a self-insured basis, as well as the opportunity to participate in the group purchasing of life insurance coverage.

The School District uses the self-insurance fund to record and report its dental and participation in the joint self-insured health care program. The claims liability of \$191,254, reported in the fund at year end was estimated by the third party administrator and is based on the requirements of GASB Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in fund's claims liability for the fiscal year 2013 is as follows:

		<u>Balance</u> <u>Beginning of Year</u>	<u>Current Year</u> <u>Claims</u>	<u>Claim</u> <u>Payments</u>	<u>Balance at</u> <u>End of Year</u>
2012	\$	161,663	2,677,355	2,636,404	\$ 202,614
2013	\$	202,614	1,960,679	1,972,039	\$ 191,254

Note 16 - Defined Benefit Pension Plans

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Funding Policy - 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 School District rate is 14 percent of annual covered payroll. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four funds (Pension Trust Fund, Death Benefit Fund, Medicare Part B Fund and Health Care Fund) of the system. For fiscal year 2013, 13.10 percent of annual covered salary was the portion used to fund pension and death benefits. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$301,605, \$296,636 and \$291,258 respectively; 54.3 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime 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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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

Funding Policy - For the fiscal year ended June 30, 2012 (the latest information available), plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2011, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 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, 2013, 2012 and 2011 were \$1,004,373, \$994,233 and \$962,000 respectively; 83.5 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$37,512 made by the School District and \$26,794 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2013, several members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid. The remaining Board members contribute to SERS.

Note 17 - Post-Employment Benefits

A. School Employee Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available on SERS' website at www.ohsers.org under Employers/Audit Resources.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2013, 0.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2013, this amount was \$20,525.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011 were \$43,457, \$48,284 and \$69,017 respectively; 96 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For 2013, this actuarially required allocation was 0.74 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012 and 2011 were \$17,037, \$17,518 and \$18,743 respectively; 54.3 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

B. State Teachers Retirement System

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012 (the latest information available), STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011 were \$77,259, \$76,479 and \$74,000 respectively; 83.5 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 18 – Statutory Reserves

The School District is required by the state law to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. The School District may replace using general fund revenues with proceeds from various sources (offsets), such as bond proceeds or levy proceeds related to the acquisition, replacement, enhancement, maintenance or repair of permanent improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years. The following information describes the change in the year-end set-aside amounts for capital maintenance.

	Capital Improvement and <u>Maintenance</u>
Set-aside balance as of June 30, 2012	\$ -
Current year set-aside requirement	262,790
Current year offsets	<u>(342,350)</u>
Total	<u>\$ (79,560)</u>

Although the School District had current year offsets during the fiscal year that reduced the set-aside amount to below zero for the capital maintenance reserve, this amount may not be used to reduce the set aside requirement for future years. This negative balance is, therefore, not presented as being carried forward to future years.

Note 19 – Interfund Receivables, Payables and Transfers

Interfund balances at June 30, 2013 consisted of the following:

	Interfund <u>Receivable</u>	Interfund <u>Payable</u>
General fund	\$ 5,610	\$ -
Nonmajor governmental funds	<u>-</u>	<u>5,610</u>
Totals	<u>\$ 5,610</u>	<u>\$ 5,610</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2013, all interfund loans outstanding are anticipated to be repaid in fiscal year 2014.

Interfund transfers for the year ended June 30, 2013 consisted of the following, as reported on the fund financial statements:

Southeast Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Transfers from general fund to:	
Schoolwide building program fund	\$ 3,768,335
Nonmajor governmental funds	225
Internal service fund	<u>4,650</u>
Total transfers from the general fund	<u>\$ 3,773,210</u>
Transfers from nonmajor governmental funds to:	
General fund	<u>10,349</u>
Total	<u>\$ 3,783,559</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorization. Transfers are also used to close out grants in any funds, including special revenue funds that are no longer required.

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>(Passed through the Ohio Department of Education)</i>			
Child Nutrition Cluster:			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	\$ 45,251	\$ 45,251
Cash Assistance:			
School Breakfast Program	10.553	69,510	69,510
National School Lunch Program	10.555	304,066	304,066
Total Child Nutrition Cluster		<u>418,827</u>	<u>418,827</u>
Total U.S. Department of Agriculture		<u>418,827</u>	<u>418,827</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>(Passed through the Ohio Department of Education)</i>			
Title I Grants to Local Educational Agencies	84.010	1,228,538	1,236,270
Special Education - Grants to States	84.027	365,868	366,869
Rural Education	84.358	26,302	29,650
English Language Acquisition State Grants	84.365	48,697	50,196
Improving Teacher Quality State Grants	84.367	210,271	208,811
Education Technology State Grants	84.318	1,036	2,126
ARRA - Race-to-the-Top Grants, Recovery Act	84.395	168,727	171,565
Education Jobs Fund	84.410	33,996	33,997
Total U. S. Department of Education		<u>2,083,435</u>	<u>2,099,484</u>
Totals		<u>\$ 2,502,262</u>	<u>\$ 2,518,311</u>

The accompanying notes are an integral part of this schedule.

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Southeast Local School District's (the District's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southeast Local School District, Wayne County, Ohio (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 20, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

March 20, 2014



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Southeast Local School District's, Wayne County, Ohio (the District's), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2013. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

Management's Responsibility

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect 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 our audit provides a reasonable basis for our compliance opinion on the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Southeast Local School District, Wayne County, Ohio complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of findings as items 2013-001 and 2013-002. These findings did not require us to modify our compliance opinion on each major federal program.

The District's responses to our noncompliance findings are described in the accompanying corrective action plan. We did not audit the District's responses and, accordingly, we express no opinion on them.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies, described in the accompanying schedule of findings as items 2013-001 and 2013-002.

The District's responses to the internal control over compliance findings we identified are described in the accompanying corrective action plan. We did not audit the District's responses and, accordingly, we express no opinion on them.

Southeast Local School District
Wayne County
Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Federal Program and on Internal Control Over
Compliance Required By OMB Circular A-133
Page 3

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

March 20, 2014

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**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA # 10.553 & 10.555 – Child Nutrition Cluster CFDA # 84.027 – Special Education – Grants to States CFDA # 84.395 – Race to the Top
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

Nutrition Cluster Eligibility

Finding Number	2013-001
CFDA Title and Number	Child Nutrition Cluster – CFDA # 10.553 and 10.555
Federal Award Number / Year	2013
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Noncompliance/Significant Deficiency

7 C.F.R. § 245.6 provides that each local educational agency for schools participating in the National School Lunch Program, School Breakfast Program, Special Milk Program, or a commodity only school, shall provide meal benefit forms for use by families in making application for free or reduced price meals or free milk for their children.

Pursuant to **7 C.F.R. § 245.6(c)**, the local educational agency must use the income information provided by the household on the application to calculate the household's total current income. When a household submits an application containing complete documentation and the household's total current income is at or below the eligibility limits specified in the Income Eligibility Guidelines as defined in § 245.2, the children in that household must be approved for free or reduced price benefits, as applicable.

One out of forty (2.5 percent) free and reduced price lunch applications tested for fiscal year 2013 was incorrectly calculated and approved by the Food Service Director for reduced lunches. Based on the household's total current income and the income eligibility limits, the application should have resulted in paid lunches.

We recommend the District's Food Service Director thoroughly review the annual free and reduced price lunch applications to ensure all children receive the benefits they are entitled to and the District is accurately reimbursed based on student eligibility.

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS (Continued)

Nutrition Cluster Verification

Finding Number	2013-002
CFDA Title and Number	Child Nutrition Cluster – CFDA # 10.553 and 10.555
Federal Award Number / Year	2013
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Noncompliance/Significant Deficiency

7 CFR 245.6A(c)(1) provides the local educational agency (LEA) must verify eligibility of children in a sample of household applications approved for free and reduced price meal benefits for that school year.

7 CFR 245.6A(f)(4) provides if a household refuses to cooperate with efforts to verify, eligibility for free or reduced price benefits shall be terminated in accordance with paragraph (j) of this section. In addition, **7 CFR 245.6A(f)(6)** provides the local educational agency shall make at least one attempt to contact any household that does not respond to a verification request. The attempt may be through a telephone call, e-mail, mail or in person and must be documented by the local educational agency. Non-response to the initial request for verification includes no response and incomplete or ambiguous responses that do not permit the local educational agency to resolve the children's eligibility for free or reduced price meal and milk benefits.

During fiscal year 2013, 1 out of 7 applications for verification had no response from the parents. However, no follow-up by the District was documented and the student's free or reduced lunch eligibility was not terminated.

We recommend the District ensure documentation is received for all applications verified. If a parent does not respond, the District needs to ensure at least one attempt is made to verify, and that the attempt is documented. If the District still does not receive a response, then the student should be terminated from free or reduced lunches.

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2013**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2013-001	The District's Food Service Director will thoroughly review the annual free and reduced price lunch applications to ensure all children receive the benefits they are entitled to and the District is accurately reimbursed based on student eligibility. Once the determining official makes the initial application classification, the applications will be reviewed by a confirming official for final verification.	Effective immediately	Luann Suppes, Food Service Director and Tim Adams, Director of Operations
2013-002	The District will ensure documentation is received for all applications verified. If a parent does not respond, the District will ensure at least one attempt is made to verify, and that the attempt is documented. If the District still does not receive a response, then the student should be terminated from free or reduced lunches. This documentation will be logged in both an excel spreadsheet and on the applicants Free and Reduced Application Form located in the "school use only section".	Effective immediately	Luann Suppes, Food Service Director and Tim Adams, Director of Operations



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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Southeast Local School District, Wayne County, Ohio, (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on September 17, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State
Columbus, Ohio

March 20, 2014

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SOUTHEAST LOCAL SCHOOL DISTRICT

WAYNE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 8, 2014**