

**SOUTHEASTERN
LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO**

AUDIT REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2016**

James G. Zupka, CPA, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

Board of Education
Southeastern Local School District
226 Clifton Road
South Charleston, Ohio 45368

We have reviewed the *Independent Auditor's Report* of the Southeastern Local School District, Clark County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted the report in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

November 22, 2017

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**SOUTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR’S REPORT

Board of Education
Southeastern Local School District
South Charleston, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southeastern Local School District, Clark County, Ohio, as of and for the year ended June 30, 2016, 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 the preparation and fair presentation of these financial statements in accordance with the modified cash accounting basis described in Note 2; this includes determining that the modified cash accounting basis is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the Southeastern Local School District, Ohio’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Southeastern Local School District, Ohio, as of June 30, 2016, and the respective changes in modified cash financial position thereof for the year then ended in accordance with the basis of accounting described in Note 2.

Accounting Basis

Ohio Administrative Code Section §117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Emphasis of Matter

As discussed in Note 17 to the financial statements, during 2016, the District has elected to change its financial presentation to a modified cash basis comparable to the requirements of *Governmental Accounting Standards*, and restated its net cash position/fund balance at June 1, 2015. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2017, on our consideration of the Southeastern Local School District, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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 Southeastern Local School District, Ohio's internal control over financial reporting and compliance.



James G. Zupka, CPA, Inc.
Certified Public Accountants

October 13, 2017

Southeastern Local School District, Clark County, Ohio
Statement of Net Position - Modified Cash Basis
June 30, 2016

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	<u>\$7,228,775</u>
Total Assets	<u>7,228,775</u>
Net Cash Position:	
Restricted for:	
Capital Projects	260,622
Athletics	38,626
State Grants	7,934
Federal Grants	13,549
Other Purposes	2,973
Unrestricted	<u>6,905,071</u>
Total Net Cash Position	<u><u>\$7,228,775</u></u>

See accompanying notes to the basic financial statements.

Southeastern Local School District, Clark County, Ohio
Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended June 30, 2016

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Cash Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$4,140,707	\$475,853	\$27,556	(\$3,637,298)
Special	1,421,824	44,039	658,510	(719,275)
Vocational	236,945	0	32,982	(203,963)
Other	13,785	0	0	(13,785)
Support Services:				
Pupil	385,127	0	0	(385,127)
Instructional Staff	224,562	0	38,250	(186,312)
General Administration	25,287	0	0	(25,287)
School Administration	553,858	0	0	(553,858)
Fiscal	290,711	0	0	(290,711)
Operations and Maintenance	535,691	0	0	(535,691)
Pupil Transportation	426,782	0	36,919	(389,863)
Central	34,202	0	0	(34,202)
Operation of Non-Instructional Services	276,702	114,656	120,200	(41,846)
Extracurricular Activities	410,616	122,508	0	(288,108)
Capital Outlay	22,300	0	0	(22,300)
Principal Retirement	147,595	0	0	(147,595)
Interest and Fiscal Charges	48,337	0	0	(48,337)
Total Governmental Activities	\$9,195,031	\$757,056	\$914,417	(7,523,558)
General Receipts:				
Income Taxes				980,956
Property Taxes Levied for:				
General Purposes				2,503,744
Capital Project Purposes				201,069
Grants and Entitlements, Not Restricted				3,935,752
Investment Earnings				88,163
Other Receipts				170,640
Total General Receipts				7,880,324
Change in Net Cash Position				356,766
Net Cash Position - Beginning of Year, Restated				6,872,009
Net Cash Position - End of Year				\$7,228,775

See accompanying notes to the basic financial statements.

Southeastern Local School District, Clark County, Ohio
Statement of Assets and Fund Balances - Modified Cash Basis
Governmental Funds
June 30, 2016

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Investments	<u>\$6,927,443</u>	<u>\$301,332</u>	<u>\$7,228,775</u>
Total Assets	<u>6,927,443</u>	<u>301,332</u>	<u>7,228,775</u>
Fund Cash Balances:			
Restricted	0	323,704	323,704
Assigned	105,437	0	105,437
Unassigned (Deficit)	<u>6,822,006</u>	<u>(22,372)</u>	<u>6,799,634</u>
Total Fund Cash Balances	<u>\$6,927,443</u>	<u>\$301,332</u>	<u>\$7,228,775</u>

See accompanying notes to the basic financial statements.

Southeastern Local School District, Clark County, Ohio
Statement of Cash Receipts, Cash Disbursements
and Changes in Fund Cash Balances - Modified Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Other Governmental Funds	Total Governmental Funds
Receipts:			
Property and Other Taxes	\$2,503,744	\$201,069	\$2,704,813
Income Taxes	980,956	0	980,956
Tuition and Fees	519,892	0	519,892
Investment Earnings	39,248	48,915	88,163
Intergovernmental	4,262,371	587,798	4,850,169
Extracurricular Activities	5,824	116,977	122,801
Charges for Services	48,937	114,656	163,593
Other Receipts	88,454	32,956	121,410
Total Receipts	8,449,426	1,102,371	9,551,797
Cash Disbursements:			
Current:			
Instruction:			
Regular	3,988,478	152,229	4,140,707
Special	1,106,098	315,726	1,421,824
Vocational	232,565	4,380	236,945
Other	13,785	0	13,785
Support Services:			
Pupil	385,127	0	385,127
Instructional Staff	186,312	38,250	224,562
General Administration	24,947	340	25,287
School Administration	551,550	2,308	553,858
Fiscal	281,994	8,717	290,711
Operations and Maintenance	483,422	52,269	535,691
Pupil Transportation	426,782	0	426,782
Central	33,128	1,074	34,202
Operation of Non-Instructional Services	5,020	271,682	276,702
Extracurricular Activities	203,562	207,054	410,616
Capital Outlay	3,500	18,800	22,300
Debt Service:			
Principal Retirement	17,595	130,000	147,595
Interest and Fiscal Charges	2,661	45,676	48,337
Total Cash Disbursements	7,946,526	1,248,505	9,195,031
Excess of Receipts Over (Under) Cash Disbursements	502,900	(146,134)	356,766
Other Financing Sources (Uses):			
Advances In	286,910	284,136	571,046
Advances (Out)	(298,573)	(272,473)	(571,046)
Total Other Financing Sources (Uses)	(11,663)	11,663	0
Net Change in Fund Cash Balance	491,237	(134,471)	356,766
Fund Cash Balance - Beginning of Year, Restated	6,436,206	435,803	6,872,009
Fund Cash Balance - End of Year	\$6,927,443	\$301,332	\$7,228,775

See accompanying notes to the basic financial statements.

Southeastern Local School District, Clark County, Ohio
Statement of Fiduciary Net Position - Modified Cash Basis
Fiduciary Fund
June 30, 2016

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	<u>\$36,465</u>
Total Assets	<u>36,465</u>
Net Cash Position:	
Held on Behalf of Students	<u>36,465</u>
Total Net Cash Position	<u>\$36,465</u>

See accompanying notes to the basic financial statements.

Southeastern Local School District, Clark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 1 - Description of the School District and Reporting Entity

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

Reporting Entity

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

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

The School District participates in four jointly governed organizations and one insurance purchasing pool. These organizations are discussed in Notes 13 and 14 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Clark County Family and Children First Council (the "Council")
- Springfield Clark County Career Technology Center (CTC)
- Miami Valley Educational Computer Association (MVECA)
- Southwestern Ohio Educational Purchasing Council (SOEPC)

Insurance Purchasing Pool:

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

Note 2 - Summary of Significant Accounting Policies

These financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all the relevant Governmental Accounting

Southeastern Local School District, Clark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting.

Ohio Administrative Code, Section 117-2-03 (B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, deferred inflows, deferred outflows, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

Fund Accounting

The 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 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 District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the District's major governmental funds:

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net cash position and changes in net cash 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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only trust fund is a private purpose trust which accounts for scholarship programs for students. The District has a student managed activity agency fund which accounts for assets generated by student managed activities and an Athletic playoffs agency fund which accounts for assets generated by this fund.

Southeastern Local School District, Clark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Basis of Presentation

Government-wide Financial Statements

The statement of net position - modified cash basis and the statement of activities - modified cash basis display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the modified cash basis or draws from the general receipts of the District.

Fund Financial Statements

The fund financial statements report more detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Fund statements present each major fund in a separate column and aggregate non-major funds in a single column. Fiduciary funds are reported by fund type.

Budgetary Process

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

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

Tax Budget Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed cash disbursements and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the County Budget Commission for rate determination.

Estimated Resources By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated

Southeastern Local School District, Clark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

resources which states the projected receipts of each fund. Prior to June 30, the School District must revise its budget so that total contemplated cash disbursements from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in receipts are identified by the School District Treasurer. The amounts reported in the final budget column of the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board of Education.

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

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

Encumbrances As part of formal budgetary control, purchase orders, contracts and other commitments for the cash disbursement of monies are recorded as the equivalent of cash disbursements on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Encumbrances outstanding at fiscal year-end are reported as an assignment of fund balance for subsequent-year cash disbursements for general fund and as restricted or committed fund balances for all other governmental funds.

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

Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the statement of net position – modified cash basis and governmental fund statement of assets and fund balances – modified cash basis.

During fiscal year 2016, investments were limited to Federal Home Loan Bank (FHLB) securities, Federal Home Loan Bank – Discount Note, Federal Home Loan Mortgage Corporation (FHLMC) securities Federal

Southeastern Local School District, Clark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Farm Credit Bank (FFCB) securities, Federal Farm Credit Bank – Discount Note, Federal National Mortgage Association (FNMA) securities, negotiable certificates of deposit (negotiable CDs) and U.S. government money market mutual funds. Investments are reported at fair value which is based on quoted market prices.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2016 amounted to \$39,248 and \$48,915 was credited to other governmental funds.

Interfund Balances

The District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

Inventory and Prepaid Items

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

Capital Assets and Depreciation

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

Accrued Liabilities and Long-Term Obligations

Modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension cash disbursement, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the modified cash basis of accounting used by the District.

Southeastern Local School District, Clark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Interfund Activity

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

Fund Balance

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

Nonspendable - The 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.

Restricted – 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 – The 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’s governing board. Those committed amounts cannot be used for any other purpose unless the governing board 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 – Amounts in the assigned fund balance classification are intended to be used by the 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 the District’s governing board.

Unassigned – 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 cash disbursements 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 cash disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Southeastern Local School District, Clark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Net Position

Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At year end, the School District had no net position restricted by enabling legislation.

Note 3 - Fund Balances

Fund balance is classified as non-spendable, 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 governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Nonmajor Governmental Funds	Total
Restricted for:			
Capital Improvements	\$0	\$260,622	\$260,622
Ohio Read Grant	0	2,300	2,300
District Managed Activities	0	38,626	38,626
Teachers Lounge	0	673	673
Title VI-B	0	3,852	3,852
Chapter I	0	9,697	9,697
Miscellaneous State Grants	0	7,934	7,934
Total Restricted	0	323,704	323,704
Assigned to:			
Encumbrances	101,699	0	101,699
Public School	3,738	0	3,738
Total Assigned	105,437	0	105,437
Unassigned (Deficit)	6,822,006	(22,372)	6,799,634
Total Fund Balance	\$6,927,443	\$301,332	\$7,228,775

Note 4 – Deposits and Investments

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

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

Southeastern Local School District, Clark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

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

At fiscal year-end, the carrying value of the School District's cash deposits was \$198,313 and the bank balance was \$234,033. \$234,033 of the School District's deposits was insured by federal depository insurance. Based on criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$0 of the School District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Southeastern Local School District, Clark County, Ohio
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Investments

The School District's investments at June 30, 2016 are as summarized as follows:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Fair Value Hierarchy</u>
Money Market Funds	\$2,224,810	0.00	N/A
Negotiable CDs	1,734,220	2.41	Level 2
Federal Home Loan Bank	490,000	3.27	Level 2
Dederal Home Loan Bank Discount Note	249,989	0.04	Level 2
Federal Home Loan Mortgage Corp	1,010,603	3.33	Level 2
Federal Farm Credit Bank	626,537	1.13	Level 2
Federal Farm Credit - Discount Note	399,085	0.54	Level 2
Federal National Mortgage Association	331,683	1.59	Level 2
Total Fair Value	<u>\$7,066,927</u>		
Portfolio Weighted Average Maturity		1.50	

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the District's recurring fair value measurements as of June 30, 2016.

Credit Risk – It is the School District's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings by nationally recognized statistical rating organizations. The School District's investments in Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association were rated AA+ by Standard & Poor's and Aaa by Moody's. Federal Home Loan Bank – Discount Note and Federal farm Credit – Discount Note were rated A-1+ by Standard & Poor's and P-1 by Moody's. Investments in Negotiable CD's were not rated. Negotiable CD's and money market funds were fully insured by FDIC.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a failure of a counter party, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's investment securities are registered in the name of the School District except for its investments in US Money Market Funds, which are not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk – The School District's policy places no limit on the amount it may invest in any one issuer. The School District has invested 31% in Money Market Funds, 25% in Negotiable CD's, 7% in Federal Home Loan Bank, 14% in Federal Home Loan Mortgage Corporation, 9% in Federal Farm Credit Bank, 5% in Federal National Mortgage Association, 4% in Federal Home Loan Bank – Discount Note, and 5% in Federal Farm Credit – Discount Note.

Interest Rate Risk – In accordance with the investment policy, the School District manages its exposure

Southeastern Local School District, Clark County, Ohio
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to declines in fair value by limiting the weighted average maturity of its investment portfolio to five years.

Note 5 – Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax receipts received in calendar 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015, and are collected in 2016 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Clark County and Greene Counties. The County Auditors periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2016, are available to finance fiscal year 2017 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 which are measurable as of June 30, 2016, 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 receipts at fiscal year-end.

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second Half Collection		2016 First Half Collection	
Agricultural/Residential and Other Real Estate	\$116,183,283	95.05%	\$113,575,380	95.09%
Public Utility Personal	6,049,260	4.95%	5,865,100	4.91%
Total	\$122,232,543	100.00%	\$119,440,480	100.00%
	40.60		40.68	

Southeastern Local School District, Clark County, Ohio
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For the Fiscal Year Ended June 30, 2016

Note 6 - Income Tax

The School District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1990, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax receipts earned during fiscal year 2016 was \$980,956.

Note 7 - Risk Management

Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2016, the School District contracted with Arthur J. Gallagher & Co. for property and fleet, general liability, crime, and inland marine insurance.

Insurance coverage provided is as follows:

Building and Contents – replacement cost (\$1,000 deductible)	\$350,000,000
Boiler and Machinery (\$3,500 deductible)	100,000,000
Automobile Liability (\$0 deductible)	1,000,000
Automobile Physical Damage (\$1,000 deductible)	Actual cash value
Professional Liability (\$5,000 deductible)	
Single Occurrence	1,000,000
Aggregate	1,000,000
General Liability (no deductible)	
Per Occurrence	1,000,000
Crime (\$1,000 deductible)	750,000
Pollution Legal Liability (\$25,000 deductible)	1,000,000
Excess Liability	5,000,000

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

Workers' Compensation

For fiscal year 2016, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's

Southeastern Local School District, Clark County, Ohio
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selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control and actuarial services to the GRP.

Note 8 - Defined Benefit Pension Plans

Net Pension Liability

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description - School Employees Retirement System (SERS)

Plan Description – District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

Southeastern Local School District, Clark County, Ohio
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	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30 or \$86.00 multiplied by the years of service credit. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14.00 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$182,256 for fiscal year 2016.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS 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. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2016, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service.

Southeastern Local School District, Clark County, Ohio
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With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2016, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2015, and will be increased one percent each year until it reaches 14 percent on July 1, 2017. For the fiscal year ended June 30, 2016, plan members were required to contribute 12 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$510,684 for fiscal year 2016.

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Net Pension Liability

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,145,293	\$9,157,166	\$11,302,459
Proportion of the Net Pension Liability	0.0375965%	0.03313363%	

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	4 percent to 22 percent 3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

Southeastern Local School District, Clark County, Ohio
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The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	<u>15.00</u>	7.50
 Total	 <u><u>100.00 %</u></u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$2,974,750	\$2,145,293	\$1,446,821

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Actuarial Assumptions - STRS

The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u><u>100.00 %</u></u>	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate

Southeastern Local School District, Clark County, Ohio
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of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$12,719,995	\$9,157,166	\$6,144,263

Note 9 - Post Employment Benefits

School Employees Retirement System

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Receipts Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care cash disbursements, investment returns, and any funds received as a result of SERS' participation in Medicare programs. 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, 0.00 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

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The District’s contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$10,575, and \$19,160, respectively.

State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The District’s contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$34,389, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

Note 10 – Capitalized Leases - Lessee Disclosure

In prior years, the School District entered into a capital lease for copiers. This lease met the criteria of a capital lease as the benefits and risk of ownership have generally transferred to the lessee. Capital lease payments have been reclassified and are reflected as debt service cash disbursements in the combined financial statements. These cash disbursements are reflected as program/function cash disbursements on a budgetary basis. Principal payments made on lease obligations during the year totaled \$17,595.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2016.

Fiscal Year Ending June 30	Governmental Activities
2017	\$20,256
2018	20,256
2019	548
Total Minimum Lease Payments	\$41,060
Amount Representing Interest and Additional program cost component	(2,291)
Present Value of Minimum Lease Payments	<u>\$38,769</u>

The following is a detailed schedule for the future principal/interest payments for the lease obligation:

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Fiscal Year Ending June 30	Capital Lease Obligation		
	Principal	Interest	Total
2017	\$18,588	\$1,668	\$20,256
2018	19,636	620	20,256
2019	545	3	548
Total	\$38,769	\$2,291	\$41,060

Note 11 – Changes in Long-Term Liabilities

Changes in long-term obligations of the School District during fiscal year 2016 were as follows:

	Beginning Balance	Issued	Retired	Ending Balance	Due in One Year
Governmental Activities:					
<u>Bonds/Notes Payable:</u>					
Refunding Bonds	\$98,000	\$0	\$49,000	\$49,000	\$49,000
Capital Appreciation Bonds - Principal Only	19,897	0	0	19,897	0
Capital Appreciation Bonds - Accreted Interest	13,769	5,985	0	19,754	0
HB 264 Bonds	52,000	0	26,000	26,000	26,000
Capital Appreciation Bonds - Principal Only	7,236	0	0	7,236	0
Capital Appreciation Bonds - Accreted Interest	5,006	2,176	0	7,182	0
School Construction Bonds	650,000	0	55,000	595,000	55,000
Premium on Bonds	16,330	0	6,532	9,798	0
Capital Leases Payable	56,364	0	17,595	38,769	18,588
TOTAL GOVERNMENTAL ACTIVITIES LONG-TERM DEBT	\$918,602	\$8,161	\$154,127	\$772,636	\$148,588

Energy Conservation Bonds -In 2012, the School District issued \$432,133 in unvoted general obligation bonds for the purpose of providing energy conservation measures for the School District, under the authority of Ohio Revised Code Sections 133.06(G) and 3313.372. The bonds were issued for a seven year period with final maturity at June 1, 2018 with a variable rate from 1.00% to 2.55%. \$269,898 of the bonds were refunding bonds and \$162,235 of the bonds were HB264 debt. The debt will be retired from the permanent improvement fund.

Qualified School Construction Bonds Payable – On May 28, 2010, the School District issued \$918,000 in Qualified School Construction Bonds for the purpose of financing construction of school facilities. The bonds were issued for a sixteen year period with final maturity occurring on December 1, 2025. These bonds will be retired from the permanent improvement fund. With the approval of the Ohio School Facilities Commission, the School District is participating in the 2009 Qualified School Construction Bond Program. Through this Program, the School District issues taxable bonds at a higher rate than non-taxable bonds could have been issued it. The School District then receives a reimbursement through the program to offset the interest rate difference. The School District makes debt service payments at a rate of 7.0 percent on the bonds and receives subsequent interest subsidy payments through the Program which results in an effective interest rate of 1.59 percent on the qualifying bonds for the School District.

Principal and interest requirements to retire the School District’s outstanding long-term debt obligations at June 30, 2016, were:

Southeastern Local School District, Clark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Fiscal Year Ending June 30	General Obligation Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$130,000	\$40,775	\$170,775	\$0	\$0	\$0
2018	56,000	35,840	91,840	27,132	47,868	\$75,000
2019	57,000	31,885	88,885	0	0	0
2020	58,000	27,860	85,860	0	0	0
2021	59,000	23,765	82,765	0	0	0
2022-2026	310,000	54,950	364,950	0	0	0
Total	<u>\$670,000</u>	<u>\$215,075</u>	<u>\$885,075</u>	<u>\$27,132</u>	<u>\$47,868</u>	<u>\$75,000</u>

Note 12 - Interfund Transactions

Interfund balances at June 30, 2016, consist of the following individual advances:

	Advances	
	In	Out
General Fund	\$286,910	\$298,573
Other Governmental Funds	284,136	272,473
Total All Funds	<u>\$571,046</u>	<u>\$571,046</u>

The general fund advances monies to the grant special receipts funds at year end that are in a negative cash position. The advances will be repaid within one year once the special receipts fund receives reimbursement from federal or state agency.

Note 13 – Jointly Governed Organizations

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

The Board of Trustees is comprised of representatives of each of the members of the Council, and representatives of those additional entities required to be represented on the Council pursuant to Section 121.37 of the Ohio Revised Code. The school districts in Clark County must appoint a superintendent of one of the schools to represent them on the eighteen member Board. Currently, the superintendent of the Clark Shawnee Local School District serves as this representative. All members are obligated to pay all dues as established by the Council to aid the financing of the operations and programs of the Council.

The Southeastern Local School District does not pay any dues. Any member withdrawing from the Council must give one hundred eighty days written notice to the Council after formal action of the member's governing board. The School District made no financial contributions to the Council during fiscal year 2016. To obtain financial information, write to the Clark County Family and Children First

Southeastern Local School District, Clark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Council, Leslie Crew, who serves as Executive Director, at 1345 Loganda Avenue, Springfield, Ohio 45503.

Springfield-Clark County Career Technology Center - The Springfield-Clark County Career Technology Center (CTC) is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one or two representatives from each of the eight participating school districts' and educational service center's elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following: Clark-Shawnee Local School District, Greenon Local School District, Northeastern Local School District, Northwestern Local School District, Southeastern Local School District, Tecumseh Local School District, and the Clark County Educational Service Center. Two members are appointed from the Springfield City School District. The School District made no financial contributions to the CTC during fiscal year 2016. To obtain financial information, write to the CTC, Steve Clark, who serves as Treasurer, 1901 Selma Road, Springfield, Ohio 45505-4239.

Miami Valley Educational Computer Association - The School District is a participant in the Miami Valley Educational Computer Association (MVECA) which is a computer consortium. MVECA is an association of public school districts within the boundaries of Clark, Clinton, Greene, Highland, Fayette, and Madison Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of MVECA consists of seven members elected by majority vote of all charter member school districts. The School District paid MVECA \$24,029 for services provided during the year. Financial information can be obtained Thor Sage, Executive Director of MVECA at 330 East Enon Road, Yellow Springs, Ohio 45387-1415.

Southwestern Ohio Educational Purchasing Council -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 150 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. During fiscal year 2016, the School District made no payments to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Dr., Suite 208, Vandalia, OH 45377.

Note 14 – Insurance Purchasing Pool

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

Southeastern Local School District, Clark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 15 – Contingencies

Foundation Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The cash disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2016, if applicable, cannot be determined at this time.

Note 16 – Set-Aside Calculations

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. The following cash basis information describes the change in the year-end set-aside amounts for capital acquisition. Disclosure of this information is required by State statute.

	Capital Acquisition
Set Aside Reserve Balance as of June 30, 2015	\$0
Current Year Set Aside Requirements	125,908
Qualified Disbursements	(32,430)
Current Year Offsets	(93,478)
Set Aside Reserve Balance as of June 30, 2016	<u>\$0</u>
Restricted Cash as of June 30, 2016	<u>\$0</u>
Carried Forward as of June 30, 2016	\$0

Note 17 – Change in Accounting Principle

In prior periods, the District had prepared its annual financial report in accordance with generally accepted accounting principles. However for the fiscal year ended June 30, 2016 the District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The implementation of

Southeastern Local School District, Clark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

the new basis of accounting requires a restatement of prior period's net cash position as follows:

	<u>Governmental Activities</u>	<u>General Fund</u>	<u>Other Governmental</u>
Net Position/Fund Balance - June 30, 2015	(\$1,187,920)	\$6,421,254	\$118,804
Prior Period Adjustments	8,059,929	14,952	316,999
Restated Net Cash Position/Fund Cash Balance - July 1, 2015	<u>\$6,872,009</u>	<u>\$6,436,206</u>	<u>\$435,803</u>

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Ohio Society of Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Southeastern Local School District
South Charleston, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southeastern Local School District, Clark County, Ohio, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Southeastern Local School District, Ohio's basic financial statements and have issued our report thereon dated October 13, 2017, wherein we noted that the Southeastern Local School District, Ohio, uses a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America and restated its net cash position/fund balance at July 1, 2015 due to a change in financial presentation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Southeastern Local School District, Ohio's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Southeastern Local School District, Ohio's internal control. Accordingly, we do not express an opinion on the effectiveness of the Southeastern Local School District, Ohio's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Southeastern Local School District, Ohio's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as **Item 2016-001**.

Southeastern Local School District Response to Finding

The Southeastern Local School District, Ohio's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Southeastern Local School District, Ohio's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Southeastern Local School District, Ohio's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



James G. Zupka, CPA, Inc.
Certified Public Accountants

October 13, 2017

**SOUTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016**

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

Finding 2016-001 – Noncompliance Finding – Annual Financial Report

Condition/Criteria

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the District prepares its financial statements and notes following the modified cash basis of accounting. This is a comprehensive basis other than generally accepted accounting principles.

Effect

The accompanying financial statements and footnotes omit assets, liabilities, fund equities, and disclosures that, while material cannot be determined at this time. Pursuant to the Ohio Revised Code Section 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report within the required time limits.

Recommendation

We recommend the District take the necessary steps to ensure the annual report is prepared in accordance with generally accepted accounting principles.

District Response

The District intends to continue to prepare cash statements in order to save money.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
JUNE 30, 2016**

The prior audit report, as of June 30, 2015, included management letter recommendations. Management letter recommendations as of June 30, 2015, have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.



Dave Yost • Auditor of State

SOUTHEASTERN LOCAL SCHOOL DISTRICT

CLARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 5, 2017**