



*SOUTHEASTERN
LOCAL SCHOOL DISTRICT*

ROSS COUNTY

SINGLE AUDIT

For the Fiscal Year Ended June 30, 2004

J.L. UHRIG
AND ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANT AND MANAGEMENT CONSULTANTS





**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the Southeastern Local School District, Ross County, prepared by J.L. Uhrig and Associates, Inc., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

July 22, 2005

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Independent Auditor's Report

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

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

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

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

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Also as described in Note 3, during the year ended June 30, 2004, the District implemented GASB Statement Nos. 37, 38, 39 and 41, and Interpretation No. 6.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 23, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. While we do not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Board of Education
Southeastern Local School District
Independent Auditor's Report

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

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.

June 23, 2005

Southeastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of the Southeastern Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*, issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not available. Subsequent reports will include the comparative information.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2004 are as follows:

- Net assets of governmental activities decreased \$488,798.
- General revenues accounted for \$7,545,807 in revenue or 73% of all revenues. Program specific revenues in the form of charges for services, grants, and contributions, accounted for \$2,854,028 or 27% of total revenues of \$10,399,835.
- The School District had \$10,888,633 in expenses related to governmental activities; only \$2,854,028 of these expenses were offset by program specific charges for services, grants and contributions.

USING THIS ANNUAL FINANCIAL REPORT

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

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

Southeastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

- In the Statement of Net Assets and the Statement of Activities, all of the School District's programs and services are reported as governmental activities including instruction, support services, operation of non instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial 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 major governmental funds are the General Fund, the Bond Retirement Debt Service Fund, the Permanent Improvement Capital Projects Fund and the Classroom Facilities Capital Projects Fund.

Southeastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
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 fiscal year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

THE SCHOOL DISTRICT AS A WHOLE

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

Table 1
Net Assets

	Governmental Activities	
	2004	2003
Assets		
Current and Other Assets	\$6,047,591	\$8,946,735
Capital Assets	27,830,173	25,989,979
Total Assets	33,877,764	34,936,714
Liabilities		
Long-term Liabilities	5,713,935	4,567,675
Other Liabilities	3,590,840	4,050,708
Total Liabilities	9,304,775	8,618,383
Net Assets		
Invested in Capital Assets, Net of Debt	23,029,604	22,108,143
Restricted	1,791,413	1,149,532
Unrestricted	(248,028)	1,804,112
Total Net Assets	\$24,572,989	\$25,061,787

Total net assets of the District as a whole decreased \$488,798. The most significant decrease in current and other assets affecting unrestricted net assets was most noticeable in cash which was largely due in part to increases in wages and benefits and tuition. Long-Term liabilities increased due to a capital lease entered into as part of the new athletic complex construction project. Capital asset increased due to the completion of the Ohio School Facilities Commission project for new school construction.

Southeastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2004 and June 30, 2003. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available.

Table 2
Changes in Net Assets

	Governmental Activities
	2004
Revenues	
Program Revenues	
Charges for Services and Sales	\$733,877
Operating Grants and Contributions	2,191,481
Total Program Revenues	2,925,358
General Revenues	
Property Taxes	1,876,872
Income Taxes	340,517
Grants and Entitlements	5,096,379
Investment Earnings	35,266
Miscellaneous	125,443
Total General Revenues	7,474,477
Total Revenues	10,399,835
Program Expenses	
Instruction:	
Regular	5,222,842
Special	900,793
Support Services:	
Pupil	675,073
Instructional Staff	387,033
Board of Education	24,448
Administration	675,115
Fiscal	215,880
Business	206,778
Operation and Maintenance of Plant	978,245
Pupil Transportation	656,191
Operation of Non-Instructional Services	309,929
Extracurricular Activities	285,944
Interest and Fiscal Charges	350,362
Total Expenses	10,888,633
Decrease in Net Assets	(488,798)
Net Assets, Beginning of Year	25,061,787
Net Assets, End of Year	\$ 24,572,989

The most significant program expenses for the District are Regular Instruction, Operation and Maintenance of Plant and Special Instruction. These programs account for 65.22 percent of the total governmental activities. Regular Instruction, which accounts for 47.97 percent of the total, represents costs associated with providing general educational services. Operation and Maintenance of Plant, which represents 8.98 percent of the total, represents costs associated with operating and maintaining the District's facilities. Special Instruction, which represents 8.27 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students.

Southeastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The majority of the funding for the most significant programs indicated above is from program revenue operating grants, property taxes, and grants and entitlements not restricted for specific programs. Program revenue operating grants, property taxes, and grants and entitlements not restricted for specific programs accounts for 88.12 percent of total revenues for governmental activities.

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

Table 3
 Governmental Activities

	Total Cost of Services	Net Cost of Services
	2004	
Program Expenses		
Instruction:		
Regular	\$5,222,842	(\$4,415,932)
Special	900,793	(358,604)
Support Services:		
Pupil	675,073	(466,132)
Instructional Staff	387,033	(149,143)
Board of Education	24,448	(22,916)
Administration	675,115	(624,163)
Fiscal	215,880	(202,170)
Business	206,778	(193,441)
Operation and Maintenance of Plant	978,245	(917,804)
Pupil Transportation	656,191	(178,338)
Operation of Non-Instructional Services	309,929	34,221
Extracurricular Activities	285,944	(137,155)
Interest and Fiscal Charges	350,362	(331,698)
Total	\$10,888,633	(\$7,963,275)

It should be noted that 26.87 percent of the costs of services are derived from program revenues including charges for services, sales, operating grants and contributions.

Southeastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

THE SCHOOL DISTRICT'S FUNDS

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$11,618,708 and expenditures and other financing uses of \$12,490,116.

The School District has four major funds; the General Fund, the Bond Retirement Debt Service Fund, the Permanent Improvement Capital Projects Fund and the Classroom Facilities Capital Projects Fund. The General Fund had \$8,243,632 in revenues and \$7,566,065 in expenditures. The General Fund's balance increased \$676,482, due to an increase in intergovernmental revenue. The Bond Retirement Debt Service Fund had \$400,721 in revenues and \$430,109 in expenditures. The Debt Service Fund's balance increased \$153,440, due to transfers in to make debt payments. The Permanent Improvement fund had \$237,553 in revenues and \$1,160,387 in expenditures. The Permanent Improvement Fund's balance decreased \$114,507. The Classroom Facilities Capital Projects Fund had \$12,857 in revenues and \$1,571,952 in expenditures. The Classroom Facilities Capital Projects Fund's balance decreased by \$1,599,095 due to the capital improvement expenditures made during fiscal year 2004.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2004, the School District amended its General Fund budget, but not significantly.

For the General Fund, final budget basis revenue was \$8,390,648, which increased from the original estimates of \$7,795,801. Of this \$594,847 difference, most was due to receiving more in intergovernmental revenue than expected. For the General Fund, final budget basis expenditures were \$7,487,584, which increased from the original estimates of \$6,338,881. Of this \$1,148,703 difference, most was due to higher than anticipated salaries and wages.

Southeastern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004, the School District had \$27,830,173 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, library and textbooks and construction in progress. For additional information on capital assets, see Note 9 to the basic financial statements. Table 4 shows fiscal year 2004 balances compared to 2003.

Table 4
 Capital Assets
 (Net of Depreciation)

	Governmental Activities	
	2004	2003
Land	\$705,000	\$705,000
Construction in Progress	\$1,575,604	\$0
Land Improvements	\$2,230,066	\$2,350,610
Buildings and Improvements	21,749,859	22,478,794
Furniture and Equipment	524,499	2,189
Vehicles	661,016	453,386
Library and Textbooks	384,129	0
Totals	\$27,830,173	\$25,989,979

Changes in capital assets from the prior year resulted from additions and depreciation. The 2003 balances were restated due to a revaluation by the appraisal company.

Debt

At June 30, 2004, the School District had general obligation bonds outstanding of \$3,741,191 and Energy Conservation Loans outstanding of \$30,000. The bonds were issued for school construction. For additional information on debt, see Note 15 to the basic financial statements.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

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

Southeastern Local School District
Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$4,002,929
Intergovernmental Receivable	29,548
Taxes Receivable	1,943,671
Noncurrent Assets:	
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	71,443
Nondepreciable Capital Assets	2,280,604
Depreciable Capital Assets, Net	25,549,569
<i>Total Assets</i>	33,877,764
Liabilities	
Current Liabilities:	
Accounts Payable	41,273
Accrued Wages and Benefits Payable	723,335
Contracts Payable	337,222
Intergovernmental Payable	511,318
Accrued Interest Payable	38,223
Retainage Payable	71,443
Deferred Revenue	1,715,322
Claims Payable	152,704
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	191,368
Due In More Than One Year	5,522,567
<i>Total Liabilities</i>	9,304,775
Net Assets	
Invested in Capital Assets, Net of Related Debt	23,029,604
Restricted for:	
Debt Service	371,780
Capital Outlay	1,353,140
Other Purposes	66,493
Unrestricted	(248,028)
<i>Total Net Assets</i>	\$24,572,989

See accompanying notes to the basic financial statements.

Southeastern Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense)
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities				Governmental Activities
Instruction:				
Regular	\$5,222,842	\$265,171	\$541,739	(\$4,415,932)
Special	900,793	62,124	480,065	(358,604)
Support Services:				
Pupil	675,073	49,400	159,541	(466,132)
Instructional Staff	387,033	44,369	193,521	(149,143)
Board of Education	24,448	1,532	0	(22,916)
Administration	675,115	47,325	3,627	(624,163)
Fiscal	215,880	13,379	331	(202,170)
Business	206,778	12,650	687	(193,441)
Operation and Maintenance of Plant	978,245	55,791	4,650	(917,804)
Pupil Transportation	656,191	58,724	419,129	(178,338)
Operation of Non-Instructional Services	309,929	42,490	301,660	34,221
Extracurricular Activities	285,944	80,893	67,896	(137,155)
Interest and Fiscal Charges	350,362	29	18,635	(331,698)
<i>Totals</i>	<u>\$10,888,633</u>	<u>\$733,877</u>	<u>\$2,191,481</u>	<u>(7,963,275)</u>
General Revenues				
Property Taxes Levied for:				
General Purposes				1,495,257
Debt Service				381,615
Income Taxes				340,517
Grants and Entitlements not Restricted to Specific Programs				5,096,379
Investment Earnings				35,266
Miscellaneous				125,443
<i>Total General Revenues</i>				<u>7,474,477</u>
<i>Change in Net Assets</i>				(488,798)
<i>Net Assets Beginning of Year - (As Restated See Note 3)</i>				<u>25,061,787</u>
<i>Net Assets End of Year</i>				<u>\$24,572,989</u>

See accompanying notes to the basic financial statements

Southeastern Local School District
Balance Sheet
Governmental Funds
June 30, 2004

	General	Bond Retirement	Permanent Improvement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$1,489,043	\$329,553	\$923,375	\$762,116	\$369,070	\$3,873,157
Interfund Receivable	18,817	0	0	0	0	18,817
Receivables:						
Intergovernmental	0	0	0	0	29,548	29,548
Taxes	1,539,912	370,805		0	32,954	1,943,671
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	0	0	0	71,443	0	71,443
<i>Total Assets</i>	<u>\$3,047,772</u>	<u>\$700,358</u>	<u>\$923,375</u>	<u>\$833,559</u>	<u>\$431,572</u>	<u>\$5,936,636</u>
Liabilities						
Accounts Payable	\$32,144	\$0	\$0	\$0	\$9,129	\$41,273
Accrued Wages and Benefits Payable	634,654	0	0	0	88,681	723,335
Contracts Payable	0	0	337,222	0	0	337,222
Interfund Payable	0	0	0	0	18,817	18,817
Intergovernmental Payable	47,630	0	0	0	16,325	63,955
Retainage Payable	0	0	0	71,443	0	71,443
Deferred Revenue	1,390,206	336,191	0	0	49,834	1,776,231
<i>Total Liabilities</i>	<u>2,104,634</u>	<u>336,191</u>	<u>337,222</u>	<u>71,443</u>	<u>182,786</u>	<u>3,032,276</u>
Fund Balances						
Reserved:						
Reserved for Encumbrances	155,750	0	232,590	23,658	60,406	472,404
Reserved for Property Taxes	149,706	34,614	0	0	3,300	187,620
Unreserved, Undesignated, Reported in:						
General Fund	637,682	0	0	0	0	637,682
Special Revenue Funds	0	0	0	0	180,209	180,209
Debt Service Funds	0	329,553	0	0	0	329,553
Capital Projects Funds	0	0	353,563	738,458	4,871	1,096,892
<i>Total Fund Balances</i>	<u>943,138</u>	<u>364,167</u>	<u>586,153</u>	<u>762,116</u>	<u>248,786</u>	<u>2,904,360</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,047,772</u>	<u>\$700,358</u>	<u>\$923,375</u>	<u>\$833,559</u>	<u>\$431,572</u>	<u>\$5,936,636</u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 For the Fiscal Year Ended June 30, 2004*

Total Governmental Fund Balances		\$ 2,904,360
Amounts reported for governmental activities in the statement of activities are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		27,830,173
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	60,909	
Total		60,909
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		(225,017)
An internal service fund is used by management to charge the cost of insurance to individuals. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		(245,278)
Long-Term Liabilities, including bonds, capital lease obligations and the long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
Accrued Interest Payable	(38,223)	
Compensated Absences	(951,589)	
Capital Lease Obligations	(991,155)	
Energy Conservation Loan	(30,000)	
General Obligation Bonds	(3,741,191)	
Total		(5,752,158)
Net Assets of Governmental Activities		\$24,572,989

See accompanying notes to the basic financial statements

Southeastern Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Bond Retirement	Permanent Improvement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues						
Property Taxes	\$1,461,138	\$381,598	\$0	\$0	\$31,159	\$1,873,895
Income Tax	340,517	0	0	0	0	340,517
Intergovernmental	5,891,351	19,123	153,184	0	1,270,985	7,334,643
Interest	22,030	0	0	12,797	439	35,266
Tuition and Fees	493,485	0	0	0	948	494,433
Rent	185	0	84,289	0	0	84,474
Extracurricular Activities	0	0	0	0	104,382	104,382
Gifts and Donations	2,500	0	80	0	3,000	5,580
Customer Sales and Services	0	0	0	0	135,064	135,064
Miscellaneous	32,426	0	0	60	2,900	35,386
<i>Total Revenues</i>	<u>8,243,632</u>	<u>400,721</u>	<u>237,553</u>	<u>12,857</u>	<u>1,548,877</u>	<u>10,443,640</u>
Expenditures						
Current:						
Instruction:						
Regular	3,407,689	0	68,546	133,046	459,056	4,068,337
Special	765,794	0	0	0	129,820	895,614
Support Services:						
Pupils	362,922	0	0	0	238,710	601,632
Instructional Staff	321,701	0	0	0	238,326	560,027
Board of Education	24,448	0	0	0	0	24,448
Administration	485,512	0	0	0	5,000	490,512
Fiscal	193,884	2,546	0	0	236	196,666
Business	197,026	5,246	0	0	494	202,766
Operation and Maintenance of Plant	817,195	0	0	3,646	16,386	837,227
Pupil Transportation	834,084	0	0	0	0	834,084
Operation of Non-Instructional Services	0	0	0	0	396,077	396,077
Extracurricular Activities	122,535	0	0	0	93,585	216,120
Capital Outlay	12,902	0	1,091,841	1,435,260	0	2,540,003
Debt Service:						
Principal	19,906	125,000	0	0	0	144,906
Interest	467	297,317	0	0	0	297,784
<i>Total Expenditures</i>	<u>7,566,065</u>	<u>430,109</u>	<u>1,160,387</u>	<u>1,571,952</u>	<u>1,577,690</u>	<u>12,306,203</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>677,567</u>	<u>(29,388)</u>	<u>(922,834)</u>	<u>(1,559,095)</u>	<u>(28,813)</u>	<u>(1,862,563)</u>
Other Financing Sources and Uses:						
Transfers In	0	182,828	0	0	1,085	183,913
Inception of Capital Lease	0	0	991,155	0	0	991,155
Transfers Out	(1,085)	0	(182,828)	0	0	(183,913)
<i>Total Other Financing Sources and Uses</i>	<u>(1,085)</u>	<u>182,828</u>	<u>808,327</u>	<u>0</u>	<u>1,085</u>	<u>991,155</u>
<i>Net Change in Fund Balances</i>	676,482	153,440	(114,507)	(1,559,095)	(27,728)	(871,408)
<i>Fund Balances (Deficit) at Beginning of Year , As Restated (See Note 3)</i>	<u>266,656</u>	<u>210,727</u>	<u>700,660</u>	<u>2,321,211</u>	<u>276,514</u>	<u>3,775,768</u>
<i>Fund Balances (Deficit) at End of Year</i>	<u>\$943,138</u>	<u>\$364,167</u>	<u>\$586,153</u>	<u>\$762,116</u>	<u>\$248,786</u>	<u>\$2,904,360</u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances-Total Governmental Funds	\$ (871,408)
 Amounts reported for governmental activities in the statement of activities are different because:	
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	
Capital Asset Additions	2,813,859
Depreciation Expense	<u>(973,665)</u>
Total	1,840,194
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Taxes	2,977
Intergovernmental	<u>(46,782)</u>
Total	(43,805)
 New Capital lease obligations in the statement of revenues, expenditures and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities.	
	(991,155)
 Repayment of bond and note principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.	
	125,000
 Repayment of capital leases obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.	
	19,906
 The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The expense of the internal service fund is allocated among the governmental activities.	
	(72,743)
 Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Increase in Compensated Absences	(285,656)
Increase in Interest Payable	(38,223)
Increase in Accreted Interest	(14,355)
Increase in Intergovernmental Payable	<u>(156,553)</u>
Total	<u>(494,787)</u>
Net Change in Net Assets of Governmental Activities	<u><u>\$ (488,798)</u></u>

See accompanying notes to the basic financial statements

Southeastern Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
REVENUES:				
Property Taxes	\$1,349,301	\$1,418,274	\$1,418,274	\$0
Income Tax	588,000	530,397	530,397	0
Intergovernmental	5,462,000	5,891,351	5,891,351	0
Interest	25,000	22,030	22,030	0
Tuition and Fees	71,500	493,485	493,485	0
Rent	0	185	185	0
Gifts and Donations	0	2,500	2,500	0
Miscellaneous	300,000	32,426	32,426	0
Total Revenues	<u>7,795,801</u>	<u>8,390,648</u>	<u>8,390,648</u>	<u>0</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,076,761	3,162,257	3,537,371	(375,114)
Special	538,194	767,743	767,742	1
Support Services:				
Pupils	381,743	347,749	347,750	(1)
Instructional Staff	302,681	335,923	335,923	0
Board of Education	17,407	26,757	26,757	0
Administration	505,858	548,697	548,696	1
Fiscal	200,341	191,768	191,770	(2)
Business	212,600	212,398	212,397	1
Operation and Maintenance of Plant	1,197,587	843,677	870,674	(26,997)
Pupil Transportation	770,994	913,698	995,698	(82,000)
Extracurricular Activities:				
Academic Oriented Activities	950	18,939	18,939	0
Sport Oriented Activities	125,515	105,076	105,076	0
Capital Outlay:				
Site Improvement Services	8,250	12,902	12,902	0
Total Expenditures	<u>6,338,881</u>	<u>7,487,584</u>	<u>7,971,695</u>	<u>(484,111)</u>
Excess of Revenues Over (Under) Expenditures	<u>1,456,920</u>	<u>903,064</u>	<u>418,953</u>	<u>(484,111)</u>
OTHER FINANCING SOURCES AND USES:				
Advances In	0	109,162	109,162	0
Transfers Out	0	(1,085)	(1,085)	0
Advances Out	0	(35,286)	(35,286)	0
Total Other Financing Sources and Uses	<u>0</u>	<u>72,791</u>	<u>72,791</u>	<u>0</u>
Net Change in Fund Balances	1,456,920	975,855	491,744	(484,111)
Fund Balance at Beginning of Year	984,828	984,828	984,828	0
Prior Year Encumbrances Appropriated	<u>520,483</u>	<u>520,483</u>	<u>520,483</u>	<u>0</u>
Fund Balance at End of Year	<u>\$2,962,231</u>	<u>\$2,481,166</u>	<u>\$1,997,055</u>	<u>(\$484,111)</u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
Statement of Fund Net Assets
Internal Service Fund
June 30, 2004

ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$129,772</u>
<i>Total Current Assets</i>	<u>129,772</u>
<i>Total Assets</i>	<u>129,772</u>
LIABILITIES:	
Current Liabilities:	
Intergovernmental Payable	222,346
Claims Payable	<u>152,704</u>
<i>Total Current Liabilities</i>	375,050
<i>Total Liabilities</i>	<u>375,050</u>
NET ASSETS:	
Unrestricted	<u>(245,278)</u>
<i>Total Net Assets</i>	<u><u>(\$245,278)</u></u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
*Statement of Revenues, Expenses and
Changes In Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2004*

Operating Revenues:	
Charges for Services	<u>\$1,094,182</u>
<i>Total Operating Revenue</i>	<u>1,094,182</u>
Operating Expenses:	
Purchased Services	58,234
Claims Expense	<u>1,108,691</u>
<i>Total Operating Expenses</i>	<u>1,166,925</u>
Net Change in Net Assets	(72,743)
Net Assets (Deficit) at Beginning of Year	<u>(172,535)</u>
Net Assets (Deficit) at End of Year	<u><u>(\$245,278)</u></u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
Statement of Cashflows
Internal Service Fund
For the Fiscal Year Ended June 30, 2004

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Customers	\$1,094,182
Cash Payments for Purchased Services	(68,981)
Cash Payments for Claims	<u>(1,034,516)</u>

Net Cash Provided by Operating Activities (9,315)

Cash and Cash Equivalents at Beginning of Year 139,087

Cash and Cash Equivalents at End of Year \$129,772

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

Operating Income (\$72,743)

Changes in Assets and Liabilities:

Decrease in Intergovernmental Payable	(10,747)
Increase in Claims Payable	<u>74,175</u>

Net Cash Provided by Operating Activities (\$9,315)

See accompanying notes to the basic financial statements.

Southeastern Local School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2004

	<u>Agency Fund</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$21,557</u>
<i>Total Current Assets</i>	<u>21,557</u>
<i>Total Assets</i>	<u>21,557</u>
LIABILITIES:	
Current Liabilities:	
Undistributed Monies	<u>21,557</u>
<i>Total Current Liabilities</i>	<u>21,557</u>
<i>Total Liabilities</i>	<u>\$21,557</u>

See accompanying notes to the basic financial statements.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1938 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 140 square miles. It is located in Ross County, and includes the Hamlets of Londonderry, Higby, Harrison and Richmond Dale, and portions of Liberty, Jefferson, Harrison, Springfield, Franklin and Scioto Townships. It is staffed by 73 non-certificated employees, and 76 certificated full-time teaching personnel who provide services to 1,275 students and other community members. The School District currently operates a K-12 instructional building and 1 bus garage.

Reporting Entity:

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

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

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

- Parent Teacher Organization
- Ross County Educational Service Center

The School District participates in five organizations, three of which are defined as jointly governed organizations, one as a claims servicing pool, and one as an insurance purchasing pool. These organizations are the South Central Ohio Computer Association, the Pickaway-Ross Career and Technology Center, the Great Seal Education Network of Tomorrow, the Ross County School Employees Insurance Consortium, and the Ohio School Boards Association Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 18 and 19 to the basic financial statements.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

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

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

B. Fund Accounting

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

Governmental Funds

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

General Fund

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

Bond Retirement Debt Service Fund

The Bond Retirement Debt Service fund is a fund provided to account for the payment of long term bonds of the District.

Permanent Improvement Capital Projects Fund

The Permanent Improvement fund is a fund provided to account for all transactions related to the acquiring, constructing, or improving of such permanent improvements as are authorized by Chapter 5705, Revised Code.

Classroom Facilities Capital Projects Fund

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

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

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the Southeastern Local School District has no Enterprise Funds.

Internal Service Fund

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements. The School District's agency funds are used to account for student-managed activities.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus

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

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

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The fund financial statements are prepared using either the modified accrual basis of accounting for governmental funds or the accrual basis of accounting for proprietary and fiduciary funds. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

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

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

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

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

C. Budgetary Process

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

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

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash and Cash Equivalents

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

During fiscal year 2004, the School District's investments were limited to the State Treasury Assets Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2004.

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, Classroom Facilities, and all other governmental funds during fiscal year 2004 amounted to \$22,030, \$12,797 and \$439 respectively.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

E. Capital Assets and Depreciation

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

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

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. All reported capital assets except land and construction in progress, are depreciated. Depreciable capital assets are depreciated using the straight-line method over an estimated useful life of 50 years for buildings and improvements, 5 to 15 years for furniture and equipment, 10 to 25 years for land improvements, 5 years for textbooks and library books and 6 to 10 years for vehicles.

F. Interfund Activity

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

G. Interfund Balances

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after 15 years of current service with the School District.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid. The District had no matured compensated absences payable for 2004.

I. 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 judgements, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds are recognized as a liability on the government-wide financial statements when due.

Obligations financed by the proprietary fund are reported as liabilities within that fund. At year-end, the self-insurance internal service fund had a deficit cash balance held with the fiscal agent of the claims servicing pool (Note 10). The School District is temporarily using surplus funds of other members of the pool. The balance held with the fiscal agent is reviewed every three years, at which time one-half of any deficit balance is paid. The negative balance of \$222,346 held with the fiscal agent at June 30, 2004 is shown as an Intergovernmental Payable on the balance sheet.

J. Fund Balance Reserves

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

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

K. Estimates

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Restricted Assets

Restricted assets in the classroom facilities fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent amounts required by statute to be set aside by the School District for retainage payable related to the School District's construction of capital assets.

M. Net Assets

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

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

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For the Fiscal year 2004, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements." GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The implementation of these Statements requires certain adjustments be recorded to the June 30, 2003 fund balances of major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balances to net assets of the governmental activities is also presented.

Governmental Accounting Standards Board (GASB) Statement No. 39, "Determining Whether Certain Organizations are Component Units," and GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences". GASB Statement No. 39 is an amendment to GASB Statement No. 14 and provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationships with the primary government. The implementation of GASB Statement Nos. 39 and 41 had no affect on the School District.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE
(Continued)

A. Changes in Accounting Principles and Restatement of Fund Balance (Continued)

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Classroom Facilities</u>	<u>Non-Major</u>	<u>Total</u>
Fund Balances, June 30, 2003	\$258,380	\$210,727	\$700,660	\$2,321,211	\$276,514	\$3,767,492
Interpretation 6 Adjustments	<u>8,276</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,276</u>
Restated Fund Balances, June 30, 2003	<u>\$266,656</u>	<u>\$210,727</u>	<u>\$700,660</u>	<u>\$2,321,211</u>	<u>\$276,514</u>	<u>3,775,768</u>
Net Assets, June 30, 2003						
Compensated Absences						(665,933)
Capital Assets						25,989,979
Deferred Revenue						104,714
Internal Service Fund						(172,535)
Intergovernmental Payable						(68,464)
Capital Leases						(19,906)
Long Term Bonds and Loan						<u>(3,881,836)</u>
Restated Net Assets, June 30, 2003						<u>\$25,061,787</u>

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash as opposed to when susceptible to accrual (Non-GAAP Budgetary Basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred.
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type.
4. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions.

The following tables summarize the adjustments necessary to reconcile the GAAP and Non-GAAP Budgetary Basis statements by fund type.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING (Continued)

Net Change in Fund Balance

	General
GAAP Basis	\$676,482
Adjustments:	
Revenue Accruals	147,016
Expenditure Accruals	(118,773)
Advances In	109,162
Advances Out	(35,286)
Encumbrances	(286,857)
Budget Basis	\$491,744

NOTE 5 – DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 5 – DEPOSITS AND INVESTMENTS (continued)

4. Bond 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);
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; and
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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.”*

Deposits: At fiscal year end, the carrying amount of the School District’s deposits was \$1,005,098 and the bank balance was \$1,120,932. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$1,020,932 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution’s trust department in the School District’s name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The School District’s investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Fair Value
STAR Ohio	\$3,090,831

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in *GASB Statement No. 9, “Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.”*

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 5 – DEPOSITS AND INVESTMENTS (continued)

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments presented above per *GASB Statement No. 3* is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$4,095,929	\$0
Investment:		
STAR Ohio	(3,090,831)	3,090,831
GASB Statement No. 3	\$1,005,098	\$3,090,831

NOTE 6 – PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the School District. Property tax revenue received during calendar 2004 for real and public utility property taxes represents collections of calendar 2003 taxes. Property tax payments received during calendar 2004 for tangible personal property (other than public utility property) are for calendar 2004 taxes.

2004 real property taxes are levied after April 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2004 real property taxes are collected in and intended to finance fiscal year 2005.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2004 public utility property taxes became a lien December 31, 2003, are levied after April 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after April 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 6 – PROPERTY TAXES (continued)

	2003 First- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$53,939,300	78.38%	\$55,642,960	78.72%
Public Utility	9,189,970	13.35%	9,321,320	13.19%
Tangible Personal Property	5,691,890	8.27%	5,716,850	8.09%
Total Assessed Value	\$68,821,160	100.00%	\$70,681,130	100.00%
 Tax rate per \$1,000 of assessed valuation	 \$33.95		 \$33.50	

The School District receives property taxes from Ross County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2004, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 was levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

The amount available as an advance at June 30, 2004, was \$149,706 in the General Fund, \$34,614 in the Bond Retirement Debt Service Major Fund and \$3,300 in all other non-major governmental funds.

NOTE 7 – INCOME TAX

The School District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2000, and will continue for five years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund. Income tax revenues received during the year were \$340,517.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 8 – RECEIVABLES

Receivables at June 30, 2004, consisted of property and income taxes, intergovernmental grants and interfund amounts. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, and the stable condition of State programs.

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

	Amounts
Non-Major Special Revenue Funds:	
Reading Intervention	\$2,341
Innovative Programs	4,371
Improving Teacher Quality	20,180
Title II-D	2,656
Total All Funds	\$29,548

NOTE 9 – CAPITAL ASSETS

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

	Ending Balance 6/30/03*	Additions	Deletions	Ending Balance 6/30/04
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$705,000	\$0	\$0	\$705,000
Construction in Progress	0	1,575,604	0	1,575,604
Total Capital Assets, Not Being Depreciated	705,000	1,575,604	0	2,280,604
Capital Assets Being Depreciated				
Land Improvements	2,435,983	0	0	2,435,983
Buildings and Improvements	22,906,652	0	0	22,906,652
Furniture and Equipment	16,477	543,845	0	560,322
Vehicles	1,206,180	288,400	0	1,494,580
Library Books and Textbooks	0	406,010	0	406,010
Total Capital Assets, Being Depreciated	26,565,292	1,238,255	0	27,803,547
Less Accumulated Depreciation:				
Land Improvements	(85,373)	(120,544)	0	(205,917)
Building and Improvements	(427,858)	(728,935)	0	(1,156,793)
Furniture and Equipment	(14,288)	(21,535)	0	(35,823)
Vehicles	(752,794)	(80,770)	0	(833,564)
Library Books and Textbooks	0	(21,881)	0	(21,881)
Total Accumulated Depreciation	(1,280,313)	(973,665)	0	(2,253,978)
Total Capital Assets Being Depreciated, Net	25,284,979	264,590		25,549,569
Governmental Activities Capital Assets, Net	\$25,989,979	\$1,840,194	\$0	\$27,830,173

* As Restated – See Note 3

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 9 – CAPITAL ASSETS (continued)

Depreciation expense was charged to government functions as follows:

Instruction:	
Regular	\$811,617
Special	119
Support Services:	
Instructional Staff	18,289
Administration	83,903
Pupil Transportation	7,595
Non-Instructional Services	3,025
Extracurricular Activities	49,117
Total Depreciation Expense	<u>\$973,665</u>

NOTE 10 – RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Indiana Insurance for property and fleet insurance, liability insurance and inland marine coverage. Coverage provided by Indiana Insurance is as follows:

Building and Contents replacement cost (\$5,000 deductible)	\$13,273,904
Inland Marine Coverage (\$250 deductible)	58,000
Builders Risk (\$5,000 deductible)	21,072,644 limit
Automobile Liability (\$250 deductible)	
Bodily Injury - Each person	100,000
Bodily Injury - Each accident	300,000
Property Damage - Each accident	50,000
General Liability:	
Per occurrence	1,000,000
Total per year	5,000,000

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

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate.

Total savings are then calculated and each participant's individual performance is compared to the overall savings 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. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 10 – RISK MANAGEMENT (continued)

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The School District is a member of a claims servicing pool (Note 19), consisting of sixteen school districts within Ross County and its surrounding area, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District’s behalf. The claims liability of \$152,704 reported in the internal service fund at June 30, 2003, is based on an estimate provided by the third party administrator and the requirements of *GASB Statement No. 30 “Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,”* which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2003	\$101,632	\$1,119,433	\$1,142,536	\$78,529
2004	78,529	1,108,691	1,034,516	152,704

NOTE 11 – DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS’ Retirement Board. The adequacy of the contribution rates is determined annually. The School District’s required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$220,278, \$108,440, and \$67,656, respectively; 35.29 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$142,545 representing the unpaid contribution for fiscal year 2004 is recorded as a liability within the basic financial statements.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 11 – DEFINED BENEFIT PENSION PLANS (continued)

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions in to the DC plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

The DB Plan Benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

The DC Plan Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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 lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Member contributions for the Combined Plan Benefits are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio’s public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (SRP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries, and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$445,536, \$466,685, and \$314,829, respectively; 83.67 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. \$72,767 represents the unpaid contribution for fiscal year 2004 and is recorded as a liability within the respective funds.

NOTE 12 - POSTEMPLOYMENT BENEFITS

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

All retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year-ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$34,615 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year-ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$196,249.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year-ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 13 – EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Insurance Benefits

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

C. Deferred Compensation

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

NOTE 14 – CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2004, the School District has entered into a capitalized lease for the construction of an athletic facility. This lease meets the criteria of a capital lease as defined by *Statement of Financial Accounting Standards No. 13, "Accounting for Leases,"* which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets acquired by the athletic complex lease during 2004 was \$991,155. The remaining amount of \$533,845 is anticipated to be disbursed and capitalized upon completion of the project, which is anticipated in 2005. The liability was recorded in the Statement of Net Assets. No principal payments were made during fiscal year 2004.

The following is a schedule of the future long-term minimum lease payments acquired under the capital leases and the present value of the minimum lease payments based on the repayment schedule available as of June 30, 2004 which represents the anticipated total capital lease liability of \$1,525,000, less the unexpended amount of \$533,845.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 14 – CAPITAL LEASES - LESSEE DISCLOSURE (continued)

Fiscal Year Ending June 30,	
2005	\$93,950
2006	107,355
2007	107,413
2008	107,303
2009	107,057
2010-2014	533,150
2015-2019	529,183
2020-2024	524,344
2025-2029	515,206
2030-2032	310,393
Total	2,935,354
Less: Amount Representing Interest and Admin Fees	(1,410,354)
Present Value of Net Minimum Lease Payments	\$1,525,000
Less: Amount unexpended on Lease Obligations	533,845
Net Capital Lease Obligation at June 30, 2004	991,155

NOTE 15 – LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2004 were as follows:

	Restated Amount			Amount	
	Outstanding 6/30/03	Additions	Deductions	Outstanding 6/30/04	Due in One Year
1995 Energy Conservation Loan - 6.6%	\$60,000	\$0	\$30,000	\$30,000	\$30,000
2000 General Obligation Bonds - 5.84%	3,821,836	14,355	95,000	3,741,191	105,000
Total Long-Term Bonds and Loans	3,881,836	14,355	125,000	3,771,191	135,000
Capital Lease Payable	19,906	991,155	19,906	991,155	16,000
Compensated Absences	665,933	951,589	665,933	951,589	40,368
Total Other Long-Term Obligations	685,839	1,942,744	685,839	1,942,744	56,368
Total General Long-Term Obligations	\$4,567,675	\$1,957,099	\$810,839	\$5,713,935	\$191,368

Energy Conservation Loan - On January 1, 1996, the School District issued \$233,000 in unvoted general obligation notes 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 notes were issued for a ten year period with final maturity during fiscal year 2005. The loan will be retired from the debt service fund.

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 15 – LONG-TERM OBLIGATIONS (continued)

The term bonds, issued at \$2,850,000, maturing on December 1, 2022, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed plus accrued interest to the date of redemption, on December 1, in the years and in the respective principal amounts as follows:

Fiscal Year Ending June 30,	Amount
2012	\$175,000
2013	185,000
2014	200,000
2015	215,000
2016	235,000
2017	255,000
2018	275,000
2019	295,000
2020	320,000
2021	345,000
2022	350,000
Total	<u>\$2,850,000</u>

The serial bonds, issued at \$1,105,000 maturing on or after December 1, 2012, are subject to optional redemption, in whole or in part on any date at the option of the Issuer on or after December 1, 2010, as follows:

Redemption Dates (Dates Inclusive)	Redemption Prices
December 1, 2010 through November 30, 2011	101%
December 1, 2011 and thereafter	100%

The capital appreciation bonds, issued at \$27,000, are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2011 and 2012. The maturity amount of the capital appreciation bonds is \$175,000 each year for a total of \$350,000. For fiscal year 2004, the capital appreciation bonds were accreted \$14,355.

The total outstanding bond value at fiscal year end was \$3,741,191. The total bond value at final maturity will be \$3,995,000.

Capital leases will be paid from the Facilities Permanent Improvement Fund. Compensated absences will be paid from the fund from which the employees' salaries are paid.

The School District's overall legal debt margin was \$2,590,111 with an unvoted debt margin of \$70,681 at June 30, 2004.

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 15 – LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire Classroom Facilities Bonds outstanding at June 30, 2004, are as follows:

Fiscal Year Ending June 30,	Term Bonds Principal	Term Bonds Interest	Serial Bonds Principal	Serial Bonds Interest	Capital Appreciation Principal	Total
2005	\$0	\$0	\$105,000	\$198,505	\$0	\$303,505
2006	0	0	115,000	193,086	0	308,086
2007	0	0	125,000	187,115	0	312,115
2008	0	0	135,000	180,581	0	315,581
2009-2013	175,000	558,644	315,000	258,108	350,000	1,656,752
2014-2018	1,090,000	611,613	0	0	0	1,701,613
2019-2023	1,585,000	235,182	0	0	0	1,820,182
Total	<u>\$2,850,000</u>	<u>\$1,405,439</u>	<u>\$795,000</u>	<u>\$1,017,395</u>	<u>\$350,000</u>	<u>\$6,417,834</u>

Principal and interest requirements to retire the Energy Conservation loans outstanding at June 30, 2004, are as follows:

Fiscal year Ending June 30,	Principal	Interest	Total
2005	\$30,000	\$990	\$30,990

NOTE 16 – CONTRACTUAL COMMITMENTS

As of June 30, 2004, the School District had contractual purchase commitments for services for the construction of new athletic complex as follows:

Contractor	Contract Amount	Amount Expended	Balance 6/30/04
Gateway Mechanical INC	\$249,900	\$131,702	\$118,198
Claypool Electric	274,736	206,986	67,750
D E Huddleston INC	760,578	782,158	(21,580)
Bontragers Metal Roofing	19,100	0	19,100
Ross County Building Dept.	827	0	827
Steed, Hammond & Paul	62,835	36,655	26,180
Total All Contractors	<u>\$1,367,976</u>	<u>\$1,157,501</u>	<u>\$210,475</u>

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 17 – INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the year ended June 30, 2004, were as follows:

Fund	Transfer From	Transfer To
Major Fund:		
General	\$1,085	\$0
Permanent Improvement	182,828	0
Bond Retirement Debt Service	0	182,828
Non Major Special Revenue Fund:		
Extracurricular Activities	0	1,085
Total	\$183,913	\$183,913

The transfers were made from the General Fund (a major fund) to the Extracurricular Activities Fund (a non-major fund) and from the Permanent Improvement major fund to the Debt Service major fund to provide support for operating activities of that fund.

Interfund balances at June 30, 2004, consist of the following individual fund receivables and payables, which are expected to be repaid during the 2005 fiscal year:

Interfund Loans	Receivable	Payable
General fund	\$ 18,817	\$ -
Nonmajor Special Revenue Funds		
Food Service		3,585
Title I		13,890
Title VI	-	1,342
Total Nonmajor Special Revenue Funds	-	18,817
Total Interfund Receivables/Payables	\$ 18,817	\$ 18,817

NOTE 18 – JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association - The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The School District paid SCOCA \$17,426 for services provided during the year. Financial information can be obtained from their fiscal agent, the Vern Riffe Career and Technology Center, Tonya Cooper who serves as Treasurer, at P.O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 18 – JOINTLY GOVERNED ORGANIZATIONS (continued)

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

NOTE 19 – CLAIMS SERVICING AND INSURANCE PURCHASING POOLS

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

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

NOTE 20 – 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 of textbooks and other instructional materials and an equal amount for the acquisition or construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

The following information describes the change in the year-end set aside amounts for textbooks and instructional materials and capital acquisitions. Disclosure of this information is required by State statute.

	Textbooks	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2003	(\$111,137)	(\$56,696)
Current Year Set-aside Replacement	158,319	158,319
Qualifying Disbursements	(406,269)	(287,849)
Set-aside Reserve Balance as of June 30, 2004	(\$359,087)	(\$186,226)

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

Southeastern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 21 – STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

On March 4, 2003, the Plaintiffs filed a motion with the Common Pleas Court of Perry County requesting that such Court schedule and conduct a conference to address the State's compliance with the orders of such Court and the Supreme Court. On May 16, 2003, the Ohio Supreme Court granted a Writ of Prohibition as filed by the State and ordered the Common Pleas Court of Perry County to dismiss the motion for a compliance conference. The Ohio Supreme Court further stated again its ruling made on December 11, 2002.

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 22 – CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 23 - ACCOUNTABILITY

At June 30, 2004, the Lunchroom, Disadvantaged Pupil Impact Aid and Chapter 1 Special Revenue Funds, as well as the Self Insurance Internal Service Fund had deficit fund balances/net assets of \$24,542, \$38,626, \$48,469, and \$245,278 respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur. These deficit fund balances/net assets occurred as a result of the application of generally accepted accounting principles and do not exist on the cash basis.

The General Fund expenditures plus encumbrances exceed appropriations by \$484,111 which is in violation of ORC 5705.41(B).

SOUTHEASTERN LOCAL SCHOOL DISTRICT

Schedule of Federal Awards Expenditures

For the Fiscal Year Ended June 30, 2004

Federal Grantor / Pass Through Grantor / Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<u>U.S. Department of Agriculture</u>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
School Breakfast Program	05-PU 2004	10.553	\$44,515	\$44,515
National School Lunch Program	LL-P4 2004	10.555	159,931	159,931
Total U.S. Department of Agriculture			204,446	204,446
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	C1-S1 2004	84.010	322,379	278,279
Special Education - Grants to States (IDEA Part B)	6B-SF 2004 P	84.027	266,715	231,477
Safe and Drug-Free Schools and Communities	DR-S1-03/04	84.186	15,179	11,329
Innovative Educational Program Strategies	G2-S1 04	84.298	8,453	9,011
Technology Literacy Challenge	TJ-S1 2004	84.318	7,680	3,827
Class Size Reduction	CR-S1 2002	84.340	0	15
School Renovation Grant	AT-S2 2002	84.352	0	22,388
Improving Teacher Quality	TR-S1 2004	84.367	91,778	74,507
Total U.S. Department of Education			712,184	630,833
Total Federal Financial Assistance			\$916,630	\$835,279

Note 1 - Noncash Federal Financial Assistance

During the year ended June 30, 2004, the District received \$48,209 and used \$48,209 in fair value inventory under the Nutrition Cluster - Food Distribution (Commodities) Program, Federal CFDA Number 10.550, that is not reported in the above schedule. At June 30, 2004 the District had no significant food commodities inventory.

Note 2 - Significant Accounting Policies

The District prepares its Schedule of Federal Awards Expenditures on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Required by
Government Auditing Standards**

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southeastern Local School District (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 23, 2005. 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 of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting that we did not deem reportable conditions, that we have reported to the management of the District in a separate letter dated June 23, 2005.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as item 2004-001 and 2004-002. We also noted certain immaterial instances of noncompliance that we have reported to the management of the District in a separate letter dated June 23, 2005.

Board of Education
Southeastern Local School District
Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Required by
Government Auditing Standards

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

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.

June 23, 2005

**Report on Compliance with Requirements Applicable to
Each Major Program and Internal Control over Compliance in
Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of Southeastern Local School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

Internal Control over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Board of Education
Southeastern Local School District
Report on Compliance with Requirements Applicable to Each Major
Program and Internal Control over Compliance in Accordance with
OMB Circular A-133

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.

June 23, 2005

SOUTHEASTERN LOCAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2004

A. SUMMARY OF AUDITOR'S RESULTS

1. Type of Financial Statement Opinion	Unqualified
2. Were there any material internal control weaknesses reported at the financial statement level (GAGAS)?	No
3. Were there any other reportable internal control weaknesses reported at the financial statement level (GAGAS)?	No
4. Was there any material noncompliance reported at the financial statement level (GAGAS)?	Yes
5. Were there any material internal control weaknesses reported for major federal programs?	No
6. Were there any other reportable internal control weaknesses reported for major federal programs?	No
7. Type of Major Programs' Compliance Opinion	Unqualified
8. Are there any reportable findings under § .510?	No
9. Major Programs (list):	CFDA #84.027 - Special Education Grants
10. Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Other Programs
11. Low Risk Auditee?	Yes

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

Finding Number	2004-001
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Ohio Revised Code Section 5705.39 states that appropriations are to be limited by the estimated resources of a fund. The District had appropriations that exceeded the estimated resources in several funds. This situation can lead to the District expending more than is actually received.

The District should monitor each fund so that appropriations do not exceed estimated resources.

SOUTHEASTERN LOCAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2004

<i>Finding Number</i>	2004-002
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Section 5705.41(B) of the Ohio Revised Code, in summary, states that the District shall not make any expenditure of money unless it has been appropriated. An appropriation is a budgetary control account that represents the total authorized expenditures for a current fiscal period. Additionally, Ohio Revised Code Section 5705.40 states that no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations against them.

The District expended and encumbered monies in the General Fund that exceeded the appropriations adopted by \$484,111. This practice can lead to the District expending more than is actually available to spend in the fund.

The District should closely monitor each fund to determine that sufficient appropriations exist before any expenditures or encumbrances are made.

C. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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There were no findings and questioned costs for federal awards.

SOUTHEASTERN LOCAL SCHOOL DISTRICT

Schedule of Prior Audit Findings
For the Year Ended June 30, 2004

Description	Status	Comments
<i>Government Auditing Standards:</i>		
1. ORC 5705.39 - appropriations are to be limited by the estimated resources of a fund.	Not fully corrected	The Treasurer will monitor this situation more closely.



**Auditor of State
Betty Montgomery**

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**SOUTHEASTERN LOCAL SCHOOL DISTRICT
ROSS COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 4, 2005**