

***SENECA EAST LOCAL SCHOOL DISTRICT***

***SENECA COUNTY***

**Audit Report**

**For the Year Ended June 30, 2007**

***CHARLES E. HARRIS & ASSOCIATES, INC.***  
Certified Public Accountants and Government Consultants





Mary Taylor, CPA  
Auditor of State

Board of Education  
Seneca East Local School District  
13343 East U.S. 224  
Attica, Ohio 44807

We have reviewed the *Report of Independent Accountants* of the Seneca East Local School District, Seneca County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

March 3, 2008

**This Page is Intentionally Left Blank.**

**SENECA LOCAL SCHOOL DISTRICT**  
**SENECA COUNTY**  
**AUDIT REPORT**  
 For the Year Ending June 30, 2007

**TABLE OF CONTENTS**

TITLE	PAGE
Report of Independent Accountants.....	1
Management's Discussion and Analysis.....	3
<b>Basic Financial Statements:</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Assets.....	13
Statement of Activities.....	14
<b>Fund Financial Statements:</b>	
Balance Sheet - Governmental Funds.....	15
Reconciliation of Total Governmental Fund Balances to Net Asset of Governmental Activities.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund.....	19
Statement of Fiduciary Net Assets - Fiduciary Funds.....	20
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds.....	21
Notes to the Basic Financial Statements.....	22
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Required by <i>Government Auditing Standards</i> .....	50
Schedule of Prior Audit Findings.....	52

REPORT OF INDEPENDENT ACCOUNTANTS

Seneca East Local School District  
Seneca County  
13343 East U.S. 224  
Attica, Ohio 44807

To the Board of Education:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Seneca East Local School District, Seneca County, Ohio, as of June 30, 2007, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2008 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, grant agreements and other matters. While we did 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 results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The 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 have applied certain limited procedures, which consisted principally on inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

***Charles E. Harris & Associates, Inc.***

January 10, 2008

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

**Financial Highlights**

Key financial highlights for 2007 are as follows:

- In total, net assets of governmental activities increased \$1,876,787 which represents a 9.23% increase from 2006.
- General revenues accounted for \$8,173,456 in revenue or 79.79% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,070,658 or 20.21% of total revenues of \$10,244,114.
- The District had \$8,401,986 in expenses related to governmental activities; \$2,070,658 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,173,456 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, the building fund and classroom facilities fund. The general fund had \$7,495,401 in revenues and \$6,739,709 in expenditures and other financing uses. During fiscal year 2007, the general fund's fund balance increased \$755,692 from a deficit balance of \$79,992 to a balance of \$675,700.
- The District's building fund had \$440,549 in revenues and \$402,927 in expenditures. During fiscal year 2007, the building fund's fund balance increased \$37,622 from a balance of \$3,046,474 to a balance of \$3,084,096.
- The District's classroom facilities fund had \$8,615,765 in revenues and \$17,681,571 in expenditures. During fiscal year 2007, the classroom facilities fund's fund balance decreased \$9,065,806 from a balance of \$15,135,225 to a balance of \$6,069,419.

**Using these Basic Financial Statements**

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

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



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**Reporting the District as a Whole**

*Statement of Net Assets and the Statement of Activities*

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

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

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operations and maintenance, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

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

*Fund Financial Statements*

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental funds are the general fund and classroom facilities fund.

*Governmental Funds*

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

*Reporting the District's Fiduciary Responsibilities*

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

*Notes to the Basic Financial Statements*

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-49 of this report.

**The District as a Whole**

Recall that the statement of net assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2007 and 2006.

	<b>Net Assets</b>	
	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 18,862,917	\$ 32,463,705
Capital assets	<u>21,585,650</u>	<u>3,676,754</u>
Total assets	<u>40,448,567</u>	<u>36,140,459</u>
<b><u>Liabilities</u></b>		
Current liabilities	5,949,363	3,280,005
Long-term liabilities	<u>12,295,264</u>	<u>12,533,301</u>
Total liabilities	<u>18,244,627</u>	<u>15,813,306</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	9,898,487	1,047,684
Restricted	12,282,540	19,935,023
Unrestricted (deficit)	<u>22,913</u>	<u>(655,554)</u>
Total net assets	<u>\$ 22,203,940</u>	<u>\$ 20,327,153</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$22,203,940. Of this total, \$12,282,540 is restricted in use.

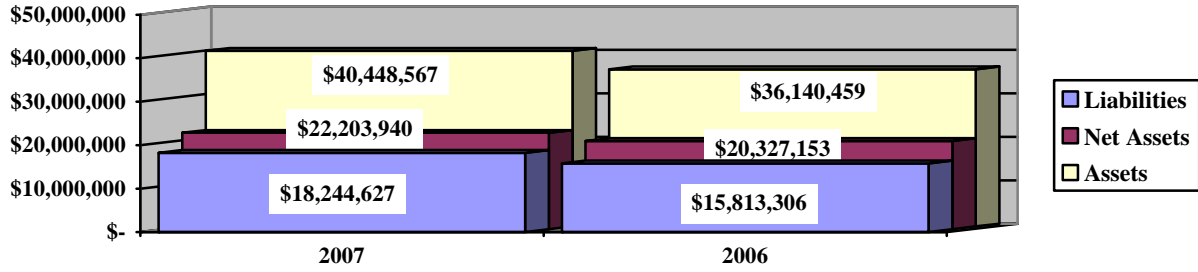
At year-end, capital assets represented 53.37% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$9,898,487. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$12,282,540, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$22,913 may be used to meet the District's ongoing obligations to the students and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**Governmental Activities**



The table below shows the change in net assets for fiscal year 2007 and 2006.

**Change in Net Assets**

	Governmental Activities 2007	Governmental Activities 2006
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 1,073,413	\$ 1,091,830
Operating grants and contributions	774,670	505,219
Capital grants and contributions	222,575	12,288
General revenues:		
Property taxes	2,471,201	2,111,942
School district income tax	896,397	842,454
Grants and entitlements	3,917,399	3,892,086
Investment earnings	878,185	538,098
Other	10,274	12,862
<b>Total revenues</b>	<b>10,244,114</b>	<b>9,006,779</b>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**Change in Net Assets**

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2006</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 3,991,869	\$ 3,704,224
Special	989,039	873,423
Vocational	137,609	185,888
Other	-	19,326
Support services:		
Pupil	83,356	88,221
Instructional staff	287,677	340,857
Board of education	14,791	19,832
Administration	509,466	594,030
Fiscal	216,641	226,775
Operations and maintenance	476,999	591,878
Pupil transportation	525,902	583,205
Operations of non-instructional services		
Food service operations	303,287	359,454
Other non-instructional services	40,070	-
Extracurricular activities	307,520	313,847
Interest and fiscal charges	<u>517,760</u>	<u>285,279</u>
Total expenses	<u>8,401,986</u>	<u>8,186,239</u>
Special item - gain on sale of capital assets	<u>34,659</u>	<u>-</u>
Change in net assets	1,876,787	820,540
Net assets at beginning of year	<u>20,327,153</u>	<u>19,506,613</u>
Net assets at end of year	<u>\$ 22,203,940</u>	<u>\$ 20,327,153</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$1,876,787. Total governmental expenses of \$8,401,986 were offset by program revenues of \$2,070,658 and general revenues of \$8,173,456. The District had a special item in 2007, a gain on the sale of capital assets in the amount of \$34,659 (see Note 2.Q to the basic financial statements for further detail). Program revenues supported 24.64% of the total governmental expenses.

The primary sources of revenue for governmental activities in fiscal year 2007 are derived from property taxes, the school district income tax and grants and entitlements. These revenue sources represent 71.11% of total governmental revenue.

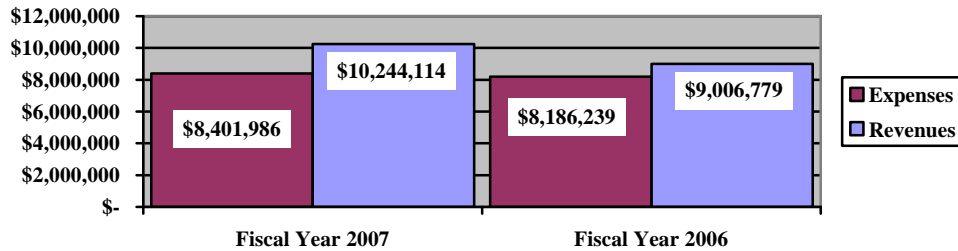
The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,118,517 or 60.92% of total governmental expenses for fiscal 2007.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2007 and 2006.

**Governmental Activities - Revenues and Expenses**



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

**Governmental Activities**

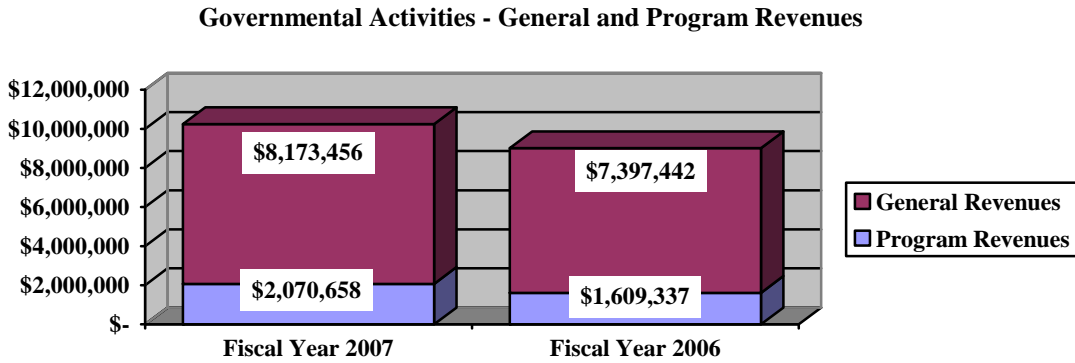
	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
<b>Program expenses</b>				
Instruction:				
Regular	\$ 3,991,869	\$ 3,029,733	\$ 3,704,224	\$ 2,935,716
Special	989,039	492,738	873,423	571,122
Vocational	137,609	88,784	185,888	185,888
Other	-	-	19,326	19,326
Support services:				
Pupil	83,356	83,038	88,221	87,863
Instructional staff	287,677	262,054	340,857	311,902
Board of education	14,791	14,791	19,832	19,832
Administration	509,466	490,869	594,030	588,426
Fiscal	216,641	192,301	226,775	226,775
Operations and maintenance	476,999	470,179	591,878	590,862
Pupil transportation	525,902	512,088	583,205	582,703
Operations of non-instructional services				
Food service operations	303,287	(42,097)	359,454	(8,302)
Other non-instructional services	40,070	40,070	-	-
Extracurricular activities	307,520	179,020	313,847	179,510
Interest and fiscal charges	517,760	517,760	285,279	285,279
<b>Total expenses</b>	<u>\$ 8,401,986</u>	<u>\$ 6,331,328</u>	<u>\$ 8,186,239</u>	<u>\$ 6,576,902</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 70.55% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 75.36%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below presents the District's governmental activities revenue for fiscal year 2007 and 2006.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$10,367,236, which is lower than last year's total of \$18,582,560. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance June 30, 2007	Fund Balance (Deficit) June 30, 2006	Increase (Decrease)	Percentage Change
General	\$ 675,700	\$ (79,992)	\$ 755,692	(944.71) %
Building	3,084,096	3,046,474	37,622	1.23 %
Classroom Facilities	6,069,419	15,135,225	(9,065,806)	(59.90) %
Other Governmental	538,021	480,853	57,168	11.89 %
<b>Total</b>	<u>\$10,367,236</u>	<u>\$18,582,560</u>	<u>\$ (8,215,324)</u>	(44.21) %

**General Fund**

The District's general fund balance increased \$755,692. The increase in fund balance can be attributed to several items related to expenditures increasing faster than revenues. Revenues exceeded expenditures for fiscal year 2007 by \$820,692.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 2,639,547	\$ 2,588,251	\$ 51,296	1.98 %
Earnings on investments	72,863	17,862	55,001	307.92 %
Intergovernmental	4,071,062	3,853,434	217,628	5.65 %
Other revenues	<u>711,929</u>	<u>716,219</u>	<u>(4,290)</u>	(0.60) %
Total	<u>\$ 7,495,401</u>	<u>\$ 7,175,766</u>	<u>\$ 319,635</u>	4.45 %
<b><u>Expenditures</u></b>				
Instruction	\$ 4,567,932	\$ 4,619,865	\$ (51,933)	(1.12) %
Support services	1,917,704	2,376,580	(458,876)	(19.31) %
Extracurricular activities	165,916	165,961	(45)	(0.03) %
Debt service	<u>23,157</u>	<u>47,415</u>	<u>(24,258)</u>	(51.16) %
Total	<u>\$ 6,674,709</u>	<u>\$ 7,209,821</u>	<u>\$ (535,112)</u>	(7.42) %

Revenue increased 4.45% over prior year. Earnings on investments increased due to higher interest rates. Expenditures decreased 7.42% from last year. Debt service expenditures decreased due to the District paying off less debt in fiscal year 2007 compared to the prior year. Support service expenditures decreased during fiscal year 2007 primarily due to the decrease in expenditures relating to administration and operations and maintenance costs.

***Building Fund***

The District's building fund had \$440,549 in revenues and \$402,927 in expenditures. During fiscal year 2007, the building fund's fund balance increased \$37,622 from a balance of \$3,046,474 to a balance of \$3,084,096.

***Classroom Facilities Fund***

The District's classroom facilities fund had \$8,615,765 in revenues and \$17,681,571 in expenditures. During fiscal year 2007, the classroom facilities fund's fund balance decreased \$9,065,806 from a balance of \$15,135,225 to a balance of \$6,069,419. The decrease in fund balance is due to the capital outlays related to the Ohio School Facilities Commission (OSFC) construction project.

***General Fund Budgeting Highlights***

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

During the course of fiscal 2007, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$7,236,018 and final budgeted revenues and other financing sources were \$7,144,585. Actual revenues and other financing sources for fiscal 2007 was \$7,506,078. This represents a \$361,493 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$6,763,069 were increased to \$7,313,709 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$6,876,933, which was \$436,776 below the final budgeted appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2007, the District had \$21,585,650 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. This entire amount is reported in governmental activities. The following table shows fiscal 2007 balances compared to 2006:

**Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities	
	2007	2006
Land	\$ 75,706	\$ 75,706
Land improvements	8,373	9,158
Building and improvements	479,727	558,911
Furniture and equipment	248,927	331,904
Vehicles	156,350	133,182
Construction in progress	20,616,567	2,567,893
 Total	 \$ 21,585,650	 \$ 3,676,754

The overall increase in capital assets of \$17,908,896 is due to capital outlays of \$18,102,674 exceeding depreciation expense of \$147,266 and disposals of \$46,512 (net of accumulated depreciation) for fiscal 2007. The increase in capital outlay is a result of construction in progress associated with the OSFC construction project for the new building.

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

*Debt Administration*

At June 30, 2007, the District had \$11,649,260 in capital appreciation bonds and \$40,344 in capital lease obligations outstanding. Of this total, \$268,117 is due within one year and \$11,421,487 is due in greater than one year. The following table summarizes the notes and lease obligations outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities	Governmental Activities
	2007	2006
General obligation bonds	\$ 11,649,260	\$ 11,853,643
Capital lease obligations	40,344	61,177
 Total	 \$ 11,689,604	 \$ 11,914,820

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



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**Current Financial Related Activities**

As the preceding information shows, the Seneca East Local School District relies heavily upon state foundation monies \$3,700,742 (49.50% of revenues), general property tax \$2,055,518 (27.5%), income tax \$863,673 (11.55%), and open enrollment and miscellaneous revenues (including interest) \$856,154 (11.45%) making up the remaining balance. The District ended fiscal year 2007 with a cash balance in the general fund of \$373,508. This increase of \$453,500 over the previous year's cash balance is due to both increasing revenues and decreasing expenses. The receipts were up \$350,498 and the expenses were down by \$445,874. The Seneca East Board of Education made approximately \$500,000 in cuts for fiscal year 2007 and this resulted in expenses actually decreasing by almost \$446,000 (less than the actual cuts because of the step and percentage salary increases). These cuts included the reduction in force of both certified and non-certified employees and the closing of the Seneca Huron Elementary School building. As a result of these cuts the receipts for fiscal year 2007 actually exceeded the expenditures and thus contributed to an increase in the cash balance. The District passed a levy in February of 2005 for a new building through the Ohio School Facilities and plans on to move into that building in December of 2007. Money spent at the current time out of the general fund for non-routine repairs and capital improvement items will continue to be reduced. In addition, the operating costs at one site compared to the two sites we operate now are expected to be less.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Laura Brickner, Treasurer, Seneca East Local School District, 13343 East U.S. 224, Attica, Ohio 44807.

**BASIC  
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS  
JUNE 30, 2007

	<u><b>Governmental Activities</b></u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 13,155,597
Cash with fiscal agent. . . . .	497
Cash in segregated accounts . . . . .	297,919
Receivables:	
Taxes. . . . .	2,811,772
Accounts . . . . .	5,787
Intergovernmental . . . . .	2,487,332
Accrued interest . . . . .	53,899
Prepayments . . . . .	39,031
Materials and supplies inventory . . . . .	11,083
Capital assets:	
Land . . . . .	75,706
Construction in progress . . . . .	20,616,567
Depreciable capital assets, net . . . . .	893,377
Capital assets, net. . . . .	<u>21,585,650</u>
 Total assets. . . . .	 <u>40,448,567</u>
 <b>Liabilities:</b>	
Accounts payable. . . . .	64,684
Contracts payable. . . . .	2,470,814
Retainage payable . . . . .	297,919
Accrued wages and benefits . . . . .	591,661
Pension obligation payable. . . . .	157,626
Intergovernmental payable . . . . .	43,375
Unearned revenue . . . . .	2,291,082
Accrued interest payable . . . . .	32,202
Long-term liabilities:	
Due within one year. . . . .	283,195
Due in more than one year . . . . .	12,012,069
Total liabilities . . . . .	<u>18,244,627</u>
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	9,898,487
Restricted for:	
Debt service . . . . .	186,191
Capital projects . . . . .	11,854,135
State funded programs . . . . .	8,913
Federally funded programs . . . . .	497
Student activities . . . . .	8,553
Other purposes . . . . .	224,251
Unrestricted (deficit) . . . . .	<u>22,913</u>
 Total net assets . . . . .	 <u><u>\$ 22,203,940</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 3,991,869	\$ 692,324	\$ 47,237	\$ 222,575	\$ (3,029,733)
Special . . . . .	989,039	2,511	493,790	-	(492,738)
Vocational . . . . .	137,609	-	48,825	-	(88,784)
Support services:					
Pupil . . . . .	83,356	-	318	-	(83,038)
Instructional staff . . . . .	287,677	-	25,623	-	(262,054)
Board of education . . . . .	14,791	-	-	-	(14,791)
Administration . . . . .	509,466	-	18,597	-	(490,869)
Fiscal . . . . .	216,641	-	24,340	-	(192,301)
Operations and maintenance . . . . .	476,999	6,820	-	-	(470,179)
Pupil transportation . . . . .	525,902	-	13,814	-	(512,088)
Operation of non-instructional services:					
Food service operations . . . . .	303,287	243,683	101,701	-	42,097
Other non-instructional services . . . . .	40,070	-	-	-	(40,070)
Extracurricular activities . . . . .	307,520	128,075	425	-	(179,020)
Interest and fiscal charges . . . . .	517,760	-	-	-	(517,760)
<b>Total governmental activities . . . . .</b>	<b>\$ 8,401,986</b>	<b>\$ 1,073,413</b>	<b>\$ 774,670</b>	<b>\$ 222,575</b>	<b>(6,331,328)</b>

**General Revenues:**

Property taxes levied for:	
General purposes . . . . .	1,741,928
Special revenue . . . . .	41,346
Debt service . . . . .	687,927
School district income tax . . . . .	896,397
Grants and entitlements not restricted to specific programs . . . . .	
Investment earnings . . . . .	878,185
Miscellaneous . . . . .	10,274
<b>Total general revenues . . . . .</b>	<b>8,173,456</b>

**Special item:**

Gain on sale of capital assets . . . . .	34,659
--	--------

<b>Total general revenues and special item . . . . .</b>	<b>8,208,115</b>
--	------------------

Change in net assets . . . . .	1,876,787
--------------------------------	-----------

<b>Net assets at beginning of year . . . . .</b>	<b>20,327,153</b>
--	-------------------

<b>Net assets at end of year . . . . .</b>	<b>\$ 22,203,940</b>
--	----------------------

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	<u>General</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and cash equivalents . . . . .	\$ 922,679	\$ 3,136,642	\$ 8,493,089	\$ 582,053	\$ 13,134,463
Cash with fiscal agent . . . . .	-	-	-	497	497
Cash in segregated accounts . . . . .	-	297,919	-	-	297,919
Receivables:					
Taxes . . . . .	2,090,871	-	-	720,901	2,811,772
Accounts . . . . .	5,787	-	-	-	5,787
Intergovernmental. . . . .	-	-	2,471,727	15,605	2,487,332
Accrued interest . . . . .	1,571	-	52,328	-	53,899
Prepayments . . . . .	21,543	-	17,488	-	39,031
Materials and supplies inventory . . . . .	753	-	-	10,330	11,083
Restricted assets:					
Equity in pooled cash and cash equivalents . . . . .	21,134	-	-	-	21,134
Total assets . . . . .	<u>\$ 3,064,338</u>	<u>\$ 3,434,561</u>	<u>\$ 11,034,632</u>	<u>\$ 1,329,386</u>	<u>\$ 18,862,917</u>
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 5,430	\$ 47,170	\$ 10,051	\$ 2,033	\$ 64,684
Contracts payable . . . . .	-	5,376	2,465,438	-	2,470,814
Retainage payable . . . . .	-	297,919	-	-	297,919
Accrued wages and benefits . . . . .	523,501	-	-	68,160	591,661
Pension obligation payable. . . . .	135,193	-	-	22,433	157,626
Intergovernmental payable. . . . .	39,231	-	239	3,905	43,375
Deferred revenue. . . . .	52,336	-	2,489,485	36,699	2,578,520
Unearned revenue . . . . .	1,632,947	-	-	658,135	2,291,082
Total liabilities . . . . .	<u>2,388,638</u>	<u>350,465</u>	<u>4,965,213</u>	<u>791,365</u>	<u>8,495,681</u>
<b>Fund Balances:</b>					
Reserved for encumbrances . . . . .	70,569	16,949	6,125,958	20,766	6,234,242
Reserved for materials and supplies inventory. . . . .	753	-	-	10,330	11,083
Reserved for prepayments . . . . .	21,543	-	17,488	-	39,031
Reserved for property tax unavailable for appropriation . . . . .	103,396	-	-	41,672	145,068
Reserved for debt service. . . . .	-	-	-	126,984	126,984
Reserved for textbooks. . . . .	21,134	-	-	-	21,134
Unreserved, undesignated (deficit), reported in:					
General fund . . . . .	458,305	-	-	-	458,305
Special revenue funds. . . . .	-	-	-	164,892	164,892
Capital projects funds. . . . .	-	3,067,147	(74,027)	173,377	3,166,497
Total fund balances (deficit) . . . . .	<u>675,700</u>	<u>3,084,096</u>	<u>6,069,419</u>	<u>538,021</u>	<u>10,367,236</u>
Total liabilities and fund balances . . . . .	<u>\$ 3,064,338</u>	<u>\$ 3,434,561</u>	<u>\$ 11,034,632</u>	<u>\$ 1,329,386</u>	<u>\$ 18,862,917</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2007

<b>Total governmental fund balances</b>		\$ 10,367,236
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		21,585,650
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 73,430	
Accounts	8,756	
Intergovernmental revenue	2,478,576	
Accrued interest	17,758	
Total		2,578,520
In the statement of activities interest is accrued on outstanding bonds, whereas in the governmental funds, interest expenditures are reported when due		(32,202)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(605,660)	
General obligation bonds payable	(11,649,260)	
Capital lease obligation payable	(40,344)	
Total		(12,295,264)
<b>Net assets of governmental activities</b>		<b>\$ 22,203,940</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
From local sources:					
Taxes . . . . .	\$ 2,639,547	\$ -	\$ -	\$ 720,059	\$ 3,359,606
Tuition. . . . .	633,476	-	-	-	633,476
Charges for services. . . . .	-	-	-	243,683	243,683
Earnings on investments. . . . .	72,863	218,049	583,826	6,528	881,266
Classroom materials and fees . . . . .	39,893	-	-	-	39,893
Extracurricular. . . . .	-	-	-	128,075	128,075
Other local revenues. . . . .	38,560	222,500	-	500	261,560
Intergovernmental - State. . . . .	4,071,062	-	8,031,939	151,985	12,254,986
Intergovernmental - Federal . . . . .	-	-	-	453,340	453,340
Total revenue . . . . .	<u>7,495,401</u>	<u>440,549</u>	<u>8,615,765</u>	<u>1,704,170</u>	<u>18,255,885</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular . . . . .	3,789,580	-	-	78,991	3,868,571
Special. . . . .	629,576	-	-	357,616	987,192
Vocational. . . . .	148,776	-	-	-	148,776
Support services:					
Pupil. . . . .	82,606	-	-	334	82,940
Instructional staff . . . . .	229,914	-	-	56,335	286,249
Board of education . . . . .	14,791	-	-	-	14,791
Administration. . . . .	466,448	-	-	33,712	500,160
Fiscal . . . . .	204,696	-	-	11,193	215,889
Operations and maintenance. . . . .	466,671	-	-	6,272	472,943
Pupil transportation . . . . .	452,578	-	-	58,340	510,918
Operation of non-instructional services:					
Food service operations . . . . .	-	-	-	298,547	298,547
Other non-instructional services . . . . .	-	-	-	40,070	40,070
Extracurricular activities. . . . .	165,916	-	-	130,262	296,178
Facilities acquisition and construction . . . . .	-	402,927	17,681,571	1	18,084,499
Debt service:					
Principal retirement . . . . .	20,833	-	-	220,000	240,833
Interest and fiscal charges . . . . .	2,324	-	-	500,431	502,755
Total expenditures . . . . .	<u>6,674,709</u>	<u>402,927</u>	<u>17,681,571</u>	<u>1,792,104</u>	<u>26,551,311</u>
Excess of revenues under expenditures . . . . .	<u>820,692</u>	<u>37,622</u>	<u>(9,065,806)</u>	<u>(87,934)</u>	<u>(8,295,426)</u>
<b>Other financing sources (uses):</b>					
Sale of assets . . . . .	-	-	-	80,102	80,102
Transfers in . . . . .	-	-	-	65,000	65,000
Transfers (out). . . . .	(65,000)	-	-	-	(65,000)
Total other financing sources (uses) . . . . .	<u>(65,000)</u>	<u>-</u>	<u>-</u>	<u>145,102</u>	<u>80,102</u>
Net change in fund balances . . . . .	755,692	37,622	(9,065,806)	57,168	(8,215,324)
<b>Fund balances (deficit) at beginning of year . . . . .</b>	<u>(79,992)</u>	<u>3,046,474</u>	<u>15,135,225</u>	<u>480,853</u>	<u>18,582,560</u>
<b>Fund balances at end of year. . . . .</b>	<u>\$ 675,700</u>	<u>\$ 3,084,096</u>	<u>\$ 6,069,419</u>	<u>\$ 538,021</u>	<u>\$ 10,367,236</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**Net change in fund balances - total governmental funds** \$ (8,215,324)

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

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

Capital asset additions	\$	18,102,674	
Current year depreciation		<u>(147,266)</u>	
 Total			 17,955,408

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (46,512)

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

Taxes		7,992	
Accounts		8,756	
Intergovernmental		(8,027,297)	
Accrued interest		<u>(1,222)</u>	
 Total			 (8,011,771)

Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 240,833

Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The following items resulted in additional interest being reported on the statement of activities:

Accreted interest on capital appreciation bonds		(15,617)	
Increase in accrued interest payable		<u>612</u>	
 Total			 (15,005)

Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (30,842)

**Change in net assets of governmental activities** \$ 1,876,787

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 2,629,885	\$ 2,596,655	\$ 2,600,016	\$ 3,361
Tuition . . . . .	630,560	622,592	633,476	10,884
Earnings on investments . . . . .	66,536	65,695	71,292	5,597
Classroom materials and fees . . . . .	39,885	39,381	39,517	136
Other local revenues . . . . .	37,651	37,175	38,560	1,385
Intergovernmental - State . . . . .	3,782,532	3,734,737	4,071,062	336,325
Total revenue . . . . .	<u>7,187,049</u>	<u>7,096,235</u>	<u>7,453,923</u>	<u>357,688</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	3,702,322	3,880,138	3,867,833	12,305
Special . . . . .	552,043	711,043	620,138	90,905
Vocational . . . . .	128,940	168,940	155,515	13,425
Support services:				
Pupil . . . . .	91,483	98,543	84,528	14,015
Instructional staff . . . . .	252,086	243,944	238,667	5,277
Board of education . . . . .	18,141	20,141	16,640	3,501
Administration . . . . .	482,566	508,345	501,659	6,686
Fiscal . . . . .	216,269	227,567	205,681	21,886
Operations and maintenance . . . . .	580,311	596,346	476,143	120,203
Pupil transportation . . . . .	526,056	622,850	478,905	143,945
Operation of non-instructional services . . . . .	20	20	-	20
Extracurricular activities . . . . .	158,482	168,482	166,224	2,258
Total expenditures . . . . .	<u>6,708,719</u>	<u>7,246,359</u>	<u>6,811,933</u>	<u>434,426</u>
Excess of revenues over (under) expenditures . . . . .	<u>478,330</u>	<u>(150,124)</u>	<u>641,990</u>	<u>(76,738)</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	36,488	36,027	37,775	1,748
Refund of prior year receipt . . . . .	(2,350)	(2,350)	-	2,350
Transfers (out) . . . . .	(52,000)	(65,000)	(65,000)	-
Advances in . . . . .	12,481	12,323	14,380	2,057
Total other financing sources (uses) . . . . .	<u>(5,381)</u>	<u>(19,000)</u>	<u>(12,845)</u>	<u>6,155</u>
Net change in fund balance . . . . .	472,949	(169,124)	629,145	(70,583)
<b>Fund balance at beginning of year . . . . .</b>	192,192	192,192	192,192	-
<b>Prior year encumbrances appropriated . . . . .</b>	49,639	49,639	49,639	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 714,780</u>	<u>\$ 72,707</u>	<u>\$ 870,976</u>	<u>\$ (70,583)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2007

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 117,271	\$ 35,998
Total assets. . . . .	117,271	\$ 35,998
<b>Liabilities:</b>		
Accounts payable. . . . .	-	\$ 2,421
Due to students . . . . .	-	33,577
Total liabilities . . . . .	-	\$ 35,998
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	117,271	
Total net assets . . . . .	\$ 117,271	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 5,423
Gifts and contributions. . . . .	17,484
	22,907
<b>Deductions:</b>	
Scholarships awarded . . . . .	11,640
	11,267
Change in net assets . . . . .	11,267
<b>Net assets at beginning of year. . . . .</b>	<b>106,004</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 117,271</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

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

The District was established in 1971. The District serves an area of approximately 154 square miles and is located in Seneca and Huron Counties. The District is the 450th largest in the State of Ohio among the 876 public and community school districts in terms of enrollment. It is staffed by 69 certified employees and 39 non-certified teaching personnel who provide services to 1,124 students and other community members. The District currently operates 2 elementary schools, an elementary/junior high school, a high school, and an administration building.

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

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

**A. Reporting Entity**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

*JOINTLY GOVERNED ORGANIZATIONS*

Northern Ohio Educational Computer Association (NOECA)

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

Vanguard-Sentinel Career Center

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

Bay Area Council

The Bay Area Council was established in 1986 to carry out a cooperative program for the purchase of natural gas among boards of education located in Erie, Huron, Ottawa, Sandusky, Seneca, and Wood Counties. The Bay Area Council is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member boards of education. The Bay Area Council is governed by a Board of Directors. This Board is elected by an Assembly consisting of a representative from each participating school district. The District paid \$64,434 to Bay Area Council during fiscal year 2005 for gas usage and related fees. Financial information can be obtained from the Erie County Educational Service Center, who serves as fiscal agent, 2902 Columbus Avenue, Sandusky, Ohio 44870.

Northwestern Ohio Educational Research Council, Incorporated

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

*RELATED ORGANIZATION*

Seneca East Public Library

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

*INSURANCE PURCHASING POOLS*

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

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

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

Building Fund - This fund is used to account for transactions associated with building construction and improvements.

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

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

**PROPRIETARY FUND**

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

**FIDUCIARY FUNDS**

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

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

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

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

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

**D. Basis of Accounting**

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

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

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

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

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



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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

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

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

**E. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2007 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Seneca County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final amended certificates issued for fiscal year 2007.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2007. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

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

**F. Cash and Investments**

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

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

During fiscal year 2007, investments were limited to federal securities, State Treasury Asset Reserve of Ohio (STAR Ohio), a U.S. Government money market, and an open-ended mutual fund. These investments are reported at fair market value, which is based on quoted market prices.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

The District has invested funds in STAR Ohio during fiscal year 2007. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2007.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund, capital projects fund and the private-purpose trust fund. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$72,863, which includes \$32,498 assigned from other funds.

The open-ended mutual fund is invested primarily in U.S. governmental obligations which are an allowable investment according to Ohio Statute. The District has been endowed with a gift of the Lincoln National variable annuity to its private-purpose trust fund. No public funds were used to acquire the annuity.

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

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

**G. Inventory**

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

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

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

**H. Capital Assets**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

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

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the statement of net assets. The District did not have any interfund loans receivable or payable at June 30, 2007.

**J. Compensated Absences**

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2007, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with ten or more years of service with the District were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

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

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

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

**L. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, debt service, textbooks and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**M. Net Assets**

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

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

**N. Prepayments**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

**O. Estimates**

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

**P. Interfund Activity**

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

Interfund activity between governmental funds is eliminated in the statement of activities.

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The District sold the Seneca Huron building during the current fiscal year. The gain on the sale of the building in the amount of \$34,659 is reported as a special item on the statement of activities.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Deficit Fund Balances**

Fund balances at June 30, 2007 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
EMIS	\$ 65
Ohio Reads Grant FY07	52
Title VI-B	31,332
Title I	16,396
Classroom Reduction Grant	6,323

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

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

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

**A. Cash on Hand**

At year-end, the District had \$2,420 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**B. Cash with Fiscal Agent**

At fiscal year-end, the District had \$497 in cash and cash equivalents held by the North Central Ohio Educational Service Center. This amount is included on the balance sheet as "Cash with Fiscal Agent". The North Central Ohio Educational Service Center holds this flow through grant money for the District together with that of other school districts and therefore the District cannot classify this money by risk under GASB Statement No. 3.

**C. Cash in Segregated Accounts**

At June 30, 2007, the District had \$297,919 on deposit in retainage accounts related to the Ohio School Facilities Construction Project. This amount is included on the financial statements as "cash in segregated accounts" and is included in deposits with financial institutions below.

**D. Deposits with Financial Institutions**

At June 30, 2007, the carrying amount of all District deposits was \$2,035,227. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$1,811,297 of the District's bank balance of \$2,141,627 was exposed to custodial risk as discussed below, while \$330,330 was covered by Federal Deposit Insurance Corporation.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

**E. Investments**

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
FHLB	\$ 5,959,420	\$ 5,959,420
FNMA Discount Note	975,900	975,900
U.S. Government Money Market	15,000	15,000
Open ended Mutual funds	4,249,255	4,249,255
STAR Ohio	<u>71,644</u>	<u>71,644</u>
	<u>\$ 11,271,219</u>	<u>\$ 11,271,219</u>

The weighted average maturity of investments is .48 years.

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

*Credit Risk:* The District's investments, except for STAR Ohio, were rated AAA and Aaa by Standard and Poor's and Moody's Investor Services respectively. Standard and Poor's has assigned STAR Ohio an AAAM money market rating.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 5,959,420	52.87
FNMA Discount Note	975,900	8.66
U.S. Government Money Market	15,000	0.13
Open ended Mutual funds	4,249,255	37.70
STAR Ohio	71,644	0.64
	<u>\$ 11,271,219</u>	<u>100.00</u>

**F. Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	\$ 2,035,227
Investments	11,271,219
Cash on hand	2,420
Cash with fiscal agent	497
Cash in segregated accounts	<u>297,919</u>
Total	<u>\$ 13,607,282</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 13,454,013
Private-purpose trust funds	117,271
Agency funds	<u>35,998</u>
Total	<u>\$ 13,607,282</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 65,000

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

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

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

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006 on the value as of December 31, 2006. For 2006, tangible personal property is assessed at 18.75% for property including inventory. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

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

The amount available as an advance at June 30, 2007 was \$103,396 in the general fund \$2,363 in the classroom facilities maintenance fund and \$39,309 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2006 was \$96,589 in the general fund, \$1,218 in the classroom facilities maintenance fund and \$20,203 in the permanent improvement fund.

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

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

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 78,828,060	88.12	80,319,260	89.40
Public utility personal	9,167,830	10.25	8,563,050	9.53
Tangible personal property	<u>1,459,669</u>	<u>1.63</u>	<u>964,190</u>	<u>1.07</u>
Total	<u>\$ 89,455,559</u>	<u>100.00</u>	<u>\$ 89,846,500</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 38.99		\$ 38.99	

**NOTE 7 - SCHOOL DISTRICT INCOME TAX**

The voters of the District passed a 1% school district income tax that was renewed at the November 7, 2005 election. This tax is effective for five years and expires on December 31, 2010. School district income tax revenue received by the general fund during fiscal year 2007 was \$896,397.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 8 - RECEIVABLES**

Receivables at June 30, 2007 consisted of property and income taxes, accounts, accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental Activities:**

Taxes	\$ 2,811,772
Accounts	5,787
Accrued interest	53,899
Intergovernmental	<u>2,487,332</u>
Total	<u>\$ 5,358,790</u>

Receivables have been disaggregated on the face of the basic financial statements. The intergovernmental receivable in the amount of \$2,471,727 reported in the Classroom Facilities fund is expected to be collected as the Ohio School Facilities Commission construction project is completed. All other receivables are expected to be collected within one year.

**NOTE 9 - CAPITAL ASSETS**

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

	<u>Balance 06/30/06</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 06/30/07</u>
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 75,706	\$ -	\$ -	\$ 75,706
Construction in progress	<u>2,567,893</u>	<u>18,048,674</u>	<u>-</u>	<u>20,616,567</u>
Total capital assets, not being depreciated	<u>2,643,599</u>	<u>18,048,674</u>	<u>-</u>	<u>20,692,273</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	27,500	-	-	27,500
Buildings and improvements	1,538,332	-	(209,856)	1,328,476
Furniture and equipment	1,120,537	-	(33,474)	1,087,063
Vehicles	<u>910,808</u>	<u>54,000</u>	<u>-</u>	<u>964,808</u>
Total capital assets, being depreciated	<u>3,597,177</u>	<u>54,000</u>	<u>(243,330)</u>	<u>3,407,847</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(18,342)	(785)	-	(19,127)
Buildings and improvements	(979,421)	(33,741)	164,413	(848,749)
Furniture and equipment	(788,633)	(81,908)	32,405	(838,136)
Vehicles	<u>(777,626)</u>	<u>(30,832)</u>	<u>-</u>	<u>(808,458)</u>
Total accumulated depreciation	<u>(2,564,022)</u>	<u>(147,266)</u>	<u>196,818</u>	<u>(2,514,470)</u>
Governmental activities capital assets, net	<u>\$ 3,676,754</u>	<u>\$ 17,955,408</u>	<u>\$ (46,512)</u>	<u>\$ 21,585,650</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 84,707
Special	1,558
Vocational	2,514
 <u>Support Services:</u>	
Instructional staff	1,750
Administration	5,468
Operations and Maintenance	3,446
Pupil transportation	33,211
Extracurricular	11,342
Food service operations	<u>3,270</u>
Total depreciation expense	<u>\$ 147,266</u>

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

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

Capital assets consisting of furniture and equipment have been capitalized in the amount of \$268,183. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2007 was \$136,260, leaving a current book value of \$131,923. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2007 fiscal year totaled \$20,833 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2007:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2008	\$ 19,612
2009	19,612
2010	<u>3,267</u>
Total minimum lease payments	42,491
Less amount representing interest	<u>(2,147)</u>
Total	<u>\$ 40,344</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 11 - LONG-TERM OBLIGATIONS**

- A. During fiscal year 2007, the following changes occurred in governmental activities long-term obligations:

	<u>Interest Rate</u>	<u>Balance at 06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 06/30/07</u>	<u>Amounts Due in One Year</u>
<b>Governmental Activities:</b>						
General obligation bonds	3.5-4.8%	\$ 11,853,643	\$ 15,617	\$ (220,000)	\$ 11,649,260	\$ 250,000
Capital lease		61,177	-	(20,833)	40,344	18,117
Compensated absences		<u>618,481</u>	<u>44,099</u>	<u>(56,920)</u>	<u>605,660</u>	<u>15,078</u>
Total governmental activities long-term liabilities		<u>\$ 12,533,301</u>	<u>\$ 59,716</u>	<u>\$ (297,753)</u>	<u>\$ 12,295,264</u>	<u>\$ 283,195</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid, which for the District is primarily the general fund.

- B. On November 1, 2005, the District issued general obligation bonds. The issuance proceeds of \$11,845,986 were issued to finance the District's portion of the Ohio Schools Facilities Project, and retired the \$9,000,000 in bond anticipation notes issued on May 3, 2005. The principal balance of the general obligation bonds at June 30, 2007 was \$11,649,260, including \$23,274 of accreted interest.

The issue is comprised of both current interest bonds, par value \$11,800,000, and capital appreciation bonds, par value \$45,986. The capital appreciation bonds mature between 2019 and December 1, 2021 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$1,335,000. Total accreted interest of \$23,274 has been included in the statement of activities.

The following is a schedule of activity for fiscal 2007 on the 2006 series refunding bonds:

	<u>Balance 06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 06/30/07</u>
Current interest bonds	\$ 11,800,000	\$ -	\$ (220,000)	\$ 11,580,000
Capital appreciation bonds	<u>53,643</u>	<u>15,617</u>	<u>-</u>	<u>69,260</u>
Total refunding bonds	<u>\$ 11,853,643</u>	<u>\$ 15,617</u>	<u>\$ (220,000)</u>	<u>\$ 11,649,260</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

The following is a summary of the future debt service requirements to maturity for the 2006 series refunding bonds:

Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 250,000	\$ 492,207	\$ 742,207	\$ -	\$ -	\$ -
2009	305,000	482,494	787,494	-	-	-
2010	315,000	471,644	786,644	-	-	-
2011	325,000	460,443	785,443	-	-	-
2012	340,000	448,806	788,806	-	-	-
2013 - 2017	1,905,000	2,026,105	3,931,105	-	-	-
2018 - 2022	870,000	1,734,630	2,604,630	45,986	1,289,014	1,335,000
2023-2027	2,545,000	1,359,790	3,904,790	-	-	-
2028-2032	3,175,000	718,766	3,893,766	-	-	-
2033-2034	1,550,000	71,101	1,621,101	-	-	-
Total	<u>\$ 11,580,000</u>	<u>\$ 8,265,986</u>	<u>\$ 19,845,986</u>	<u>\$ 45,986</u>	<u>\$ 1,289,014</u>	<u>\$ 1,335,000</u>

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a voted debt margin of \$7,834,562 (including available funds of \$166,293) and an unvoted debt margin of \$85,201.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 12 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the District contracted for the following insurance coverages:

Coverages provided by Indiana Insurance are as follows:

Buildings and contents - replacement cost (\$2,500 deductible)	\$14,472,155
Computer equipment (\$250 deductible)	443,003
Contractor's equipment (\$250 deductible)	20,000
Miscellaneous radio (\$250 deductible)	10,000
Musical instruments	100,000
Automobile liability	1,000,000
Uninsured motorists	100,000
Medical payments - per person	5,000
General liability	1,000,000 (per occurrence) 2,000,000 (aggregate)
Professional errors and omissions	1,000,000 (each loss) 1,000,000 (aggregate)
Sexual misconduct liability	1,000,000 (each loss) 1,000,000 (aggregate)
Employers stop gap liability	1,000,000 (each accident loss) 1,000,000 (each employee limit) 2,000,000 (aggregate)

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

**B. Health Insurance**

The District joined together with other area school districts to form the North Central Ohio Joint-Self Insurance Association (Note 2.A.), a public entity risk pool for seven member school districts. The risk of loss transfers entirely to the pool. The pool is self-sustaining through member premiums. The District paid a monthly premium to the pool for health insurance. The agreement for formation of the pool provided that it will be self-sustaining through member premiums and the pool will purchase stop-loss insurance policies through commercial companies to cover claims in excess of \$50,000 for any employee.

**C. Workers' Compensation Plan**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 12 - RISK MANAGEMENT - (Continued)**

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

**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. 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 (800) 878-5853, or by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$92,666, \$97,211, and \$105,250, respectively; 49.32% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$46,961 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

**B. State Teachers Retirement System**

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, or by calling (614) 227-4090, or by visiting the STRS Ohio website at [www.strs.org](http://www.strs.org).

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 13 - PENSION PLANS - (Continued)**

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions to the DB plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$455,512, \$460,505 and \$446,004, respectively; 83.83% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$73,654 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2007 were \$44 made by the District and \$5,672 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (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 funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$35,039 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$46,734 to fund health care benefits, including the surcharge.

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 projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

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

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

<b>Net Change in Fund Balance</b>	<u>General Fund</u>
Budget basis	\$ 629,145
Net adjustment for revenue accruals	41,478
Net adjustment for expenditure accruals	64,387
Net adjustment for other sources/uses	(52,155)
Adjustment for encumbrances	<u>72,837</u>
GAAP basis	<u>\$ 755,692</u>

**NOTE 16 - CONTINGENCIES**

**A. Grants**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 16 - CONTINGENCIES - (Continued)**

**B. Litigation**

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$39,875 per year. A portion of the refund may be recovered from additional State entitlement payments.

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

**NOTE 17 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2006	\$ 49,384	\$ -
Current year set-aside requirement	146,762	146,762
Carryover from prior years	-	(11,853,643)
Qualifying disbursements	<u>(175,012)</u>	<u>-</u>
Total	<u>\$ 21,134</u>	<u>\$ (11,706,881)</u>
Cash balance carried forward to FY 2008	<u>\$ 21,134</u>	<u>\$ (11,706,881)</u>

The District did not have enough qualifying disbursements to reduce the set-aside amount below zero for the textbooks/instructional materials due to budget cuts. Restricted cash fund balance and a reservation of fund balance has been established in the General fund of \$21,134.

The negative amount in capital acquisition reserves is being carried forward to reduce the set-aside requirement for future years, since it was spent using debt proceeds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 18 - CONTRACTUAL COMMITMENTS**

As of June 30, 2007, the District had the following contractual commitments outstanding related to the Construction Project described in Note 11.A. A summary of the primary contractual commitments follows:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Paid Through June 30, 2007</u>	<u>Remaining Contract Amount</u>
Bromack	\$ 2,398,000	\$ 1,283,310	\$ 1,114,690
Continental Office	166,821	-	166,821
Adena	10,123,000	7,159,708	2,963,292
Mark Haynes	1,388,000	1,342,936	45,064
Fanning Howey	1,563,256	1,422,563	140,693
Gilbane	1,075,351	954,041	121,310
M.J. Brown	1,351,000	1,094,364	256,636
Guenther	3,577,000	2,876,020	700,980
Vulcan	271,390	141,284	130,106
Alvada Construction	1,704,500	53,861	1,650,639
Data Cabling Systems	247,940	-	247,940
MT Business	405,000	-	405,000
C & T Design	442,380	120,310	322,070
Continental Office	585,779	-	585,779
Stone Creek Interior	897,300	18,676	878,624
Microman	217,992	-	217,992
Total	<u>\$ 13,726,888</u>	<u>\$ 8,024,055</u>	<u>\$ 5,702,833</u>

Rockefeller Building  
614 W Superior Ave Ste 1242  
Cleveland OH 44113-1306  
Office phone - (216) 575-1630  
Fax - (216) 436-2411

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

---

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

Seneca East Local School District  
Seneca County  
13343 East U.S. 224  
Attica, Ohio 44807

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Seneca East Local School District, Seneca County (District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

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

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

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



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

#### Compliance and Other Matters

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

We noted certain matters that we have reported to management of the District in a separate letter dated January 10, 2008.

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

***Charles E. Harris & Associates, Inc.***

January 10, 2008

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY  
JUNE 30, 2007**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

The prior audit report, for the year ending June 30, 2006, reported no material citations or recommendations.



**Mary Taylor, CPA**  
Auditor of State

**SENECA EAST LOCAL SCHOOL DISTRICT**

**SENECA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 13, 2008**