



Dave Yost • Auditor of State



**SOUTHEAST LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**TABLE OF CONTENTS**

| <b>TITLE</b>  | <b>PAGE</b> |
|---|-------------|
| Independent Accountants' Report.....  | 1           |
| Management's Discussion and Analysis.....   | 3           |
| Basic Financial Statements:   |             |
| Government-Wide Financial Statements:   |             |
| Statement of Net Assets.....  | 14          |
| Statement of Activities.....  | 15          |
| Fund Financial Statements:  |             |
| Balance Sheet   |             |
| Governmental Funds .....  | 16          |
| Reconciliation of Total Governmental Fund Balances to<br>Net Assets of Governmental Activities.....   | 17          |
| Statement of Revenues, Expenditures and Changes in Fund Balances<br>Governmental Funds .....  | 18          |
| Reconciliation of the Statement of Revenues, Expenditures and Changes<br>in Fund Balances of Governmental Funds to the Statement of Activities .....  | 19          |
| Statement of Revenues, Expenditures and Changes<br>in Fund Balance – Budget (Non-GAAP Basis) and Actual<br>General Fund.....  | 20          |
| Statement of Fund Net Assets – Internal Service Fund.....   | 21          |
| Statement of Revenues, Expenses and Changes<br>in Fund Net Assets – Internal Service Fund.....  | 22          |
| Statement of Cash Flows – Internal Service Fund.....  | 23          |
| Statement of Assets and Liabilities – Agency Fund .....   | 24          |
| Notes to the Basic Financial Statements .....   | 25          |
| Federal Awards Receipts and Expenditures Schedule.....  | 53          |
| Notes to the Federal Awards Receipts and Expenditures Schedule .....  | 54          |
| Independent Accountants' Report on Internal Control Over<br>Financial Reporting and on Compliance and Other Matters<br>Required by <i>Government Auditing Standards</i> .....               | 55          |
| Independent Accountants' Report on Compliance with Requirements<br>Applicable to Each Major Federal Program and on Internal Control Over<br>Compliance Required by OMB Circular A-133 ..... | 57          |
| Schedule of Findings.....   | 59          |
| Schedule of Prior Audit Findings.....   | 62          |
| Independent Accountants' Report on Applying Agreed-Upon Procedure .....   | 63          |

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Southeast Local School District, Wayne County, Ohio, (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Southeast Local School District, Wayne County, Ohio, as of June 30, 2011, and the respective changes in financial position and where applicable, cash flows, 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 March 13, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 the 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.

As further described Note 2 to the basic financial statements, the District restated its July 1, 2010 governmental fund balances due to changes in fund structure as result of implementing Governmental Accounting Standards Board (GASB) Statements 54.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Federal Awards of Receipts and Expenditures Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This Schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Dave Yost**  
Auditor of State

March 13, 2012

**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

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The discussion and analysis of Southeast Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance.

**Financial Highlights**

Key financial highlights for 2011 are as follows:

- Net assets of governmental activities increased \$331,188, which represents a 9.69 percent increase from 2010.
- For governmental activities, general revenues accounted for \$13.2 million in revenue or 76 percent of all revenues. Program specific revenues in the form of charges for services and operating grants, contributions and interest accounted for \$4.2 million or 24 percent of total revenues of \$17.4 million.
- The School District had \$17 million in expenses related to governmental activities; \$4.2 million of these expenses were offset by program specific charges for services and operating grants, contributions and interest. General revenues of \$13.2 million were adequate to provide for these programs.
- The general fund, the only major fund, had \$13.9 million in revenues and \$13.6 million in expenditures. The general fund's balance increased \$254,333 to \$8,192.

**Using this Annual Financial Report**

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

**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

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

**Reporting the School District as a Whole**

*Statement of Net Assets and the Statement of Activities*

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets and the statement of activities answer this question. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting, takes into account, all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the School District's activities are considered to be all Governmental Activities:

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

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

*Fund Financial Statements*

The analysis of the School District's major funds begins on page 10. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the general fund.



**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

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

**The School District as a Whole**

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2011 compared to 2010:

**Table 1**  
**Net Assets**

|   | Governmental Activities |              |
|---|-------------------------|--------------|
|   | 2011                    | 2010         |
| <b>Assets</b>                                   |                         |              |
| Current and other assets                        | \$ 10,130,154           | \$ 8,599,723 |
| Capital assets                                  | 3,607,169               | 3,558,833    |
| <i>Total assets</i>                             | 13,737,323              | 12,158,556   |
| <b>Liabilities</b>                              |                         |              |
| Current liabilities                             | 9,125,836               | 7,803,055    |
| Long-term liabilities                           | 863,892                 | 939,094      |
| <i>Total liabilities</i>                        | 9,989,728               | 8,742,149    |
| <b>Net Assets</b>                               |                         |              |
| Invested in capital assets, net of related debt | 3,505,195               | 3,402,496    |
| Restricted                                      | 827,788                 | 733,722      |
| Unrestricted                                    | (585,388)               | (719,811)    |
| <i>Total net assets</i>                         | \$ 3,747,595            | \$ 3,416,407 |

**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

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Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the School District's assets exceeded liabilities by \$3,747,595, an increase of \$331,188 from net assets at June 30, 2010. Capital assets reported on the government-wide statements represent the largest portion of the School District's net assets for fiscal year 2011. Capital assets include land, land improvements, buildings, furniture and equipment, and vehicles which are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net assets, \$827,788 represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted assets, \$563,867 is restricted for capital projects and \$263,921 is restricted for other purposes. Unrestricted net assets report a deficit of \$585,388.

**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

Table 2 reflects the changes in net assets for fiscal year 2011 compared to 2010:

**Table 2**  
**Changes in Net Assets**

|   | Governmental<br>Activites |                     |
|---|---------------------------|---------------------|
|   | 2011                      | 2010                |
| <b>Revenue:</b>                         |                           |                     |
| Program revenues:                       |                           |                     |
| Charges for services                    | \$ 1,052,708              | \$ 1,638,933        |
| Operating grants and contributions      | 3,129,598                 | 3,530,487           |
| General revenues:                       |                           |                     |
| Property taxes                          | 7,147,490                 | 6,151,596           |
| Grants and entitlements                 | 6,050,067                 | 6,083,526           |
| Investment earnings                     | 2,130                     | 14,536              |
| Miscellaneous                           | 19,197                    | 12,196              |
| Capital contributions                   | -                         | 358,712             |
| <b>Total Revenues</b>                   | <b>17,401,190</b>         | <b>17,789,986</b>   |
| <b>Expenses:</b>                        |                           |                     |
| Instructions:                           |                           |                     |
| Regular                                 | 6,340,175                 | 6,985,202           |
| Special                                 | 2,478,426                 | 2,985,293           |
| Vocational                              | 236,950                   | 358,119             |
| Student intervention services           | 9,856                     | 12,199              |
| Other                                   | 586,404                   | 431,040             |
| Support services:                       |                           |                     |
| Pupils                                  | 755,803                   | 833,642             |
| Instructional staff                     | 478,226                   | 457,676             |
| Board of education                      | 25,305                    | 33,245              |
| Administration                          | 1,846,781                 | 1,784,761           |
| Fiscal                                  | 380,006                   | 336,168             |
| Operation and maintenance of plant      | 1,153,761                 | 1,191,071           |
| Pupil transportation                    | 1,322,400                 | 1,215,166           |
| Central                                 | 183,221                   | 254,592             |
| Operation of non-instructional services | 838,284                   | 772,362             |
| Extracurricular activities              | 427,934                   | 477,761             |
| Interest and fiscal charges             | 6,470                     | 9,150               |
| <b>Total Expenses</b>                   | <b>17,070,002</b>         | <b>18,137,447</b>   |
| Changes in net assets                   | 331,188                   | (347,461)           |
| Net assets beginning of year            | 3,416,407                 | 3,763,868           |
| Net assets end of year                  | <b>\$ 3,747,595</b>       | <b>\$ 3,416,407</b> |

**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

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**Governmental Activities**

Several revenue sources fund our governmental activities with property tax and school foundation revenues being the largest contributors. Property tax levies generated over \$7.1 million in 2011. General revenues from grants and entitlements, such as the school foundation program, generated over \$6.0 million. With the combination of taxes and intergovernmental funding comprising approximately 75.8% of all revenues, the School District monitors both of these revenue sources very closely for fluctuations.

Instructional expenses of the School District include activities directly related to the teaching of pupils as well as the interaction between teacher and pupil and the purchase of textbooks and instructional supplies and materials. These expenses totaled \$9,651,811, or 56.5% of the total program expenses of the School District. Expenses of these School District programs decreased \$1,120,042 from the prior year mainly due to decreased spending for regular and special instruction.

Support services expenses for the pupils and instruction staff programs totaled \$1,234,029, or 7.2% of the total program expenses of the School District. These expenses include library, guidance, speech and hearing, and psychological services.

Board of education, administration and fiscal classifications reflect expenses associated with establishing and administering school operation policies, financial operations and activities concerned with purchasing, receiving and maintaining goods and services for the School District. Current year expenses were \$2,252,092, which represents 13.2% of the total program expenses. Expenses of these School District programs increased \$97,918 from the prior year mainly due to increases in staff.

Costs associated with the operation and maintenance of plant represent those expenses necessary for the care and upkeep of School District's buildings, grounds and equipment. Current year expenses of \$1,153,761 made up 6.8% of all governmental expenses.

**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

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

**Table 3**  
**Governmental Activities**

|                                      | Total Cost<br>of Services<br><u>2011</u> | Total Cost<br>of Services<br><u>2010</u> | Net Cost<br>of Services<br><u>2011</u> | Net Cost<br>of Services<br><u>2010</u> |
|--------------------------------------|--|--|--|--|
| Program Expenses                     |  |  |  |  |
| Instruction:                         |  |  |  |  |
| Regular                              | \$ 6,340,175                             | \$ 6,985,202                             | \$ (5,681,283)                         | \$ (6,239,139)                         |
| Special                              | 2,478,426                                | 2,985,293                                | (985,120)                              | (796,367)                              |
| Vocational                           | 236,950                                  | 358,119                                  | (236,950)                              | (358,119)                              |
| Student intervention services        | 9,856                                    | 12,199                                   | (9,856)                                | (12,199)                               |
| Other                                | 586,404                                  | 431,040                                  | (586,404)                              | (423,647)                              |
| Support services:                    |  |  |  |  |
| Pupils                               | 755,803                                  | 833,642                                  | (381,554)                              | (312,521)                              |
| Instructional staff                  | 478,226                                  | 457,676                                  | (318,663)                              | (333,598)                              |
| Board of education                   | 25,305                                   | 33,245                                   | (25,305)                               | (33,245)                               |
| Administration                       | 1,846,781                                | 1,784,761                                | (1,749,854)                            | (1,609,920)                            |
| Fiscal                               | 380,006                                  | 336,168                                  | (380,006)                              | (336,168)                              |
| Operation and maintenance of plant   | 1,153,761                                | 1,191,071                                | (901,660)                              | (1,030,480)                            |
| Pupil transportation                 | 1,322,400                                | 1,215,166                                | (1,293,721)                            | (1,115,394)                            |
| Central                              | 183,221                                  | 254,592                                  | (71,001)                               | (66,552)                               |
| Operation non-instructional services | 838,284                                  | 772,362                                  | (17,542)                               | 21,332                                 |
| Extracurricular activities           | 427,934                                  | 477,761                                  | (242,307)                              | (312,860)                              |
| Interest and fiscal charges          | 6,470                                    | 9,150                                    | (6,470)                                | (9,150)                                |
| Total                                | <u>\$ 17,070,002</u>                     | <u>\$ 18,137,447</u>                     | <u>\$ (12,887,696)</u>                 | <u>\$ (12,968,027)</u>                 |

The School District depends on both property taxes and State funding which fund approximately 77.3% of the program expenses of the School District.

**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

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**The School District's Funds**

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The total revenues for governmental funds were \$17,502,875, and total expenditures were \$17,189,287. Table 4 shows fiscal year 2011 balances compared to fiscal year 2010.

**Table 4**  
**Fund Balances**

|                    | Fund Balance<br>June 30, 2011 | Restated<br>Fund Balance<br>June 30, 2010 | Increase/<br>(Decrease) | Percent<br>Change |
|--------------------|-------------------------------|---|-------------------------|-------------------|
| General            | \$ 8,192                      | \$ (246,141)                              | \$ 254,333              | (103.33)          |
| Other governmental | <u>752,664</u>                | <u>693,409</u>                            | <u>59,255</u>           | <u>8.55</u>       |
| Total              | <u>\$ 760,856</u>             | <u>\$ 447,268</u>                         | <u>\$ 313,588</u>       | <u>(94.78)</u>    |

**General Fund**

The general fund is reporting a fund balance of \$8,192, an increase of \$254,333 from 2010. This increase in fund balance can be attributed to an increase in property taxes from the prior year and revenues exceeding expenditures in the current fiscal year. Table 5 assists in illustrating the financial activities of the general fund.

**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

**Table 5**  
**General Fund Changes in Revenues and Expenditures**

|   | <u>2011</u><br><u>Amount</u> | <u>2010</u><br><u>Amount</u> | <u>Increase</u><br><u>(Decrease)</u> | <u>Percent</u><br><u>Change</u> |
|---|------------------------------|------------------------------|--------------------------------------|---------------------------------|
| <u>Revenues:</u>                        |                              |                              |                                      |                                 |
| Taxes                                   | \$ 6,931,054                 | \$ 5,825,673                 | \$ 1,105,381                         | 18.97                           |
| Intergovernmental                       | 6,004,733                    | 6,051,317                    | (46,584)                             | (0.77)                          |
| Interest                                | 1,960                        | 14,352                       | (12,392)                             | (86.34)                         |
| Tuition and fees                        | 750,772                      | 911,847                      | (161,075)                            | (17.66)                         |
| Extracurricular activities              | 90,719                       | 525                          | 90,194                               | 171.80                          |
| Gifts and donations                     | 26,687                       | -                            | 26,687                               | -                               |
| Rent                                    | 5,705                        | 4,340                        | 1,365                                | 31.45                           |
| Miscellaneous                           | 101,060                      | 12,195                       | 88,865                               | 728.70                          |
| Total revenues                          | <u>13,912,690</u>            | <u>12,820,249</u>            | <u>1,092,441</u>                     |                                 |
| <u>Expenditures:</u>                    |                              |                              |                                      |                                 |
| <u>Current:</u>                         |                              |                              |                                      |                                 |
| <u>Instruction:</u>                     |                              |                              |                                      |                                 |
| Regular                                 | 6,295,668                    | 6,804,592                    | (508,924)                            | (7.48)                          |
| Special                                 | 1,106,298                    | 996,884                      | 109,414                              | 10.98                           |
| Vocational                              | 244,474                      | 333,608                      | (89,134)                             | (26.72)                         |
| Student intervention services           | 9,856                        | 12,199                       | (2,343)                              | (19.21)                         |
| Other                                   | 586,404                      | 431,040                      | 155,364                              | 36.04                           |
| <u>Support services:</u>                |                              |                              |                                      |                                 |
| Pupils                                  | 555,117                      | 313,815                      | 241,302                              | 76.89                           |
| Instructional staff                     | 300,191                      | 312,942                      | (12,751)                             | (4.07)                          |
| Board of education                      | 25,305                       | 33,245                       | (7,940)                              | (23.88)                         |
| Administration                          | 1,731,578                    | 1,586,992                    | 144,586                              | 9.11                            |
| Fiscal                                  | 375,188                      | 329,180                      | 46,008                               | 13.98                           |
| Operation and maintenance of plant      | 864,143                      | 949,573                      | (85,430)                             | (9.00)                          |
| Pupil transportation                    | 1,121,037                    | 1,031,651                    | 89,386                               | 8.66                            |
| Central                                 | 98,441                       | 66,846                       | 31,595                               | 47.27                           |
| Operation of non-instructional services | 49                           | -                            | 49                                   | -                               |
| Extracurricular                         | 279,995                      | 298,365                      | (18,370)                             | (6.16)                          |
| Capital outlay                          | 3,600                        | -                            | 3,600                                | -                               |
| <u>Debt service:</u>                    |                              |                              |                                      |                                 |
| Principal retirement                    | 54,363                       | 51,692                       | 2,671                                | 5.17                            |
| Interest and fiscal charges             | 6,650                        | 9,322                        | (2,672)                              | (28.66)                         |
| Total expenditures                      | <u>\$ 13,658,357</u>         | <u>\$ 13,561,946</u>         | <u>\$ 96,411</u>                     |                                 |

**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

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**General Fund Budgeting Highlights**

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

During fiscal year 2011, the School District amended its appropriation budget several times, however none were significant. Budget revisions are presented to the Board of Education for approval.

For the general fund, the final budget basis revenue estimate was \$12,349,412 which was \$715,188 less than the original budget. Actual receipts of \$13,670,525 were \$1,321,113 higher than the final budget basis estimate. This is due to an increase in property taxes received during the year.

The general fund's original expenditures estimate equaled \$13,647,612. No significant expenditure budget revisions were posted to any specific account during the year. Actual expenditures and other financing uses total \$13,683,752, or \$5,540 less than the final amount budgeted.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2011, the School District had \$3,607,169 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 6 shows fiscal year 2011 balances compared to fiscal year 2010:

**Table 6**  
**Capital Assets (Net of Depreciation)**

|                            | Governmental Activities |              |
|----------------------------|-------------------------|--------------|
|                            | 2011                    | 2010         |
| Land                       | \$ 588,680              | \$ 588,680   |
| Land improvements          | 28,700                  | 40,311       |
| Buildings and improvements | 1,762,263               | 1,782,599    |
| Furniture and equipment    | 605,306                 | 564,273      |
| Vehicles                   | 622,220                 | 582,970      |
| Total capital assets       | \$ 3,607,169            | \$ 3,558,833 |

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



**Southeast Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

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*Debt Administration*

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

At June 30, 2011 the School District had \$101,974 of debt outstanding with \$57,164 due within one year. See Note 11 to the basic financial statement for detail. Table 7 summarizes the outstanding debt.

**Table 7**  
**Outstanding Debt, at Fiscal Year End**

|                          | <u>Governmental Activities</u> |             |
|--------------------------|--------------------------------|-------------|
|                          | <u>2011</u>                    | <u>2010</u> |
| General Obligation Notes | \$ 101,974                     | \$ 156,337  |

**Current Issues Affecting Financial Condition**

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

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

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

**Contacting the School District's Financial Management**

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

**Southeast Local School District**  
**Statement of Net Assets**  
**June 30, 2011**

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <u>Assets:</u>                                  |                                    |
| Equity in pooled cash and cash equivalents      | \$ 2,207,228                       |
| Receivables:                                    |                                    |
| Taxes   | 7,600,348                          |
| Accounts  | 21,443                             |
| Intergovernmental                               | 110,998                            |
| Prepaid items                                   | 181,637                            |
| Inventory held for resale                       | 5,444                              |
| Materials and supplies inventory                | 3,056                              |
| Capital assets:                                 |                                    |
| Non-depreciable capital assets                  | 588,680                            |
| Depreciable capital assets, net                 | <u>3,018,489</u>                   |
| Total assets                                    | <u>13,737,323</u>                  |
| <u>Liabilities:</u>                             |                                    |
| Accounts payable                                | 18,516                             |
| Accrued wages                                   | 1,648,709                          |
| Intergovernmental payable                       | 450,543                            |
| Deferred revenue                                | 6,999,174                          |
| Accrued interest payable                        | 339                                |
| Claims payable                                  | 8,555                              |
| Long-term liabilities:                          |                                    |
| Due within one year                             | 247,312                            |
| Due in more than one year                       | <u>616,580</u>                     |
| Total liabilities                               | <u>9,989,728</u>                   |
| <u>Net assets:</u>                              |                                    |
| Invested in capital assets, net of related debt | 3,505,195                          |
| Restricted for:                                 |                                    |
| Capital projects                                | 563,867                            |
| Other purposes                                  | 263,921                            |
| Unrestricted                                    | <u>(585,388)</u>                   |
| Total net assets                                | <u>\$ 3,747,595</u>                |

See accompanying notes to the basic financial statements.

**Southeast Local School District**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2011**

|   | Expenses             | Program Revenues     |  | Net (Expense)                    |
|---|----------------------|----------------------|--|----------------------------------|
|   |                      | Charges for Services | Operating Grants, Contributions and Interest | Revenue and Change in Net Assets |
|   |                      |                      |  | Governmental Activities          |
| <u>Governmental Activities:</u>         |                      |                      |  |                                  |
| Instruction:                            |                      |                      |  |                                  |
| Regular                                 | \$ 6,340,175         | \$ 601,008           | \$ 57,884                                    | \$ (5,681,283)                   |
| Special                                 | 2,478,426            | -                    | 1,493,306                                    | (985,120)                        |
| Vocational                              | 236,950              | -                    | -  | (236,950)                        |
| Student intervention services           | 9,856                | -                    | -  | (9,856)                          |
| Other                                   | 586,404              | -                    | -  | (586,404)                        |
| Support services:                       |                      |                      |  |                                  |
| Pupils                                  | 755,803              | 53,044               | 321,205                                      | (381,554)                        |
| Instructional staff                     | 478,226              | -                    | 159,563                                      | (318,663)                        |
| Board of education                      | 25,305               | -                    | -  | (25,305)                         |
| Administration                          | 1,846,781            | -                    | 96,927                                       | (1,749,854)                      |
| Fiscal                                  | 380,006              | -                    | -  | (380,006)                        |
| Operation and maintenance of plant      | 1,153,761            | 5,705                | 246,396                                      | (901,660)                        |
| Pupil transportation                    | 1,322,400            | -                    | 28,679                                       | (1,293,721)                      |
| Central                                 | 183,221              | -                    | 112,220                                      | (71,001)                         |
| Operation of non-instructional services | 838,284              | 298,331              | 522,411                                      | (17,542)                         |
| Extracurricular activities              | 427,934              | 94,620               | 91,007                                       | (242,307)                        |
| Interest and fiscal charges             | 6,470                | -                    | -  | (6,470)                          |
| Total governmental activities           | <u>\$ 17,070,002</u> | <u>\$ 1,052,708</u>  | <u>\$ 3,129,598</u>                          | <u>(12,887,696)</u>              |

General Revenues:

|   |                     |
|---|---------------------|
| Property taxes levied for:                                  |                     |
| General purposes  | 6,876,104           |
| Capital projects  | 271,386             |
| Grants and entitlements not restricted to specific programs | 6,050,067           |
| Investment earnings   | 2,130               |
| Miscellaneous   | 19,197              |
| Total general revenues                                      | <u>13,218,884</u>   |
| Change in net assets  | 331,188             |
| Net assets beginning of year                                | <u>3,416,407</u>    |
| Net assets end of year                                      | <u>\$ 3,747,595</u> |

See accompanying notes to the basic financial statements.

**Southeast Local School District**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**

|  | General             | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|--------------------------------|--------------------------------|
| <u>Assets:</u>                             |                     |                                |                                |
| Equity in pooled cash and cash equivalents | \$ 1,385,814        | \$ 820,476                     | \$ 2,206,290                   |
| <u>Receivables:</u>                        |                     |                                |                                |
| Taxes                                      | 7,329,443           | 270,905                        | 7,600,348                      |
| Accounts                                   | 21,443              | -                              | 21,443                         |
| Intergovernmental                          | 3,521               | 107,477                        | 110,998                        |
| Interfund                                  | 31,015              | -                              | 31,015                         |
| Inventory held for resale                  | -                   | 5,444                          | 5,444                          |
| Materials and supplies inventory           | -                   | 3,056                          | 3,056                          |
| Prepaid items                              | 175,860             | 5,777                          | 181,637                        |
| Total assets                               | <u>\$ 8,947,096</u> | <u>\$ 1,213,135</u>            | <u>\$ 10,160,231</u>           |
| <u>Liabilities:</u>                        |                     |                                |                                |
| Accounts payable                           | \$ 10,212           | \$ 8,304                       | \$ 18,516                      |
| Accrued wages                              | 1,616,557           | 32,152                         | 1,648,709                      |
| Interfund payable                          | -                   | 31,015                         | 31,015                         |
| Intergovernmental payable                  | 424,047             | 26,496                         | 450,543                        |
| Deferred revenue                           | 6,888,088           | 362,504                        | 7,250,592                      |
| Total liabilities                          | <u>8,938,904</u>    | <u>460,471</u>                 | <u>9,399,375</u>               |
| <u>Fund balances:</u>                      |                     |                                |                                |
| Nonspendable                               | 175,860             | 14,277                         | 190,137                        |
| Restricted                                 | -                   | 773,290                        | 773,290                        |
| Unassigned                                 | (167,668)           | (34,903)                       | (202,571)                      |
| Total fund balances                        | <u>8,192</u>        | <u>752,664</u>                 | <u>760,856</u>                 |
| Total liabilities and fund balances        | <u>\$ 8,947,096</u> | <u>\$ 1,213,135</u>            | <u>\$ 10,160,231</u>           |

See accompanying notes to the basic financial statements.

**Southeast Local School District**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Assets of Governmental Activities**  
**June 30, 2011**

|  |                  |                     |
|--|------------------|---------------------|
| Total governmental fund balances   |                  | \$ 760,856          |
| Amounts reported for governmental activities in the statement of net assets are different because:   |                  |                     |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.  |                  | 3,607,169           |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:   |                  |                     |
| Property taxes   | \$ 143,941       |                     |
| Intergovernmental  | 107,477          |                     |
| Total  | <u>251,418</u>   | 251,418             |
| An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets. |                  | (7,617)             |
| In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due.   |                  | (339)               |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:   |                  |                     |
| General obligation notes   | \$ (101,974)     |                     |
| Compensated absences   | (761,918)        |                     |
| Total  | <u>(863,892)</u> | <u>(863,892)</u>    |
| Net assets of governmental activities  |                  | <u>\$ 3,747,595</u> |

See accompanying notes to the basic financial statements.

**Southeast Local School District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2011**

|   | General           | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|-------------------|--------------------------------|--------------------------------|
| <u>Revenues:</u>                          |                   |                                |                                |
| Taxes                                     | \$ 6,931,054      | \$ 275,834                     | \$ 7,206,888                   |
| Intergovernmental                         | 6,004,733         | 2,851,160                      | 8,855,893                      |
| Interest                                  | 1,960             | 702                            | 2,662                          |
| Tuition and fees                          | 750,772           | -                              | 750,772                        |
| Extracurricular activities                | 90,719            | 56,945                         | 147,664                        |
| Gifts and donations                       | 26,687            | 8,166                          | 34,853                         |
| Charges for services                      | -                 | 298,331                        | 298,331                        |
| Rent                                      | 5,705             | -                              | 5,705                          |
| Miscellaneous                             | 101,060           | 99,047                         | 200,107                        |
| Total revenues                            | <u>13,912,690</u> | <u>3,590,185</u>               | <u>17,502,875</u>              |
| <u>Expenditures:</u>                      |                   |                                |                                |
| Current:                                  |                   |                                |                                |
| Instruction:                              |                   |                                |                                |
| Regular                                   | 6,295,668         | 16,996                         | 6,312,664                      |
| Special                                   | 1,106,298         | 1,375,189                      | 2,481,487                      |
| Vocational                                | 244,474           | -                              | 244,474                        |
| Student intervention services             | 9,856             | -                              | 9,856                          |
| Other                                     | 586,404           | -                              | 586,404                        |
| Support services:                         |                   |                                |                                |
| Pupils                                    | 555,117           | 207,184                        | 762,301                        |
| Instructional staff                       | 300,191           | 161,405                        | 461,596                        |
| Board of education                        | 25,305            | -                              | 25,305                         |
| Administration                            | 1,731,578         | 89,525                         | 1,821,103                      |
| Fiscal                                    | 375,188           | 5,932                          | 381,120                        |
| Operation and maintenance of plant        | 864,143           | 258,530                        | 1,122,673                      |
| Pupil transportation                      | 1,121,037         | 28,679                         | 1,149,716                      |
| Central                                   | 98,441            | 82,214                         | 180,655                        |
| Operation of non-instructional services   | 49                | 801,194                        | 801,243                        |
| Extracurricular                           | 279,995           | 136,238                        | 416,233                        |
| Capital outlay                            | 3,600             | 367,844                        | 371,444                        |
| Debt service:                             |                   |                                |                                |
| Principal retirement                      | 54,363            | -                              | 54,363                         |
| Interest and fiscal charges               | 6,650             | -                              | 6,650                          |
| Total expenditures                        | <u>13,658,357</u> | <u>3,530,930</u>               | <u>17,189,287</u>              |
| Net change in fund balances               | 254,333           | 59,255                         | 313,588                        |
| Fund balances beginning of year, restated | (246,141)         | 693,409                        | 447,268                        |
| Fund balances end of year                 | <u>\$ 8,192</u>   | <u>\$ 752,664</u>              | <u>\$ 760,856</u>              |

See accompanying notes to the basic financial statements.

**Southeast Local School District**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2011**

Net change in fund balances - total governmental funds \$ 313,588

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

|  |            |        |
|--|------------|--------|
| Net capital asset additions                            | \$ 371,444 |        |
| Depreciation expense                                   | (323,108)  |        |
| Excess of net capital outlay over depreciation expense |            | 48,336 |

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

|   |             |           |
|---|-------------|-----------|
| Property taxes                                  | \$ (59,398) |           |
| Intergovernmental                               | 107,477     |           |
| Tuition and fees                                | (149,764)   |           |
| Net change in deferred revenues during the year |             | (101,685) |

Repayments of debt are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets. 54,363

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

|                                  |           |        |
|----------------------------------|-----------|--------|
| Decrease in compensated absences | \$ 20,839 |        |
| Decrease in accrued interest     | 180       |        |
| Total additional expenses        |           | 21,019 |

The internal service fund used by management to charge the costs of dental claims to individual funds is not reported in the statement of activities. The net revenue (expense) of the internal service fund is reported in the government-wide statements. (4,433)

Change in net assets of governmental activities \$ 331,188

See accompanying notes to the basic financial statements.

**Southeast Local School District**  
**Statement of Revenues, Expenditures and Changes in Fund Balance-**  
**Budget (Non-GAAP Basis) and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2011**

|  | Original<br>Budget | Final<br>Budget    | Actual              | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|--------------------|--------------------|---------------------|---|
| <u>Revenues:</u>                             |                    |                    |                     |   |
| Taxes  | \$ 5,879,722       | \$ 5,634,543       | \$ 6,867,985        | \$ 1,233,442  |
| Intergovernmental                            | 6,217,457          | 5,936,022          | 6,001,212           | 65,190  |
| Interest                                     | 2,817              | 2,800              | 2,120               | (680)   |
| Tuition and fees                             | 910,977            | 736,947            | 736,947             | -   |
| Extracurricular activities                   | 20,000             | 20,000             | 37,675              | 17,675  |
| Rent   | 4,340              | 4,100              | 5,705               | 1,605   |
| Miscellaneous                                | 10,059             | 15,000             | 18,797              | 3,797   |
| Total revenues                               | <u>13,045,372</u>  | <u>12,349,412</u>  | <u>13,670,441</u>   | <u>1,321,029</u>  |
| <u>Expenditures:</u>                         |                    |                    |                     |   |
| Current:                                     |                    |                    |                     |   |
| Instruction:                                 |                    |                    |                     |   |
| Regular                                      | 6,465,858          | 6,485,139          | 6,485,140           | (1)   |
| Special                                      | 1,082,350          | 1,082,350          | 1,098,972           | (16,622)  |
| Vocational                                   | 263,682            | 261,800            | 258,095             | 3,705   |
| Student intervention services                | 31,200             | 31,200             | 9,943               | 21,257  |
| Other  | 490,000            | 490,000            | 628,196             | (138,196)   |
| Support services:                            |                    |                    |                     |   |
| Pupils                                       | 357,700            | 357,700            | 385,591             | (27,891)  |
| Instructional staff                          | 349,882            | 349,882            | 307,160             | 42,722  |
| Board of education                           | 34,300             | 34,300             | 25,855              | 8,445   |
| Administration                               | 1,661,850          | 1,661,850          | 1,691,131           | (29,281)  |
| Fiscal                                       | 346,275            | 370,170            | 382,612             | (12,442)  |
| Operation and maintenance of plant           | 1,028,146          | 1,028,146          | 859,816             | 168,330   |
| Pupil transportation                         | 1,055,800          | 1,055,800          | 1,085,549           | (29,749)  |
| Central                                      | 119,900            | 119,900            | 88,746              | 31,154  |
| Extracurricular activities                   | 299,655            | 299,655            | 284,918             | 14,737  |
| Debt service:                                |                    |                    |                     |   |
| Principal retirement                         | 51,658             | 54,400             | 54,363              | 37  |
| Interest and fiscal charges                  | 9,356              | 7,000              | 6,650               | 350   |
| Total expenditures                           | <u>13,647,612</u>  | <u>13,689,292</u>  | <u>13,652,737</u>   | <u>36,555</u>   |
| Excess of revenues over (under) expenditures | <u>(602,240)</u>   | <u>(1,339,880)</u> | <u>17,704</u>       | <u>1,357,584</u>  |
| <u>Other financing sources (uses):</u>       |                    |                    |                     |   |
| Refund of prior year expenditures            | 19,228             | -                  | 84                  | 84  |
| Advances out                                 | -                  | -                  | (31,015)            | (31,015)  |
| Total other financing sources (uses)         | <u>19,228</u>      | <u>-</u>           | <u>(30,931)</u>     | <u>(30,931)</u>   |
| Net change in fund balance                   | (583,012)          | (1,339,880)        | (13,227)            | 1,326,653   |
| Fund balance at beginning of year            | 1,335,710          | 1,335,710          | 1,335,710           | -   |
| Prior year encumbrances appropriated         | 5,643              | 5,643              | 5,643               | -   |
| Fund balance at end of year                  | <u>\$ 758,341</u>  | <u>\$ 1,473</u>    | <u>\$ 1,328,126</u> | <u>\$ 1,326,653</u>                                     |

See accompanying notes to the basic financial statements.



**Southeast Local School District**  
**Statement of Fund Net Assets**  
**Internal Service Fund**  
**For the Fiscal Year Ended June 30, 2011**

|  | <u>Self<br/>Insurance</u> |
|--|---------------------------|
| <u>Assets:</u>                             |                           |
| Equity in pooled cash and cash equivalents | <u>\$ 938</u>             |
| <br>                                       |                           |
| <u>Liabilities:</u>                        |                           |
| Claims payable                             | <u>\$ 8,555</u>           |
| <br>                                       |                           |
| <u>Net assets:</u>                         |                           |
| Unrestricted                               | <u>(7,617)</u>            |
| Total liabilities and net assets           | <u><u>\$ 938</u></u>      |

See accompanying notes to the basic financial statements.

**Southeast Local School District**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Internal Service Fund**  
**For the Fiscal Year Ended June 30, 2011**

|                              | Self<br>Insurance        |
|------------------------------|--------------------------|
| <u>Operating revenues:</u>   |                          |
| Charges for services         | <u>\$ 158,967</u>        |
| <u>Operating expenses:</u>   |                          |
| Purchased services           | 9,805                    |
| Claims                       | <u>153,595</u>           |
| Total operating expenses     | <u>163,400</u>           |
| Change in net assets         | (4,433)                  |
| Net assets beginning of year | <u>(3,184)</u>           |
| Net assets end of year       | <u><u>\$ (7,617)</u></u> |

See accompanying notes to the basic financial statements.

**Southeast Local School District**  
**Statement of Cash Flows**  
**Internal Service Fund**  
**For the Fiscal Year Ended June 30, 2011**

|   | Self<br>Insurance |
|---|-------------------|
| <u>Cash flows from operating activities:</u>  |                   |
| Cash received from interfund services provided  | \$ 158,967        |
| Cash payments to suppliers for goods and services                                     | (9,805)           |
| Cash payments for claims  | <u>(156,803)</u>  |
| Net cash used for operating activities  | <u>(7,641)</u>    |
| Net decrease in cash and cash equivalents   | (7,641)           |
| Cash and cash equivalents at beginning of year  | <u>8,579</u>      |
| Cash and cash equivalents at end of year  | <u>\$ 938</u>     |
| Reconciliation of operating loss to net cash<br>used for operating activities:        |                   |
| Operating loss  | <u>\$ (4,433)</u> |
| Adjustments to reconcile operating loss to net<br>cash used for operating activities: |                   |
| Decrease in liabilities:  |                   |
| Claims payable  | <u>(3,208)</u>    |
| Net cash used for operating activities  | <u>\$ (7,641)</u> |

See accompanying notes to the basic financial statements.

**Southeast Local School District**  
**Statement of Assets and Liabilities**  
**Agency Fund**  
**June 30, 2011**

|  | <u>Agency</u>    |
|--|------------------|
| <u>Assets:</u>                             |                  |
| Equity in pooled cash and cash equivalents | <u>\$ 22,438</u> |
| <br>                                       |                  |
| <u>Liabilities:</u>                        |                  |
| Due to students                            | <u>\$ 22,438</u> |

See accompanying notes to the basic financial statements.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 1 – Summary of Significant Accounting Policies**

A. Description of the School District

The Southeast Local School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is governed by a five-member Board of Education (the Board) elected by its citizens and is responsible for the provision of public education to residents of the School District. The board oversees the operations of the School District's six instructional and support facilities. Average daily membership was 1,552. The School District employed 114 certified and 115 non-certified employees.

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

B. Reporting Entity

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

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

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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The School District participates in one joint venture with the Midland Council of Governments (COG). Also the School District is associated with three jointly governed organizations the Wayne County Career Center, Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) and the Tri-County Computer Service Association (TCCSA). These organizations are discussed in Notes 12 and 13 to the basic financial statements.

C. Basis of Presentation

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

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

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

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

D. Fund Accounting

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

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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

**General Fund**

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

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

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

**Internal Service Fund**

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

**Fiduciary Fund Type** 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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are agency funds. The School District's agency funds are for student activities.

**E. Measurement Focus**

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

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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

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

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

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use a modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Difference in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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



**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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

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

**Deferred Revenue** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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**F. Budgets and Budgetary Accounting**

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

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

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

**G. Cash and Investments**

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

During fiscal year 2011, the School District's investments were limited to a government sponsored securities and STAR Ohio, an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes.

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

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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H. Inventory

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

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure is reported in the year in which services are consumed.

J. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future, in accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The entire compensated absence liability is reported on the government-wide financial statements.

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

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

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

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

**M. Fund Balance**

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

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

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

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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

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

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

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

#### N. Estimates

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

#### O. Net 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 School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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P. Operating Revenues and Expenses

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

**Note 2 – Change in Accounting Principles and Restatement of Fund Balances**

A. Change in accounting principles

For the fiscal year 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.”

B. Restatement of prior year’s fund balance

The implementation of GASB Statement No. 54 had the following effect on fund balances of the major and nonmajor funds as they were previously reported.

|  | <u>General</u>      | Other<br>Governmental<br><u>Funds</u> | <u>Total</u>      |
|--|---------------------|---------------------------------------|-------------------|
| Fund balance at<br>June 30, 2010         | \$ (288,058)        | \$ 735,326                            | \$ 447,268        |
| Change in fund structure                 | <u>41,917</u>       | <u>(41,917)</u>                       | <u>-</u>          |
| Adjusted fund balance<br>at July 1, 2010 | <u>\$ (246,141)</u> | <u>\$ 693,409</u>                     | <u>\$ 447,268</u> |

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2011

**Note 3 – Fund Balances**

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

| Fund Balances                    | <u>General</u>   | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|----------------------------------|------------------|---|---|
| <u>Nonspendable</u>              |                  |   |   |
| Materials and supplies inventory | \$ -             | \$ 8,500                                | \$ 8,500                                |
| Prepays                          | <u>175,860</u>   | <u>5,777</u>                            | <u>181,637</u>                          |
| Total nonspendable               | <u>175,860</u>   | <u>14,277</u>                           | <u>190,137</u>                          |
| <u>Restricted for</u>            |                  |   |   |
| Food service                     | -                | 93,939                                  | 93,939                                  |
| Special trust                    | -                | 8,611                                   | 8,611                                   |
| Athletics and music              | -                | 45,101                                  | 45,101                                  |
| Auxiliary services               | -                | 30,815                                  | 30,815                                  |
| State grants                     | -                | 35,806                                  | 35,806                                  |
| Permanent improvements           | <u>-</u>         | <u>559,018</u>                          | <u>559,018</u>                          |
| Total restricted                 | <u>-</u>         | <u>773,290</u>                          | <u>773,290</u>                          |
| Unassigned (deficit)             | <u>(167,668)</u> | <u>(34,903)</u>                         | <u>(202,571)</u>                        |
| Total fund balances              | <u>\$ 8,192</u>  | <u>\$ 752,664</u>                       | <u>\$ 760,856</u>                       |

**Note 4 – Budgetary Basis of Accounting**

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

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

3. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
4. Encumbrances are treated as expenditures (budget basis) rather than assigned fund balance (GAAP basis).
5. The revenues, expenditures and other financing sources and uses of the general fund include activity that is budgeted within special revenue funds (GAAP basis). However, on the budgetary basis, the activity of the special revenue funds is excluded resulting in perspective differences.

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

Net Change in Fund Balance

|   | <u>General</u>     |
|---|--------------------|
| GAAP basis                                | \$ 254,333         |
| Revenue accruals                          | (80,571)           |
| Expenditure accruals                      | (140,210)          |
| Advances out                              | (31,015)           |
| Budgeted as part of special revenue fund: |                    |
| Revenues                                  | (161,594)          |
| Expenditures                              | 162,114            |
| Encumbrances (Budget Basis)               |                    |
| outstanding at year end                   | <u>(16,284)</u>    |
| Budget basis                              | <u>\$ (13,227)</u> |

**Note 5 – Accountability and compliance**

As of June 30, 2011, several funds had deficit fund balances/net assets. These deficits were caused by the application of GAAP; namely in the reporting of various liabilities attributable to the fiscal year. This deficit balance will be eliminated by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30.

| <u>Fund</u>                          | <u>Amount</u> |
|--------------------------------------|---------------|
| Special revenue funds                |               |
| Race to the top                      | \$ 31,015     |
| Title VI-B                           | 1,526         |
| Title I                              | 1,477         |
| Improving teacher quality            | 885           |
| Self insurance internal service fund | 7,617         |



**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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**Ohio Revised Code Section 5705.41(D)** requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

20 of the 46 (43%) purchase orders tested were not properly certified by the Treasurer prior to incurring the related obligation.

**Note 6 – Deposits and Investments**

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptance and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

**A. Deposits**

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

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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The carrying value of the School District's deposits totaled \$423,329 and the bank balances of the deposits totaled \$473,186. Of the bank balance \$111,584 was exposed to custodial credit risk.

**B. Investments**

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

| <u>Investment type</u> | <u>Fair Value</u>   | <u>Percentage of investments</u> | <u>Maturity Days</u> | <u>Rating</u>       |
|------------------------|---------------------|----------------------------------|----------------------|---------------------|
| STAROhio               | \$ 1,500,469        | 83.07%                           | 58.3 <sup>(3)</sup>  | AAAm <sup>(2)</sup> |
| Open-ended mutual fund | <u>305,868</u>      | 16.93%                           | 48 <sup>(1)</sup>    | AAAm <sup>(2)</sup> |
|                        | <u>\$ 1,806,337</u> |                                  |                      |                     |

<sup>(1)</sup> Weighted average maturity

<sup>(2)</sup> Standard and Poor's rating

<sup>(3)</sup> Days (average)

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the Securities Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2011.

Concentration of credit risk is the possibility of loss attributed to the magnitude of the School District's investment in a single issuer. More than 5 percent of the School District's investments are in an open-ended mutual fund. The School District places no limit on the amount that may be invested in any one issuer.

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investments in the open-ended mutual fund are held by the counterparty's trust department or agent and not in the School District's name. The School District's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

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

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

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$1,960, which includes \$1,266 assigned from other School District funds.

**Note 7 – Property Taxes**

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

Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the School District. Real property tax received in calendar 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, 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 tangible personal property received in calendar 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien December 31, 2009, were levied after April 1, 2010 and are collected in 2011 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 revenues received in calendar year 2011 (other than public utility property) represent the collection of calendar year 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received in calendar year 2011 were levied after April 1, 2010, on the value as of December 31, 2010. 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 September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Wayne, Holmes and Stark County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half property tax payments collected by the County by June 30, 2011, are intended to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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Accrued property taxes receivable includes real property, public property and tangible personal property taxes which are measurable as of June 30, 2011 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 amounts available to the School District as an advance at June 30 are recognized as revenue. The amount available as an advance at June 30, 2011 was \$457,233. \$441,355 was available to the general fund, and \$15,878 to the permanent improvement capital projects fund.

On an 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 2011 taxes were collected are:

| <u>Property Category</u>               | <u>2010<br/>Assessed Value</u> | <u>2009<br/>Assessed Value</u> |
|--|--------------------------------|--------------------------------|
| Real Property                          |                                |                                |
| Residential and agricultural           | \$ 230,355,230                 | \$ 227,137,120                 |
| Commercial , industrial<br>and mineral | 36,745,280                     | 35,418,950                     |
| Public utilities                       | 1,080                          | 1,120                          |
| Tangible Personal Property             |                                |                                |
| General                                | 6,360,810                      | 6,131,900                      |
| Public utilities                       | 1,448,140                      | 1,353,497                      |
| Total                                  | <u>\$ 274,910,540</u>          | <u>\$ 270,042,587</u>          |

**Note 8 – Receivables**

Receivables at year-end consisted of taxes, accounts (tuition and excess costs), and intergovernmental grants and entitlements. All receivables are considered collectable in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of Federal funds.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2011

**Note 9 – Contingencies**

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2011.

**Note 10 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

|  | Balance<br>7/1/2010 | Additions        | Deletions      | Balance<br>6/30/2011 |
|--|---------------------|------------------|----------------|----------------------|
| <b>Governmental Activities</b>                 |                     |                  |                |                      |
| Nondepreciable Capital Assets                  |                     |                  |                |                      |
| Land   | \$ 588,680          | \$ -             | \$ -           | \$ 588,680           |
| Total Capital Assets,<br>not being depreciated | <u>588,680</u>      | <u>-</u>         | <u>-</u>       | <u>588,680</u>       |
| Depreciable Capital Assets                     |                     |                  |                |                      |
| Land Improvements                              | 532,264             | -                | -              | 532,264              |
| Buildings and Improvements                     | 4,885,503           | 57,936           | -              | 4,943,439            |
| Furniture and Equipment                        | 2,791,801           | 138,513          | (2,547)        | 2,927,767            |
| Vehicles                                       | 1,757,895           | 174,995          | -              | 1,932,890            |
| Total Depreciable Capital Assets               | <u>9,967,463</u>    | <u>371,444</u>   | <u>(2,547)</u> | <u>10,336,360</u>    |
| Less Accumulated Depreciation:                 |                     |                  |                |                      |
| Land Improvements                              | (491,953)           | (11,611)         | -              | (503,564)            |
| Buildings and Improvements                     | (3,102,904)         | (78,272)         | -              | (3,181,176)          |
| Furniture and Equipment                        | (2,227,528)         | (97,480)         | 2,547          | (2,322,461)          |
| Vehicles                                       | (1,174,925)         | (135,745)        | -              | (1,310,670)          |
| Total Accumulated Depreciation                 | <u>(6,997,310)</u>  | <u>(323,108)</u> | <u>2,547</u>   | <u>(7,317,871)</u>   |
| Depreciable Capital Assets, Net                |                     |                  |                |                      |
| Governmental Activities                        | <u>2,970,153</u>    | <u>48,336</u>    | <u>-</u>       | <u>3,018,489</u>     |
| Capital Assets, Net                            | <u>\$ 3,558,833</u> | <u>\$ 48,336</u> | <u>\$ -</u>    | <u>\$ 3,607,169</u>  |

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2011

Depreciation expense was charged to governmental functions as follows:

|                                    |                   |
|------------------------------------|-------------------|
| Instruction:                       |                   |
| Regular                            | \$ 147,432        |
| Special                            | 11,953            |
| Support Services:                  |                   |
| Pupils                             | 558               |
| Instructional staff                | 278               |
| Administration                     | 3,065             |
| Fiscal                             | 1,805             |
| Operation and maintenance of plant | 9,465             |
| Pupil transportation               | 128,652           |
| Food service operations            | 8,199             |
| Sport oriented activities          | <u>11,701</u>     |
| Total Depreciation Expense         | <u>\$ 323,108</u> |

**Note 11 – Long-Term Debt and Other Obligations**

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

|  | Balance<br>7/1/2010 | Addition         | Deletion            | Balance<br>6/30/2011 | Due within<br>One Year |
|--|---------------------|------------------|---------------------|----------------------|------------------------|
| <b>Governmental Activities</b>                         |                     |                  |                     |                      |                        |
| General Obligation Notes, 5.05%                        | \$ 156,337          | \$ -             | \$ (54,363)         | \$ 101,974           | \$ 57,164              |
| Compensated Absences Payable                           | <u>782,757</u>      | <u>59,421</u>    | <u>(80,260)</u>     | <u>761,918</u>       | <u>190,148</u>         |
| Total Governmental Activities<br>Long-Term Liabilities | <u>\$ 939,094</u>   | <u>\$ 59,421</u> | <u>\$ (134,623)</u> | <u>\$ 863,892</u>    | <u>\$ 247,312</u>      |

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

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

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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

The annual requirements to amortize all debt outstanding as of June 30, 2011 including interest payments of \$4,801 are as follows:

| Year Ending<br>June 30 | <u>General Obligation Notes</u> |                 |                   |
|------------------------|---------------------------------|-----------------|-------------------|
|                        | <u>Principal</u>                | <u>Interest</u> | <u>Total</u>      |
| 2012                   | \$ 57,164                       | \$ 3,850        | \$ 61,014         |
| 2013                   | 44,810                          | 951             | 45,761            |
|                        | <u>\$ 101,974</u>               | <u>\$ 4,801</u> | <u>\$ 106,775</u> |

**Note 12 – Joint Venture**

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

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

The COG is funded by member fees and state grants. The Executive Committee determines and sets the member fees for all services to the COG. Fees are billed to member districts annually around July 1st. The School District paid \$105,709 in fees for the fiscal year 2011. The School District has no equity interest in the COG.

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

1. All tangible personal property previously loaned or given to the COG that is clearly identified as to ownership shall be returned to the owner member.



**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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2. All remaining tangible personal property shall be sold at public sale in accordance with the ORC 307.12 by sealed bid. The cash proceeds and all remaining assets and other intangibles, including moneys, shall be distributed to the member districts in proportion to the Average Daily Membership (ADM) of the School District.

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

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

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

**Note 13– Jointly Governed Organizations**

A. Wayne County Career Center

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

B. Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA)

The Southeast Local School District is a member of the Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) Health Benefit Plan. On April 1, 2007 the school district joined OME-RESA, a public entity risk management, insurance, and claims servicing pool, consisting of school districts within the region, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf.

As of June 30, 2011, the estimated incurred but not reported (IBNR) claims of the School District were in the amount of \$191,574. This amount is based on an estimate provided by a third party actuarial calculation. This actuarial calculation also reports a reserve balance as of June 30, 2011 in the amount of \$267,471. When the school district joined OME-RESA a three-year commitment was made to attain the proper reserve balance. Also, because the school district is under the umbrella of OME-RESA, the minimum requirements under Section 9.833 of the ORC are satisfied.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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C. Tri-County Computer Service Association

The School District is a member of the Tri-County Computer Service Association (TCCSA), a jointly governed organization which provides computer services to the school districts within the boundaries of Wayne, Holmes, and Ashland Counties. Each District's superintendent serves as a representative on the Board, which consists of 20 member districts. However, TCCSA is primarily governed by a five-member executive Board that meets monthly to address any current issues.

**Note 14 – Risk Management**

**Comprehensive** The School District is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the School District contracted with private carriers for property and fleet insurance, liability insurance, and inland marine coverage. Coverage provided by these carriers is as follows:

Building and Contents - replacement cost - \$32,678,674 (\$2,500 deductible)

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

Automobile Liability - \$2,000,000 (\$500 - \$5,000 deductible)

Uninsured Motorists - \$1,000,000

General Liability - \$2,000,000 aggregate/\$1,000,000 per occurrence

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

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

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2011

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

|      |    | <u>Balance</u><br><u>Beginning of Year</u> | <u>Current Year</u><br><u>Claims</u> | <u>Claim</u><br><u>Payments</u> | <u>Balance at</u><br><u>End of Year</u> |
|------|----|--|--------------------------------------|---------------------------------|---|
| 2010 | \$ | 11,294                                     | 152,627                              | 152,158                         | \$ 11,763                               |
| 2011 | \$ | 11,763                                     | 153,595                              | 156,803                         | \$ 8,555                                |

**Note 15 - Defined Benefit Pension Plans**

**A. School Employees Retirement System**

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

**Funding Policy** - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the system. For fiscal year 2011, 11.81 percent of annual covered salary was the portion used to fund pension and death benefits. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$291,258, \$305,690 and \$215,526 respectively; 44.77 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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**B. State Teachers Retirement System**

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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Funding Policy - For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2010, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$962,000, \$1,025,061, and \$976,471 respectively; 83.87 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$27,323 made by the School District and \$19,516 made by the plan members.

### **C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2011, several members of the Board of Education have elected Social Security. The Board's liability is 6.2 % of wages paid. The remaining Board members contribute to SERS.

## **Note 16 - Post-Employment Benefits**

### **A. School Employee Retirement System**

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2011, this amount was \$35,800.

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

The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$69,017, \$44,234, and \$98,635 respectively; 72.37 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$18,743, \$18,179, and \$17,783 respectively; 44.77 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

## **B. State Teachers Retirement System**

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$74,000, \$78,851, and \$75,113 respectively; 83.87 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2011

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**Note 17 – Statutory Reserves**

The School District is required by the state law to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years. However, the amount restricted for textbooks and instructional materials will be eliminated following the close of the fiscal year as explained below.

The School District had qualifying disbursements during the fiscal year that reduced the set-aside amount below zero for the textbook set-aside. Effective July 1, 2011, the textbook set aside is no longer required as the obligation was repealed by the 129th General Assembly in Amended Substitute House Bill 30. This balance is therefore not presented as being carried forward to a future fiscal year. Although the School District had qualifying disbursements and current year offsets during the fiscal year that reduced the set-aside amount to below zero for the capital maintenance reserve, this amount may not be used to reduce the set aside requirement for future years. This negative balance is, therefore, not presented as being carried forward to future years.

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

|                                       | <u>Textbooks</u>    | Capital<br>Improvement and<br><u>Maintenance</u> |
|---------------------------------------|---------------------|--|
| Set-aside balance as of June 30, 2010 | \$ (323,368)        | \$ -   |
| Current year set-aside requirement    | 251,063             | 251,063  |
| Current year offsets                  | -                   | (349,892)  |
| Qualifying expenditures               | <u>(29,875)</u>     | <u>-</u>   |
| Total                                 | <u>\$ (102,180)</u> | <u>\$ (98,829)</u>                               |

**Note 18 – Interfund Receivables and Payables**

Interfund balances at June 30, 2011 consisted of the following:

|                             | <u>Interfund<br/>Receivable</u> | <u>Interfund<br/>Payable</u> |
|-----------------------------|---------------------------------|------------------------------|
| General fund                | \$ 31,015                       | \$ -                         |
| Nonmajor governmental funds | -                               | 31,015                       |
| Totals                      | <u>\$ 31,015</u>                | <u>\$ 31,015</u>             |

**Southeast Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2011, all interfund loans outstanding are anticipated to be repaid in fiscal year 2011.



**SOUTHEAST LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011**

| Federal Grantor/Pass Through Grantor<br>Program Title                   | Federal<br>CFDA<br>Number | Receipts    | Non-Cash<br>Receipts | Expenditures | Non-Cash<br>Expenditures |
|---|---------------------------|-------------|----------------------|--------------|--------------------------|
| <b><u>U.S. DEPARTMENT OF EDUCATION</u></b>                              |                           |             |                      |              |                          |
| <i>(Passed through the Ohio Department of Education)</i>                |                           |             |                      |              |                          |
| Title I Grants to Local Educational Agencies                            | 84.010                    | \$1,098,205 |                      | \$1,098,205  |                          |
| Special Education - Grants to States                                    | 84.027                    | 399,391     |                      | 399,391      |                          |
| Title VI-B Rural Education  | 84.358                    | 38,548      |                      | 38,548       |                          |
| ARRA - State Fiscal Stabilization Funds (SFSF) - Education State Grants | 84.394                    | 346,503     |                      | 346,503      |                          |
| English Language Acquisition Grants                                     | 84.365                    | 65,411      |                      | 65,411       |                          |
| Improving Teacher Quality State Grants                                  | 84.367                    | 251,956     |                      | 251,956      |                          |
| Education Technology State Grants                                       | 84.318                    | 3,659       |                      | 3,659        |                          |
| ARRA - Race-to-the-Top Grants   | 84.395                    | 21,141      |                      | 52,157       |                          |
| Total U. S. Department of Education                                     |                           | 2,224,814   |                      | 2,255,830    |                          |
| <b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>                            |                           |             |                      |              |                          |
| <i>(Passed Through Ohio Department of Education)</i>                    |                           |             |                      |              |                          |
| Child Nutrition Cluster:  |                           |             |                      |              |                          |
| Non-Cash Assistance (Food Distribution):                                | 10.555                    |             | \$81,189             |              | \$81,189                 |
| National School Lunch Program   |                           |             |                      |              |                          |
| Cash Assistance:  |                           |             |                      |              |                          |
| National School Lunch Program   | 10.555                    | 356,444     |                      | 356,444      |                          |
| Total Child Nutrition Cluster   |                           | 356,444     | 81,189               | 356,444      | 81,189                   |
| Total U.S. Department of Agriculture                                    |                           | 356,444     | 81,189               | 356,444      | 81,189                   |
| Totals  |                           | \$2,581,258 | \$81,189             | \$2,612,274  | \$81,189                 |

*The accompanying notes are an integral part of this schedule.*

**SOUTHEAST LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Southeast Local School District, Wayne County, Ohio (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 13, 2012. We noted governmental fund balances were restated due to changes in fund structure as a result of implementing Governmental Accounting Standards Board (GASB) Statement 54. 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the Schedule of Findings as item 2011-001.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 13, 2012.

We intend this report solely for the information and use of management, the audit committee, the Board of Education, and federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.



**Dave Yost**  
Auditor of State

March 13, 2012



# Dave Yost • Auditor of State

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

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

To the Board of Education:

### Compliance

We have audited the compliance of Southeast Local School District, Wayne County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Southeast Local School District's major federal programs for the year ended June 30, 2011. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with these requirements.

In our opinion, the Southeast Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

### Internal Control Over Compliance

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated March 13, 2012.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Dave Yost**  
Auditor of State

March 13, 2012

**SOUTHEAST LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2011**

**1. SUMMARY OF AUDITOR'S RESULTS**

|                     |   |  |
|---------------------|---|--|
| <i>(d)(1)(i)</i>    | <b>Type of Financial Statement Opinion</b>  | Unqualified  |
| <i>(d)(1)(ii)</i>   | <b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>                  | No   |
| <i>(d)(1)(ii)</i>   | <b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b> | No   |
| <i>(d)(1)(iii)</i>  | <b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>                        | Yes  |
| <i>(d)(1)(iv)</i>   | <b>Were there any material internal control weaknesses reported for major federal programs?</b>                       | No   |
| <i>(d)(1)(iv)</i>   | <b>Were there any significant deficiencies in internal control reported for major federal programs?</b>               | No   |
| <i>(d)(1)(v)</i>    | <b>Type of Major Programs' Compliance Opinion</b>   | Unqualified  |
| <i>(d)(1)(vi)</i>   | <b>Are there any reportable findings under § .510(a)?</b>   | No   |
| <i>(d)(1)(vii)</i>  | <b>Major Programs (list):</b>   | Title I, Part A Cluster CFDA# 84.010 & 84.389,<br>Special Education - Grants to States (IDEA, Part B) CFDA# 84.027,<br>ARRA - State Fiscal Stabilization Funds (SFSF) - Education State Grants, CFDA# 84.394 |
| <i>(d)(1)(viii)</i> | <b>Dollar Threshold: Type A/B Programs</b>  | Type A: > \$ 300,000<br>Type B: all others   |
| <i>(d)(1)(ix)</i>   | <b>Low Risk Auditee?</b>  | No   |

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

**FINDING NUMBER 2011-001**

**NONCOMPLIANCE**

**Ohio Revised Code Section 5705.41(D)** requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

**1. "Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

**2. Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

**3. Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

20 of the 46 (43%) purchase orders tested were not properly certified by the Treasurer prior to incurring the related obligation. It was found that none of the exceptions above were utilized for the items found to be in noncompliance.

The District should certify the availability of funds for all expenditures and also use the "Then and Now" Certificates as further means to certify funds pursuant to Ohio Rev. Code Section 5705.41(D).

**Official's Response: The officials declined to respond.**



**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

**SOUTHEAST LOCAL SCHOOL DISTRICT  
WAYNE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2011**

| Finding Number | Finding Summary   | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b> |
|----------------|---|------------------|--|
| 2010-001       | 34 CFR 300.202(a) – the District expended federal Special Education funds which were not primarily for the benefit of students with disabilities. | Yes              | N/A - corrected  |



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Education:

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

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

1. We noted the Board amended its anti-harassment policy at its meeting on April 19, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

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

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

**Dave Yost**  
Auditor of State

March 13, 2012

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# Dave Yost • Auditor of State

**SOUTHEAST LOCAL SCHOOL DISTRICT**

**WAYNE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 29, 2012**