



Dave Yost • Auditor of State

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

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WAYNE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southeast Local School District, Wayne County, Ohio (the School District), as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

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

Accounting Basis

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

Other Matters

Supplemental Information

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

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

Other Information

We applied no procedures to the Management's Discussion & Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2016, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

October 27, 2016

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Southeast Local School District
Wayne County, Ohio
(Unaudited)
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

The discussion and analysis of the 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, 2016. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- q In total, net position increased \$1,720,977, or 22 percent.
- q General receipts accounted for \$15,460,587 in revenue or 79 percent of total receipts. Program specific receipts in the form of charges for services and sales, grants, contributions and interest accounted for \$4,153,589 or 21 percent.

Using this Annual Report

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole School District. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2016, the general fund and the schoolwide building program fund are the School District's most significant funds.

Basis of Accounting

The School District has elected to present its financial statements on the cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net position will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Southeast Local School District
Wayne County, Ohio
(Unaudited)
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains 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 fiscal year 2016?" The statement of net position and the statement of activities answer this question.

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

In the statement of net position and the statement of activities, governmental activities include the School District's programs and services, including instruction, support services, extracurricular activities and food service operations.

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 financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds include the general fund and the schoolwide building program fund.

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 the cash basis of accounting. 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 less financial resources that can be spent in the near future to finance educational programs.

Reporting the School District's Fiduciary Responsibilities

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. These funds are not reflected in the government-wide financial statements because the resources are not available to support the School District's own programs.

Southeast Local School District
Wayne County, Ohio
(Unaudited)
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

The School District as a Whole

Table 1 provides a summary of the School District's net position for fiscal year 2016 compared to 2015.

(Table 1)
Net Position – Cash Basis

	Governmental Activities	
	2016	2015
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 8,436,793	\$ 6,935,614
Cash and Cash Equivalents with Fiscal Agents	1,200,107	980,309
<i>Total Assets</i>	\$ 9,636,900	\$ 7,915,923
Net Position		
Restricted for:		
Capital Outlay	\$ 217,018	\$ 595,085
Other Purposes	991,685	871,252
Unrestricted	8,428,197	6,449,586
<i>Total Net Position</i>	\$ 9,636,900	\$ 7,915,923

Net position of the governmental activities increased \$1,720,977, which represents a 22 percent increase from fiscal year 2015. The increase can mostly be attributed to an increase in property and other local taxes.

A portion of the School District's net position, \$1,208,703 or 13 percent, represents resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net position of \$8,428,197 may be used to meet the School District's ongoing obligations.

Southeast Local School District
Wayne County, Ohio
(Unaudited)
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

Table 2 shows the changes in net position for fiscal year 2016 as compared to fiscal year 2015.

(Table 2)
Changes in Net Position – Cash Basis

	Governmental	
	Activities	
	2016	2015
Receipts		
Program Receipts		
Charges for Services and Sales	\$ 1,367,568	\$ 1,307,487
Operating Grants, Contributions and Interest	2,785,556	3,174,396
Capital Grants, Contributions and Interest	465	783
<i>Total Program Receipts</i>	<u>4,153,589</u>	<u>4,482,666</u>
General Receipts		
Property Taxes	9,009,064	8,739,200
Grants and Entitlements not Restricted to Specific Programs	6,197,256	6,101,448
Proceeds from Sale of Assets	5,929	1,195
Investment Earnings	26,570	16,104
Miscellaneous	221,768	105,532
<i>Total General Receipts</i>	<u>15,460,587</u>	<u>14,963,479</u>
<i>Total Receipts</i>	<u>19,614,176</u>	<u>19,446,145</u>
Program Disbursements		
Instruction:		
Regular	6,707,346	6,715,079
Special	2,466,771	2,442,119
Vocational	158,222	125,647
Other	1,188,446	1,118,208
Support Services:		
Pupils	795,305	824,232
Instructional Staff	289,060	231,484
Board of Education	36,340	33,974
Administration	1,423,528	1,385,877
Fiscal	370,282	379,046
Operation and Maintenance of Plant	1,205,258	1,133,661
Pupil Transportation	1,279,219	1,215,517
Central	9,821	14,488
Operation of Non-Instructional Services:		
Food Service Operations	584,079	574,963
Community Services	178,878	167,138
Other	2,739	12,597
Extracurricular Activities	579,053	518,992
Capital Outlay	618,852	89,241
<i>Total Program Disbursements</i>	<u>17,893,199</u>	<u>16,982,263</u>
<i>Change in Net Position</i>	1,720,977	2,463,882
<i>Net Position Beginning of Year</i>	<u>7,915,923</u>	<u>5,452,041</u>
<i>Net Position End of Year</i>	<u>\$ 9,636,900</u>	<u>\$ 7,915,923</u>

Southeast Local School District
Wayne County, Ohio
(Unaudited)
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

Certain charges for services receipts were reclassified to operating grants in fiscal year 2016. For comparability purposes, the fiscal year 2015 column was also updated.

Operating grant receipts decreased \$388,840, primarily due to a significant decrease in Straight A grant receipts in fiscal year 2016. The \$529,611 increase in capital outlay disbursements in fiscal year 2016 is the result of several improvement projects, including boiler replacements, a sewer line and roof work.

Governmental Activities

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

(Table 3)
Governmental Activities – Cash Basis

	Total Costs of Services		Net Costs of Services	
	2016	2015	2016	2015
<i>Program Disbursements</i>				
<i>Instruction:</i>				
Regular	\$ 6,707,346	\$ 6,715,079	\$ 4,672,248	\$ 4,566,639
Special	2,466,771	2,442,119	1,544,926	1,454,191
Vocational	158,222	125,647	144,292	108,416
Other	1,188,446	1,118,208	1,188,446	1,118,208
<i>Support Services:</i>				
Pupils	795,305	824,232	653,704	645,695
Instructional Staff	289,060	231,484	286,183	229,221
Board of Education	36,340	33,974	36,340	33,974
Administration	1,423,528	1,385,877	1,295,631	1,258,879
Fiscal	370,282	379,046	370,282	379,046
Operation and Maintenance of Plant	1,205,258	1,133,661	1,195,104	1,120,776
Pupil Transportation	1,279,219	1,215,517	1,237,041	1,180,552
Central	9,821	14,488	9,821	14,488
<i>Operation of Non-Instructional Services:</i>				
Food Service Operations	584,079	574,963	(12,750)	(35,273)
Community Services	178,878	167,138	25,456	29,151
Other	2,739	12,597	2,739	2,086
Extracurricular Activities	579,053	518,992	471,760	305,090
Capital Outlay	618,852	89,241	618,387	88,458
<i>Total</i>	<u>\$ 17,893,199</u>	<u>\$ 16,982,263</u>	<u>\$ 13,739,610</u>	<u>\$ 12,499,597</u>

The dependence upon tax revenues and general revenue entitlements from the state for governmental activities is apparent. Program receipts only account for 23 percent of all governmental disbursements. The community is the largest area of support for the School District students.

Southeast Local School District
Wayne County, Ohio
(Unaudited)
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

The School District's Funds

The School District's governmental funds are accounted for using the cash basis of accounting.

The School District's governmental funds reported a combined fund balance of \$8,420,969, which is higher than the prior year balance of \$6,919,790.

The general fund's fund balance increased \$1,761,113 in 2016. The increase in fund balance is consistent with the increase in fiscal year 2015, as total receipts continued to outpace disbursements. Total receipts increased 3 percent in fiscal year 2016, with the largest increases in property taxes and open enrollment tuition. Total disbursements also increased 3 percent, and were not attributed to any one specific line item.

The schoolwide building program fund balance increased \$65,336 primarily due to transfers from the general fund to help fund the cost of this program.

General Fund Budgeting Highlights

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

During the course of fiscal year 2016, the School District amended its general fund budget. For the general fund, final budget basis receipts and other financing sources were \$16,283,127, representing an increase of \$783,127 from the original estimate of \$15,500,000. When the original budget was prepared, an emergency tax levy was set to expire, however was subsequently renewed and budget amounts were increased accordingly. Actual receipts and other financing sources of \$16,420,524 were \$137,397 higher than the final budget.

For fiscal year 2016, the general fund final budget basis disbursements and other financing uses were \$16,706,473, representing an increase of \$882,125 from the original estimate of \$15,824,348. Once the emergency tax levy discussed above was renewed, appropriations were also increased. Actual disbursements and other financing uses of \$15,104,634 were \$1,601,839 lower than the final budget due to conservative budgeting and keeping disbursements low.

Southeast Local School District
Wayne County, Ohio
(Unaudited)
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

Current Issues

The Board of Education and administration closely monitor its receipts and disbursements in accordance with its financial forecast. The financial future of the School District is not without its challenges though. The Administration closely monitors staffing levels to maintain financial stability. 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 works through the biannual budget process. Although the School District relies heavily on its property taxpayers to support its operations, the community support for the School District is quite strong.

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

Southeast Local School District
Wayne County, Ohio
Statement of Net Position - Cash Basis
June 30, 2016

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 8,436,793
Cash and Cash Equivalents with Fiscal Agents	1,200,107
<i>Total Assets</i>	\$ 9,636,900
Net Position	
Restricted for:	
Capital Outlay	\$ 217,018
Other Purposes	991,685
Unrestricted	8,428,197
<i>Total Net Position</i>	\$ 9,636,900

See accompanying notes to the basic financial statements.

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

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 6,707,346	\$ 911,006	\$ 1,124,092	\$ 0	\$ (4,672,248)
Special	2,466,771	197	921,648	0	(1,544,926)
Vocational	158,222	0	13,930	0	(144,292)
Other	1,188,446	0	0	0	(1,188,446)
Support Services:					
Pupils	795,305	93,825	47,776	0	(653,704)
Instructional Staff	289,060	0	2,877	0	(286,183)
Board of Education	36,340	0	0	0	(36,340)
Administration	1,423,528	0	127,897	0	(1,295,631)
Fiscal	370,282	0	0	0	(370,282)
Operation and Maintenance of Plant	1,205,258	10,154	0	0	(1,195,104)
Pupil Transportation	1,279,219	0	42,178	0	(1,237,041)
Central	9,821	0	0	0	(9,821)
Operation of Non-Instructional Services:					
Food Service Operations	584,079	236,867	359,962	0	12,750
Community Services	178,878	10,476	142,946	0	(25,456)
Other	2,739	0	0	0	(2,739)
Extracurricular Activities	579,053	105,043	2,250	0	(471,760)
Capital Outlay	618,852	0	0	465	(618,387)
Totals	\$ 17,893,199	\$ 1,367,568	\$ 2,785,556	\$ 465	(13,739,610)

General Receipts

Property Taxes Levied for:	
General Purposes	8,705,837
Capital Outlay	303,227
Grants and Entitlements not Restricted to Specific Programs	6,197,256
Proceeds from Sale of Assets	5,929
Investment Earnings	26,570
Miscellaneous	221,768
Total General Receipts	15,460,587
<i>Change in Net Position</i>	1,720,977
<i>Net Position Beginning of Year</i>	7,915,923
<i>Net Position End of Year</i>	\$ 9,636,900

See accompanying notes to the basic financial statements.

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

	<u>General</u>	<u>Schoolwide Building Program</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 7,223,229	\$ 596,894	\$ 600,846	\$ 8,420,969
Fund Balances				
Nonspendable	\$ 411	\$ 0	\$ 0	\$ 411
Restricted	0	596,894	611,398	1,208,292
Assigned	1,191,252	0	0	1,191,252
Unassigned	6,031,566	0	(10,552)	6,021,014
<i>Total Fund Balances</i>	<u>\$ 7,223,229</u>	<u>\$ 596,894</u>	<u>\$ 600,846</u>	<u>\$ 8,420,969</u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Wayne County, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities - Cash Basis
June 30, 2016

Total Governmental Fund Balances	\$ 8,420,969
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*Amounts reported for governmental activities in the
statement of net position are different because:*

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in governmental activities in the statement of net position.

1,215,931

<i>Net Position of Governmental Activities</i>	<u>\$ 9,636,900</u>
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See accompanying notes to the basic financial statements.

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

	General	Schoolwide Building Program	Other Governmental Funds	Total Governmental Funds
Receipts				
Property and Other Local Taxes	\$ 8,705,837	\$ 0	\$ 303,227	\$ 9,009,064
Intergovernmental	6,649,139	1,565,303	750,566	8,965,008
Investment Income	22,262	0	828	23,090
Tuition and Fees	911,203	0	0	911,203
Extracurricular Activities	97,784	0	101,084	198,868
Gifts and Donations	15,258	0	2,182	17,440
Charges for Services	12,514	0	236,867	249,381
Rent	8,116	0	0	8,116
Miscellaneous	139,782	0	81,987	221,769
<i>Total Receipts</i>	<u>16,561,895</u>	<u>1,565,303</u>	<u>1,476,741</u>	<u>19,603,939</u>
Disbursements				
Current:				
Instruction:				
Regular	2,693,244	4,035,063	79,503	6,807,810
Special	1,002,645	1,410,522	88,083	2,501,250
Vocational	160,230	0	0	160,230
Other	1,188,446	0	0	1,188,446
Support Services:				
Pupils	639,258	155,354	9,609	804,221
Instructional Staff	280,723	11,249	0	291,972
Board of Education	36,340	0	0	36,340
Administration	939,253	500,048	5,929	1,445,230
Fiscal	365,041	0	6,650	371,691
Operation and Maintenance of Plant	1,184,677	0	30,709	1,215,386
Pupil Transportation	1,207,557	0	95,305	1,302,862
Central	9,977	0	0	9,977
Extracurricular Activities	396,184	0	187,051	583,235
Operation of Non-Instructional Services:				
Food Service Operations	0	0	589,570	589,570
Community Services	80,397	7,731	90,750	178,878
Other	2,739	0	0	2,739
Capital Outlay	0	0	618,852	618,852
<i>Total Disbursements</i>	<u>10,186,711</u>	<u>6,119,967</u>	<u>1,802,011</u>	<u>18,108,689</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>6,375,184</u>	<u>(4,554,664)</u>	<u>(325,270)</u>	<u>1,495,250</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Assets	5,929	0	0	5,929
Transfers In	0	4,620,000	0	4,620,000
Transfers Out	(4,620,000)	0	0	(4,620,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(4,614,071)</u>	<u>4,620,000</u>	<u>0</u>	<u>5,929</u>
<i>Net Change in Fund Balances</i>	1,761,113	65,336	(325,270)	1,501,179
<i>Fund Balances Beginning of Year</i>	<u>5,462,116</u>	<u>531,558</u>	<u>926,116</u>	<u>6,919,790</u>
<i>Fund Balances End of Year</i>	<u>\$ 7,223,229</u>	<u>\$ 596,894</u>	<u>\$ 600,846</u>	<u>\$ 8,420,969</u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Wayne County, Ohio
*Reconciliation of the Statement of Receipts, Disbursements and Changes
in Fund Balances of Governmental Funds to the Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2016*

Net Change in Fund Balances - Total Governmental Funds \$ 1,501,179

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

Internal service funds charge insurance costs to other funds. The entity-wide statements eliminate governmental fund expenditures and related internal service fund charges. Governmental activities report allocated net internal service fund receipts (disbursements). 219,798

Change in Net Position of Governmental Activities \$ 1,720,977

See accompanying notes to the basic financial statements.

Southeast Local School District
Wayne County, Ohio
Statement of Receipts, Disbursements and Changes in
Cash Basis Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Receipts and Other Financing Sources	\$ 15,500,000	\$ 16,283,127	\$ 16,420,524	\$ 137,397
Disbursements and Other Financing Uses	<u>15,824,348</u>	<u>16,706,473</u>	<u>15,104,634</u>	<u>1,601,839</u>
Net Change in Fund Balance	(324,348)	(423,346)	1,315,890	1,739,236
<i>Fund Balance Beginning of Year</i>	5,293,503	5,293,503	5,293,503	0
Prior Year Encumbrances Appropriated	<u>120,473</u>	<u>120,473</u>	<u>120,473</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 5,089,628</u>	<u>\$ 4,990,630</u>	<u>\$ 6,729,866</u>	<u>\$ 1,739,236</u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Wayne County, Ohio
Statement of Receipts, Disbursements and Changes in
Cash Basis Fund Balance - Budget and Actual (Budget Basis)
Schoolwide Building Program Fund
For the Fiscal Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Receipts and Other Financing Sources	\$ 5,800,500	\$ 5,989,797	\$ 6,185,303	\$ 195,506
Disbursements and Other Financing Uses	<u>5,966,550</u>	<u>6,266,550</u>	<u>6,150,327</u>	<u>116,223</u>
Net Change in Fund Balance	(166,050)	(276,753)	34,976	311,729
<i>Fund Balance Beginning of Year</i>	521,010	521,010	521,010	0
Prior Year Encumbrances Appropriated	<u>10,545</u>	<u>10,545</u>	<u>10,545</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 365,505</u>	<u>\$ 254,802</u>	<u>\$ 566,531</u>	<u>\$ 311,729</u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Wayne County, Ohio
Statement of Fund Net Position - Cash Basis
Proprietary Funds
June 30, 2016

	Governmental Activities
	Internal Service Funds
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 15,824
Cash and Cash Equivalents with Fiscal Agents	1,200,107
<i>Total Assets</i>	\$ 1,215,931
 Net Position	
Unrestricted	\$ 1,215,931
Total Net Position	\$ 1,215,931

See accompanying notes to the basic financial statements.

**Southeast Local School District
Wayne County, Ohio**

Statement of Receipts, Disbursements and Changes in Fund Net Position - Cash Basis

Proprietary Funds

For the Fiscal Year Ended June 30, 2016

	Governmental Activities - Internal Service Funds
Operating Receipts	
Charges for Services	\$ 2,434,495
Operating Disbursements	
Purchased Services	450,616
Claims	1,768,389
<i>Total Operating Disbursements</i>	<u>2,219,005</u>
<i>Operating Income</i>	<u>215,490</u>
Non-Operating Receipts	
Interest	4,308
<i>Change in Net Position</i>	219,798
<i>Net Position Beginning of Year</i>	<u>996,133</u>
<i>Net Position End of Year</i>	<u><u>\$ 1,215,931</u></u>

See accompanying notes to the basic financial statements.

Southeast Local School District
Wayne County, Ohio
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2016

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 24,547</u>
Net Position	
Held for Student Activities	<u>\$ 24,547</u>

See accompanying notes to the basic financial statements.

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

Note 1 – 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.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board; and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organization for which the School District authorizes the issuance of debt or the levying of taxes or determines the budget if there is also the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the School District. Based upon the application of these criteria, the School District has no component units.

The School District is associated with two jointly governed organizations, the Wayne County Career Center and the Tri-County Computer Service Association (TCCSA). In addition, the School District is associated with the Beacon Hill Community School, a related organization. These organizations are presented in Notes 14 and 15 to the basic financial statements.

The School District's management believes these financial statements present all activities for which the School District is financially accountable.

Note 2 – Summary of Significant Accounting Policies

As discussed further in the Basis of Accounting section of this note, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the School District's accounting policies.

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

A. Basis of Accounting

Although required by Ohio Administrative Code Sections 117-2-03(B) to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the cash accounting basis. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

Budgetary presentations report budgetary disbursements when a commitment is made (i.e. when an encumbrance is approved). Differences between disbursements reported in the fund and government-wide statements versus budgetary disbursements are due to encumbrances outstanding at the beginning and end of the fiscal year.

These statements include required disclosures of material matters, in accordance with the basis of accounting described in the preceding paragraph.

Government-Wide Financial Statements The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service funds is eliminated to avoid “doubling up” receipts and disbursements.

The statement of net position presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the School District's general receipts.

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

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the fund's principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

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

B. Fund Accounting

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

Governmental Funds The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The following are the School District's major governmental funds:

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

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

The other governmental funds of the School District account for grants and other resources to which the School District is bound to observe constraints imposed internally or externally.

Proprietary Funds The School District classifies funds financed primarily from user charges for goods or services as proprietary. 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 account for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost-reimbursement basis. The internal service funds of the School District account for self-insurance programs which provide dental and health benefits to employees.

Fiduciary Fund Type Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature. The School District's only fiduciary funds are agency funds. The School District's agency funds are for student activities and athletic tournaments.

C. Basis of Accounting

The School District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

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

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of 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 amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

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

E. Cash and Investments

To improve cash management, cash received by the School District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents." The School District participates in the Jefferson Health Plan, an insurance consortium for self-insurance. These monies are held separate from the School District's central bank account and are reflected in the basic financial statements as "Cash and Cash Equivalents with Fiscal Agent."

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

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

During fiscal year 2016, the School District invested in STAR Ohio and STAR Plus. Investments are reported at cost, except for STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2016.

The School District also invests in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account. STAR Plus offers attractive yields with no market or credit risk, weekly liquidity and penalty free withdrawals. All deposits with STAR Plus have full FDIC insurance, with no term commitment on deposits.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2016 were \$22,262, which includes \$2,140 assigned from other School District funds.

F. Inventory and Prepaid Items

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

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying basic financial statements.

H. Interfund Receivables/Payables

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

I. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's cash basis of accounting.

J. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

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

K. Long-Term Obligations

The School District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure is reported at inception. Lease payments are reported when paid. For fiscal year 2016, the School District did not report any activity for long-term obligations.

L. Net Position

Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for Federal and State grants restricted to disbursements for specific purposes and food services.

The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position are available.

M. Fund Balance

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

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are 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 interfund loans.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District 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.

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

Assigned Amounts in the assigned fund balance classification 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. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2016.

O. Pensions

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

P. Implementation of New Accounting Standards

For the fiscal year ended June 30, 2016, the School District has to the extent it applies to the cash basis of accounting implemented Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments and GASB Statement No. 79, Certain External Investment Pools and Pool Participants.

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

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the School District.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School District.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School District.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School District.

Note 3 – Accountability and Compliance

A. Accountability

The Title I fund had a deficit fund balance of \$10,552 at June 30, 2016. The general fund provides transfers to cover deficit balances; however; this is done when cash is needed. The deficit fund balances were created at June 30, 2016, due to the School District not yet receiving reimbursement for certain disbursements.

B. Compliance

Ohio Adm. Code Section 117-2-03(B) requires the School District to file annual financial reports, which are prepared using generally accepted accounting principles (GAAP). For fiscal year 2016, the School District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit assets and deferred outflows of resources, liabilities and deferred inflows of resources, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

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

Note 4 – Budgetary Basis of Accounting

The statement of receipts, disbursements and changes in fund balance - budget and actual (cash basis) presented for the general fund and the schoolwide building program fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the cash basis are that:

- a. In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of a disbursement; and,
- b. Some funds are included in the general fund (cash basis), but have separate legally adopted budgets (budget basis).

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

<u>Net Change in Fund Balance</u>		
	General	Schoolwide Building Program
Cash Basis	\$ 1,761,113	\$ 65,336
Funds budgeted elsewhere**	(753)	0
Adjustment for encumbrances	(444,470)	(30,360)
Budget Basis	\$ 1,315,890	\$ 34,976

**As part of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting*, certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on the cash basis. This includes the unclaimed monies fund and the public school support fund.

Note 5 – Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

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

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

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

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 held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, notes, bonds, or any other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality;
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% and be marked to market daily, and 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 item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio and STAR Plus);
7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed 40 percent of the interim moneys 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.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

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

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

A. Deposits

At fiscal year-end, the carrying amount of the School District’s deposits was \$4,876,551. Based on the criteria described in GASB Statement No. 40, Deposits and Investment Risk Disclosures, as of June 30, 2016, \$569,762 of the School District’s bank balance of \$5,201,344 was exposed to custodial risk as discussed below, while \$4,631,582 was covered by the Federal Deposit Insurance Corporation (FDIC), which includes \$3,923,391 held in a STAR Plus account.

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

B. Investments

As of June 30, 2016 the School District had the following investment and maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>Investment Maturity 6 Months or Less</u>
STAR Ohio	<u>\$ 3,584,789</u>	<u>100.00%</u>	<u>\$ 3,584,789</u>

Interest Rate Risk Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The School District’s investment policy addresses interest rate risk by requiring that the School District’s investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

Credit Risk STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2016, is 49 days and it carries a credit rating of AAAM by S&P Global Rating.

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will no longer be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial credit risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

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Concentration of Credit Risk The School District places no limit on the amount the School District may invest in any one issuer. At June 30, 2016, the School District had investments summarized above in amounts greater than 5 percent of total investments.

C. Funds Held by Fiscal Agent

The School District participates in the Jefferson Health Plan for employee benefits. The amount held at fiscal year end for the employee benefit self-insurance fund was \$1,200,107. All benefit deposits are made to the consortium's depository account. Collateral is held by a qualified third-party trustee in the name of the consortium.

Note 6 – Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015 and are collected in 2016 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Holmes, Stark, and Wayne Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Southeast Local School District
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The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second Half Collections		2016 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$ 300,887,000	96.77%	\$ 304,898,970	96.10%
Public Utility Personal Property	10,046,320	3.23%	12,368,730	3.90%
Total	\$ 310,933,320	100.00%	\$ 317,267,700	100.00%
Full Tax Rate per \$1,000 of assessed valuation	\$ 50.25		\$ 49.95	

Note 7 – Risk Management

A. 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 2016, 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 -\$41,258,638 (\$1,000 deductible)

Automobile Liability -\$5,000,000 (\$500 -\$1,000 deductible)

Uninsured Motorists -\$1,000,000

General Liability -\$5,000,000 each per occurrence/\$7,000,000 aggregate

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

B. Workers' Compensation

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

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C. Employee Medical Benefits

The School District has contract with Core Source to provide dental benefits under the Oasis Trust plan. The plan pays a schedule of benefits for the dental services provided to enrolled employees.

The School District has also contracted with the Jefferson Health Plan, a risk-sharing, claims servicing, and insurance purchasing pool, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The plan offers medical and prescription drug coverage on a self-insured basis, as well as the opportunity to participate in the group purchasing of life insurance coverage.

Note 8 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

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For the Fiscal Year Ended June 30, 2016

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The School District’s contractually required contribution to SERS was \$416,390 for fiscal year 2016.

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Wayne County, Ohio
Notes to the Basic Financial Statements
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Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

Southeast Local School District
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A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$930,256 for fiscal year 2016.

Net Pension Liability

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

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 17,972,459	\$ 4,004,933	\$ 21,977,392
Proportion of the Net Pension Liability	0.06503250%	0.07018690%	

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

The most recent experience study was completed June 30, 2010.

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

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 5,553,402	\$ 4,004,933	\$ 2,700,993

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increase	2.75 percent at 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2.00 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year, for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

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

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

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

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

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

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School District's proportionate share of the net pension liability	\$ 24,965,101	\$ 17,972,459	\$ 12,059,137

Note 9: Postemployment Benefits

A. School Employees Retirement System

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

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Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were \$40,275, \$63,505 and \$43,107, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$72,201, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

Southeast Local School District
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Notes to the Basic Financial Statements
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Note 10 - Interfund Transfers

During fiscal year 2016, the general fund transferred \$4,620,000 to the schoolwide building program fund. Transfers were used to move receipts in accordance with the schoolwide building program.

Note 11 – Set-Aside Requirements

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

The following cash basis information describes the change in the fiscal year-end set-aside amounts for capital improvements. Disclosure of this information is required by State statute.

	Capital Improvement Reserve
Set-Aside Restricted Balance, June 30, 2015	\$ 0
Current Year Set-Aside Requirement	255,486
Current Year Offset	(378,915)
Total	\$ (123,429)
Balance Carried Forward to Fiscal Year 2017	\$ 0
Set-Aside Restricted Balance June 30, 2016	\$ 0

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

Southeast Local School District
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Note 12 – Fund Balance

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:

	<u>General</u>	<u>Schoolwide Building Program</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Nonspendable for:				
Unclaimed Funds	\$ 411	\$ 0	\$ 0	\$ 411
Restricted for:				
Permanent Improvements	0	0	217,018	217,018
Food Service Operations	0	0	250,010	250,010
Special Trust	0	0	465	465
Extracurricular Activities	0	0	52,591	52,591
Auxiliary Services	0	0	52,076	52,076
Instructional Programs	0	596,894	0	596,894
Special Education	0	0	11,282	11,282
Data Communications	0	0	10,800	10,800
Entry Year Programs	0	0	800	800
Telecommunity	0	0	16,356	16,356
Total Restricted	<u>0</u>	<u>596,894</u>	<u>611,398</u>	<u>1,208,292</u>
Assigned for:				
Instruction	72,198	0	0	72,198
Support Services	368,526	0	0	368,526
Extracurricular	3,746	0	0	3,746
Public School Support	48,485	0	0	48,485
Subsequent Year Appropriations	698,297	0	0	698,297
Total Assigned	<u>1,191,252</u>	<u>0</u>	<u>0</u>	<u>1,191,252</u>
Unassigned	<u>6,031,566</u>	<u>0</u>	<u>(10,552)</u>	<u>6,021,014</u>
Total Fund Balances	<u>\$ 7,223,229</u>	<u>\$ 596,894</u>	<u>\$ 600,846</u>	<u>\$ 8,420,969</u>

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

Note 13 – Contingencies and Significant Commitments

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2016.

B. Litigation

The School District is not party to any claims or lawsuits that would, in the School District’s opinion, have a material effect of the basic financial statements.

C. Other Commitments

The School District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed or assigned classifications of fund balance. At year end, the School District’s commitments for encumbrances in the governmental funds were as follows:

Fund	Amount
General	\$ 445,562
Schoolwide Building Program	30,361
Nonmajor Governmental	251,547
	\$ 727,470

D. School District Funding

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

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

Note 14– Jointly Governed Organizations

A. Wayne County Career Center

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

B. Tri-County Computer Service Association

The Tri-County Computer Services Association (TCCSA) is a jointly governed organization comprised of 23 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts supports TCCSA based upon a per pupil charge dependent upon the software package utilized. The TCCSA council of governments consists of a superintendent or designated representative from each participating district. TCCSA is governed by an executive committee chosen from the general membership of the TCCSA council of governments. The executive committee consists of the chairman of each operating committee and at least an assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the Executive Director at the TCCSA, located at 2125 Eagle Pass, Wooster, Ohio 44691. During the fiscal year ended June 30, 2016, the School District paid \$129,517 to TCCSA for basic service charges.

Note 15 – Related Organization

During fiscal year 2016, the School District provided educational management information systems coordinating services and other administrative services to the Beacon Hill Community School. The Beacon Hill Community School issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to Beacon Hill Community School, 9048 Dover Road, Apple Creek, Ohio 44606.

Note 16 – Contractual Commitments

At June 30, 2016, the School District had the following outstanding contractual commitments:

	Contract Amount	Expenditures as of June 30, 2016	Amount Remaining on Contract
Boiler Replacement	\$ 192,313	\$ 88,019	\$ 104,294
Security Cameras	23,802	7,683	16,119
New Roof	75,093	0	75,093
Exterior Repairs	19,005	2,500	16,505
	<u>\$ 310,213</u>	<u>\$ 98,202</u>	<u>\$ 212,011</u>

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

Note 17 – Leases

In April, 2015, the School District entered in a \$251,820, 48-month lease-purchase agreement with De Lage Landen Public Finance LLC to finance the purchase of three school buses. The School District disbursed \$65,652 to pay lease costs for the fiscal year ended June 30, 2016. Future lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 65,652
2018	<u>65,651</u>
Total Payments	<u>\$ 131,303</u>

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education</i>		
Child Nutrition Cluster:		
Non-Cash Assistance (Food Distribution)		
National School Lunch Program	10.555	\$ 17,927
Cash Assistance:		
School Breakfast Program	10.553	69,915
National School Lunch Program	10.555	283,233
Total Child Nutrition Cluster		371,075
Total U.S. Department of Agriculture		371,075
U.S. DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education</i>		
Special Education - Grants to States	84.027	347,174
Title I Grants to Local Educational Agencies	84.010	1,101,174
Improving Teacher Quality State Grants	84.367	195,500
Rural Education	84.358	28,465
English Language Acquisition State Grants	84.365	2,068
Total U.S. Department of Education		1,674,381
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 2,045,456

The accompanying notes are an integral part of this schedule.

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Southeast Local School District, Wayne County (the School District's) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The School District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D – FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southeast Local School District, Wayne County, Ohio (the School District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 27, 2016, wherein we noted the School District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

School District's Response to Finding

The School District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School District's response and, accordingly, we express no opinion on it.

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

October 27, 2016



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Southeast Local School District's, Wayne County, Ohio (the School District's), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the School District's major federal program for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the School District's major federal program.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the School District's compliance for the School District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the School District's major program. However, our audit does not provide a legal determination of the School District's compliance.

Opinion on the Major Federal Program

In our opinion, the Southeast Local School District, Wayne County, Ohio complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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



Dave Yost
Auditor of State
Columbus, Ohio

October 27, 2016

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	CFDA # 84.010 – Title I Grants to Local Educational Agencies
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR §200.520?	No

SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY

SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016
(Continued)

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

FINDING NUMBER 2016-001

Noncompliance

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

Ohio Admin. Code § 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP). The School District prepared its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This presentation differs from GAAP. There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. Failure to prepare proper GAAP financial statements may result in the School District being fined or other administrative remedies.

The School District should prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Officials' Response: Every year the Board of Education passes a resolution to prepare cash basis financial statements. The Southeast Local School Board of Education recognizes the value in preparing timely and accurate financial statements to reflect the School District's operations as of fiscal year end. Due to the cost requirements of preparing these financial statements according to Generally Accepted Accounting Principles (GAAP), the Board has determined that preparing year end statements on a cash basis of accounting will reflect the School District's financial position and allow for resources previously spent on GAAP to be allocated for educational purposes.

3. FINDINGS FOR FEDERAL AWARDS

None

**SOUTHEAST LOCAL SCHOOL DISTRICT
WAYNE COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
JUNE 30, 2016**

Finding Number	Finding Summary	Status	Additional Information
2015-001 2014-001	ORC 117.38 and OAC 117-2-(03)B - Filing GAAP Financial Statements	Not Corrected	See finding 2016-001 and Official's response

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SOUTHEAST LOCAL SCHOOL DISTRICT

WAYNE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 6, 2016**