



**Auditor of State  
Betty Montgomery**



**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Seneca East Local School District  
Seneca County  
109 Seneca Street, P.O. Box 462  
Attica, Ohio 44807-0462

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Seneca East Local School District, Seneca County, (the District) as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Seneca East Local School District, Seneca County, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District changed the capitalization threshold for capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 16, 2003

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**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2003

	<b>Governmental Fund Types</b>		
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>
<b>ASSETS AND OTHER DEBITS</b>			
<b>Assets:</b>			
Equity in pooled cash and cash equivalents	\$ 349,081	\$ 193,809	\$ 58,247
Cash with fiscal agent	-	71	-
Receivables (net of allowances of uncollectibles):			
Property taxes - current and delinquent	2,021,805	-	-
Accounts	-	880	-
Accrued interest	164	-	-
Interfund loan receivable	31,955	-	-
Advances to other funds	417	-	-
Materials and supplies inventory	23,187	-	-
Prepayments	76,489	-	-
Property, plant and equipment (net of accumulated depreciation where applicable)	-	-	-
<b>Other debits:</b>			
Amount to be provided for retirement of general long-term obligations	-	-	-
<b>Total assets and other debits</b>	<b>\$ 2,503,098</b>	<b>\$ 194,760</b>	<b>\$ 58,247</b>



Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$ 981	\$ 127,990	\$ -	\$ -	\$ 730,108
-	-	-	-	71
-	-	-	-	2,021,805
142	-	-	-	1,022
-	-	-	-	164
-	-	-	-	31,955
-	-	-	-	417
14,597	-	-	-	37,784
-	-	-	-	76,489
16,775	-	2,860,893	-	2,877,668
-	-	-	701,282	701,282
<b>\$ 32,495</b>	<b>\$ 127,990</b>	<b>\$ 2,860,893</b>	<b>\$ 701,282</b>	<b>\$ 6,478,765</b>

(Continued)

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2003  
(Continued)

	<b>Governmental Fund Types</b>		
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 28,238	\$ 4,207	\$ -
Accrued wages and benefits	539,822	14,988	-
Compensated absences payable	5,638	15,591	-
Pension obligation payable	99,884	1,064	-
Interfund loans payable	-	11,582	-
Advance from other funds	-	-	-
Deferred revenue	1,646,830	-	-
Due to other governments	18,580	446	-
Due to students	-	-	-
Capital lease obligation	-	-	-
Energy conservation loans payable	-	-	-
	<b>2,338,992</b>	<b>47,878</b>	<b>-</b>
Total liabilities			
<b>Equity and other credits:</b>			
Investment in general fixed assets	-	-	-
Contributed capital	-	-	-
Retained earnings (accumulated deficit): unreserved	-	-	-
Fund balances (deficit):			
Reserved for encumbrances	157,491	6,228	-
Reserved for materials and supplies inventory	23,187	-	-
Reserved for prepayments	76,489	-	-
Reserved for tax revenue unavailable for appropriation	130,624	-	-
Reserved for advances	417	-	-
Unreserved-undesignated	(224,102)	140,654	58,247
	<b>164,106</b>	<b>146,882</b>	<b>58,247</b>
Total equity and other credits			
<b>Total liabilities, equity and other credits</b>	<b>\$ 2,503,098</b>	<b>\$ 194,760</b>	<b>\$ 58,247</b>

*The notes to the general-purpose financial statements are an integral part of this statement.*

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$ -	\$ -	\$ -	\$ -	\$ 32,445
17,838	-	-	-	572,648
15,124	-	-	515,903	552,256
18,287	-	-	65,009	184,244
20,373	-	-	-	31,955
417	-	-	-	417
-	-	-	-	1,646,830
609	28,526	-	-	48,161
-	-	-	-	-
-	-	-	105,220	105,220
-	-	-	15,150	15,150
<u>72,648</u>	<u>28,526</u>	<u>-</u>	<u>701,282</u>	<u>3,189,326</u>
-	-	2,860,893	-	2,860,893
14,672	-	-	-	14,672
(54,825)	-	-	-	(54,825)
-	-	-	-	163,719
-	-	-	-	23,187
-	-	-	-	76,489
-	-	-	-	130,624
-	-	-	-	417
-	99,464	-	-	74,263
<u>(40,153)</u>	<u>99,464</u>	<u>2,860,893</u>	<u>-</u>	<u>3,289,439</u>
<u>\$ 32,495</u>	<u>\$ 127,990</u>	<u>\$ 2,860,893</u>	<u>\$ 701,282</u>	<u>\$ 6,478,765</u>

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<b>Governmental Fund Types</b>	
	<b>General</b>	<b>Special Revenue</b>
<b>Revenues:</b>		
From local sources:		
Taxes	\$ 2,380,688	\$ -
Tuition	489,558	17
Earnings on investments	11,787	-
Extracurricular	-	89,701
Gifts and donations	-	-
Other local revenues	67,213	50,752
Other revenue	-	-
Intergovernmental - State	4,109,533	76,750
Intergovernmental - Federal	-	292,616
Total revenue	<u>7,058,779</u>	<u>509,836</u>
<b>Expenditures:</b>		
Current:		
Instruction:		
Regular	3,692,244	142,147
Special	686,813	101,001
Vocational	229,682	-
Other	-	-
Support services:		
Pupil	187,015	119,549
Instructional staff	279,127	34,543
Board of Education	32,614	-
Administration	532,927	6,628
Fiscal	182,855	-
Operations and maintenance	620,130	-
Pupil transportation	478,992	1,877
Central	-	918
Community services	125	-
Extracurricular activities	167,364	92,449
Facilities acquisition and construction	-	-
Capital outlay	-	155,787
Debt service:		
Principal retirement	-	50,567
Interest and fiscal charges	-	4,253
Total expenditures	<u>7,089,888</u>	<u>709,719</u>
Excess of revenues over (under) expenditures	<u>(31,109)</u>	<u>(199,883)</u>
<b>Other financing sources (uses):</b>		
Proceeds from sale of fixed assets	300	-
Proceeds from capital lease transaction	-	155,787
Operating transfers in	-	140,200
Operating transfers out	<u>(156,705)</u>	<u>-</u>
Total other financing sources (uses)	<u>(156,405)</u>	<u>295,987</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	(187,514)	96,104
Fund balances, July 1	352,264	50,778
Decrease in reserve for inventory	(644)	-
<b>Fund balances, June 30</b>	<u><u>\$ 164,106</u></u>	<u><u>\$ 146,882</u></u>

*The notes to the general-purpose financial statements are an integral part of this statement.*

Governmental Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust	
\$ -	\$ 42	\$ -	\$ 2,380,730
-	-	-	489,575
-	715	830	13,332
-	-	-	89,701
-	-	1,667	1,667
-	-	-	117,965
-	3,582	-	3,582
-	-	-	4,186,283
-	-	-	292,616
-	4,339	2,497	7,575,451
-	6,078	-	3,840,469
-	-	-	787,814
-	-	-	229,682
-	-	1,000	1,000
-	-	-	306,564
-	53,186	-	366,856
-	-	-	32,614
-	-	-	539,555
-	-	-	182,855
-	-	-	620,130
-	-	-	480,869
-	-	-	918
-	-	-	125
-	-	-	259,813
-	5,232	-	5,232
-	-	-	155,787
15,309	-	-	65,876
1,196	-	-	5,449
16,505	64,496	1,000	7,881,608
(16,505)	(60,157)	1,497	(306,157)
-	-	-	300
-	-	-	155,787
16,505	-	-	156,705
-	-	-	(156,705)
16,505	-	-	156,087
-	(60,157)	1,497	(150,070)
-	118,404	97,967	619,413
-	-	-	(644)
<b>\$ -</b>	<b>\$ 58,247</b>	<b>\$ 99,464</b>	<b>\$ 468,699</b>

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General		Variance: Favorable (Unfavorable)
	Revised Budget	Actual	
<b>Revenues:</b>			
From local sources:			
Taxes	\$ 2,624,980	\$ 2,527,810	\$ (97,170)
Tuition	489,972	489,558	(414)
Earnings on investments	17,988	11,927	(6,061)
Extracurricular		-	-
Other local revenues	91,129	69,993	(21,136)
Other revenue	-	-	-
Intergovernmental - State	4,049,658	4,109,533	59,875
Intergovernmental - Federal	-	-	-
Total revenues	<u>7,273,727</u>	<u>7,208,821</u>	<u>(64,906)</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	3,823,056	3,763,426	59,630
Special	687,365	687,337	28
Vocational	247,145	239,985	7,160
Support services:			
Pupil	190,467	184,823	5,644
Instructional staff	309,155	289,434	19,721
Board of Education	65,617	63,053	2,564
Administration	558,114	541,049	17,065
Fiscal	185,268	182,773	2,495
Operations and maintenance	620,603	613,096	7,507
Pupil transportation	592,697	563,920	28,777
Central	-	-	-
Community services	125	125	-
Extracurricular activities	168,862	167,684	1,178
Facilities acquisition and construction	-	-	-
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	<u>7,448,474</u>	<u>7,296,705</u>	<u>151,769</u>
Excess of revenues over (under) expenditures	<u>(174,747)</u>	<u>(87,884)</u>	<u>86,863</u>
<b>Other financing sources (uses):</b>			
Proceeds from sale of fixed assets	-	300	300
Advances in	22,000	-	(22,000)
Advances out	(34,000)	(31,954)	2,046
Operating transfers in	8,597	-	(8,597)
Operating transfers out	(160,000)	(156,705)	3,295
Refund of prior year receipts	(1,000)	-	1,000
Refund of prior year expenditures	1,337	38,815	37,478
Total other financing sources (uses)	<u>(163,066)</u>	<u>(149,544)</u>	<u>13,522</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	(337,813)	(237,428)	100,385
Fund balances, July 1	154,496	154,496	-
Prior year encumbrances appropriated	253,410	253,410	-
<b>Fund balances, June 30</b>	<u><u>\$ 70,093</u></u>	<u><u>\$ 170,478</u></u>	<u><u>\$ 100,385</u></u>

Special Revenue			Debt Service		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,866	17	(1,849)	-	-	-
-	-	-	-	-	-
147,294	88,885	(58,409)	-	-	-
50	500	450	-	-	-
-	-	-	-	-	-
78,292	81,542	3,250	-	-	-
280,343	280,343	-	-	-	-
<u>507,845</u>	<u>451,287</u>	<u>(56,558)</u>	<u>-</u>	<u>-</u>	<u>-</u>
140,024	133,810	6,214	-	-	-
111,080	99,924	11,156	-	-	-
-	-	-	-	-	-
119,409	119,409	-	-	-	-
28,757	28,757	-	-	-	-
-	-	-	-	-	-
6,013	6,013	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
140,200	1,219	138,981	-	-	-
918	918	-	-	-	-
-	-	-	-	-	-
138,812	98,446	40,366	-	-	-
-	-	-	-	-	-
-	-	-	15,309	15,309	-
-	-	-	1,196	1,196	-
<u>685,213</u>	<u>488,496</u>	<u>196,717</u>	<u>16,505</u>	<u>16,505</u>	<u>-</u>
<u>(177,368)</u>	<u>(37,209)</u>	<u>140,159</u>	<u>(16,505)</u>	<u>(16,505)</u>	<u>-</u>
-	-	-	-	-	-
-	11,582	11,582	-	-	-
-	-	-	-	-	-
140,200	140,200	-	16,505	16,505	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>140,200</u>	<u>151,782</u>	<u>11,582</u>	<u>16,505</u>	<u>16,505</u>	<u>-</u>
(37,168)	114,573	151,741	-	-	-
55,906	55,906	-	-	-	-
15,018	15,018	-	-	-	-
<u>\$ 33,756</u>	<u>\$ 185,497</u>	<u>\$ 151,741</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)

	<b>Capital Projects</b>		
	<b>Budget Revised</b>	<b>Actual</b>	<b>Variance: Favorable (Unfavorable)</b>
<b>Revenues:</b>			
From local sources:			
Taxes	\$ -	\$ 42	\$ 42
Tuition	-	-	-
Earnings on investments	919	715	(204)
Extracurricular	-	-	-
Other local revenues	-	-	-
Other revenue	4,000	4,000	-
Intergovernmental - State	-	-	-
Intergovernmental - Federal	-	-	-
Total revenues	<u>4,919</u>	<u>4,757</u>	<u>(162)</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	6,112	6,112	-
Special	-	-	-
Vocational	-	-	-
Support services:			
Pupil	-	-	-
Instructional staff	61,890	53,190	8,700
Board of Education	-	-	-
Administration	-	-	-
Fiscal	-	-	-
Operations and maintenance	-	-	-
Pupil transportation	-	-	-
Central	-	-	-
Community services	-	-	-
Extracurricular activities	-	-	-
Facilities acquisition and construction	5,716	5,232	484
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	<u>73,718</u>	<u>64,534</u>	<u>9,184</u>
Excess of revenues over (under) expenditures	<u>(68,799)</u>	<u>(59,777)</u>	<u>9,022</u>
<b>Other financing sources (uses):</b>			
Proceeds from sale of fixed assets	-	-	-
Advances in	-	-	-
Advances out	-	-	-
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Refund of prior year receipts	(418)	(418)	-
Refund of prior year expenditures	-	-	-
Total other financing sources (uses)	<u>(418)</u>	<u>(418)</u>	<u>-</u>
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	(69,217)	(60,195)	9,022
Fund balances, July 1	83,328	83,328	-
Prior year encumbrances appropriated	35,114	35,114	-
<b>Fund balances, June 30</b>	<u><u>\$ 49,225</u></u>	<u><u>\$ 58,247</u></u>	<u><u>\$ 9,022</u></u>

*The notes to the general-purpose financial statements are an integral part of this statement.*



**Total (Memorandum only)**

<b>Budget Revised</b>	<b>Actual</b>	<b>Variance: Favorable (Unfavorable)</b>
\$ 2,624,980	\$ 2,527,852	\$ (97,128)
491,838	489,575	(2,263)
18,907	12,642	(6,265)
147,294	88,885	(58,409)
91,179	70,493	(20,686)
4,000	4,000	-
4,127,950	4,191,075	63,125
280,343	280,343	-
<b>7,786,491</b>	<b>7,664,865</b>	<b>(121,626)</b>
3,969,192	3,903,348	65,844
798,445	787,261	11,184
247,145	239,985	7,160
309,876	304,232	5,644
399,802	371,381	28,421
65,617	63,053	2,564
564,127	547,062	17,065
185,268	182,773	2,495
620,603	613,096	7,507
732,897	565,139	167,758
918	918	-
125	125	-
307,674	266,130	41,544
5,716	5,232	484
15,309	15,309	-
1,196	1,196	-
<b>8,223,910</b>	<b>7,866,240</b>	<b>357,670</b>
<b>(437,419)</b>	<b>(201,375)</b>	<b>236,044</b>
-	300	300
22,000	11,582	(10,418)
(34,000)	(31,954)	2,046
165,302	156,705	(8,597)
(160,000)	(156,705)	3,295
(1,418)	(418)	1,000
1,337	38,815	37,478
<b>(6,779)</b>	<b>18,325</b>	<b>25,104</b>
(444,198)	(183,050)	261,148
293,730	293,730	-
303,542	303,542	-
<b>\$ 153,074</b>	<b>\$ 414,222</b>	<b>\$ 261,148</b>

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
FUND EQUITY  
PROPRIETARY FUND TYPE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<b>Enterprise</b>
<b>Operating revenues:</b>	
Sales/charges for services	\$ 244,709
<b>Operating expenses:</b>	
Personal services	202,245
Contract services	3,570
Materials and supplies	141,321
Depreciation	1,245
Other	1,286
Total operating expenses	349,667
Operating loss	(104,958)
<b>Nonoperating revenues:</b>	
Operating grants	62,284
Federal commodities	36,531
Total nonoperating revenues	98,815
Net loss	(6,143)
Retained earnings (accumulated deficit) (restated), July 1	(48,682)
Retained earnings (accumulated deficit), June 30	(54,825)
Contributed capital at June 30	14,672
<b>Total fund equity at June 30</b>	<b>\$ (40,153)</b>

*The notes to the general-purpose financial statements are an integral part of this statement.*

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND TYPE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<b>Enterprise</b>
<b>Cash flows from operating activities:</b>	
Cash received from sales/service charges	\$ 244,567
Cash payments for personal services	(199,816)
Cash payments for contract services	(3,570)
Cash payments for materials and supplies	(116,418)
Cash payments for other expenses	(1,286)
	(76,523)
 <b>Net cash used in operating activities</b>	
<b>Cash flows from noncapital financing activities:</b>	
Cash received from operating grants	62,284
Cash received from interfund loans	20,373
	82,657
 <b>Net cash provided by noncapital financing activities</b>	
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets	(6,375)
	(6,375)
 <b>Net cash used in capital and related financing activities</b>	
Net decrease in cash and cash equivalents	(241)
Cash and cash equivalents at beginning of year	1,222
	981
 <b>Cash and cash equivalents at end of year</b>	
 <b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss	\$ (104,958)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	1,245
Federal donated commodities	36,531
Changes in assets and liabilities:	
Increase in materials and supplies inventory	(4,046)
Increase in accounts receivable	(142)
Decrease in accounts payable	(14)
Decrease in accrued wages and benefits	(133)
Decrease in due to other governments	(36)
Decrease in compensated absences payable	(18)
Increase in pension obligation payable	2,616
Decrease in deferred revenue	(7,568)
	(76,523)
 <b>Net cash used in operating activities</b>	
	<b>\$ (76,523)</b>

*The notes to the general-purpose financial statements are an integral part of this statement.*

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**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

**1. DESCRIPTION OF THE SCHOOL DISTRICT**

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

The District was established in 1971. The District serves an area of approximately 154 square miles and is located in Seneca and Huron Counties. The District is the 477<sup>th</sup> largest in the State of Ohio (among the 740 public and community school districts) in terms of enrollment. It is staffed by 75 certified employees and 63 non-certified teaching personnel who provide services to 1,043 students and other community members. The District currently operates two elementary schools, an elementary/junior high school, a high school, and an administration building.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The general-purpose financial statements (GPFS) of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

**A. Reporting Entity**

The District's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". When applying GASB Statement No. 14, management has considered all potential component units.

The basic, but not the only, criterion for including a potential component unit within the reporting entity is the District's ability to exercise significant oversight responsibility. The most significant manifestation of this ability is financial interdependence. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units. The following organizations are described due to their relationship with the District.

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)

PUBLIC ENTITY RISK POOLS

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

The Association is a public entity risk pool consisting of the North Central Ohio Educational Service Center, the Sandusky County Educational Service Center, and five local school districts - Tiffin, Old Fort, Bettsville, Seneca East, and New Riegel. The Association was established pursuant to § 9.833, Ohio Revised Code, in order to act as a common risk management and insurance program. The Association's Board of Directors is comprised of one member from each of the local school districts, the North Central Ohio Educational Service Center, and the Sandusky County Educational Service Center. The North Central Ohio Educational Service Center acts as fiscal agent to the Association. Refer to Note 13.B. for further information on this public entity risk pool.

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating plan for workers' compensation as established in § 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Program (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Refer to Note 13.C. for further information on this group rating plan.

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

The District is a participant in the Northern Ohio Educational Computer Association (NOECA), which is a computer consortium. NOECA is an association of 41 public school districts formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. Financial information can be obtained from Betty Schwiefert, who serves as Controller, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Vanguard-Sentinel Career Center

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

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)

Bay Area Council

The Bay Area Council was established in 1986 to carry out a cooperative program for the purchase of natural gas among boards of education located in Erie, Huron, Ottawa, Sandusky, Seneca, and Wood Counties. The Bay Area Council is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member boards of education. The Bay Area Council is governed by a Board of Directors. This Board is elected by an Assembly consisting of a representative from each participating school district. The District paid \$54,709 to Bay Area Council during fiscal year 2003 for gas usage and related fees. Financial information can be obtained from the Erie County Educational Service Center, who serves as fiscal agent, 2902 Columbus Avenue, Sandusky, Ohio 44870.

RELATED ORGANIZATION

Seneca East Public Library

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

**B. Fund Accounting**

The District uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

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

General Fund - The general fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition of construction of major capital facilities (other than those financed by proprietary funds).

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities, which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the District's proprietary fund types.

Enterprise Funds - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include an expendable trust fund and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are presented on a budgetary basis, with note disclosure, if applicable, regarding items, which, in other funds, would be subject to accrual (see Note 3.C.).

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of general nature, the following account groups are used.

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This group of accounts is established to account for all long-term obligations of the District, other than those accounted for in the proprietary funds.



**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)

**C. Measurement Focus/Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is followed for all governmental funds and the expendable trust fund. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the District is sixty days after the June 30 year-end. Revenues accrued at the end of the year include taxes, (to the extent they are intended to finance the current fiscal year), interest, and accounts (student fees and tuition). Current property taxes measurable as of June 30, 2003, and which are intended to finance fiscal 2004 operations, have been recorded as deferred revenues. In proprietary funds, unused donated commodities are reported as deferred revenue.

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the recognition of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

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

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exception: general long-term obligation principal and interest are reported only when due; and costs of accumulated unpaid vacation and sick leave

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NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)

are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The proprietary funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense and a like amount is reported as donated commodities revenue.

On the accrual basis of accounting, revenue from nonexchange transactions, such as grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been met. The proprietary funds receive no revenue from property or income taxes.

**D. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds except agency funds. The specific timetable for fiscal year 2003 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Seneca County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund and function level of expenditures for the general fund and the fund level of expenditures for all other budgeted funds, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.

**SENECA EAST LOCAL SCHOOL DISTRICT  
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NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)

5. Any revisions that alter the total of any function appropriations within the general fund or alter the fund appropriation for all other budgeted funds must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2003.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at fund and function level of expenditures for the general fund and at the fund level of expenditures for all other budgeted funds.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability. For governmental fund types, encumbrances outstanding at year-end appear as a reserve to the fund balance on a GAAP basis and as the equivalent of expenditures on a non-GAAP budgetary basis in order to demonstrate legal compliance. Note 17 provides a reconciliation of the budgetary and GAAP basis of accounting and disclosure of the encumbrances outstanding for governmental fund types at fiscal year-end.

**E. Cash and Investments**

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

Cash and cash equivalents held for the District by the North Central Ohio Educational Service Center are included on the combined balance sheet as "Cash with Fiscal Agent".

During fiscal year 2003, investments were limited to a repurchase agreement and certificates of deposit. These investments are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. During fiscal 2003, interest revenue credited to the general fund amounted to \$11,787, which includes \$4,843 assigned from other District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)

to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

**F. Inventory**

Inventories for all governmental funds are valued at cost (first-in/first-out method). The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, material amounts of inventories at period end are reported as assets of the respective fund, which are equally offset by a fund balance reserve which indicates they are unavailable for appropriation even though they are a component of reported assets.

Inventories of proprietary funds are valued at the lower of cost (first-in/first-out method) or market and expensed when used rather than when purchased.

**G. Prepays**

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefiting from the advance payment. At fiscal year-end, because prepayment is not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

**H. Fixed Assets and Depreciation**

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the enterprise funds are capitalized in the respective funds. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair value as of the date received. The District increased its capitalization threshold from \$500 to \$5,000 during fiscal 2003. The District does not have any infrastructure.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Improvements to the enterprise fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of eight to twenty years.

**I. Compensated Absences**

Compensated absences of the District consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered

**SENECA EAST LOCAL SCHOOL DISTRICT  
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NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
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(Continued)

and are not contingent on a specific event that is outside the control of the District and the employee.

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

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

Accumulated vacation and severance of governmental fund type employees meeting the above requirements have been recorded in the appropriate governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the general long-term obligations account group. Vacation and sick leave for employees meeting the above requirements who are paid from proprietary funds is recorded as an expense when earned.

**J. Long-Term Obligations**

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a government fund. The remaining portion of such obligations is reported in the general long-term obligations account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

**K. Fund Equity**

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances, materials and supplies inventory, prepayments, tax advance unavailable for appropriation and advances. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds. The reserve for tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriations under state statute.

**L. Interfund Transactions**

During the course of normal operations, the District has numerous transactions between funds. The most significant include:

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund. Quasi-external transactions are accounted for as revenues, expenditures or expenses.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as "interfund loans receivable or payable". The District had short-term interfund loans receivable and payable at June 30, 2003.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources. The District had long-term advances receivable and payable at June 30, 2003.

An analysis of interfund transactions is presented in Note 5.

**M. Contributions of Capital**

Contributed capital represents resources from other funds, other governments, and private sources provided to the enterprise funds that is not subject to repayment. These assets are recorded at their fair market value on the date donated. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at fiscal year-end. In accordance with GASB Statement No. 33, capital contributions are recorded as revenue and a component of retained earnings at year-end. Contributed capital in the enterprise funds at June 30, 2003 is \$14,672.

**N. Estimates**

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

**O. Other Local Revenues**

The revenue line item "Other Local Revenues" includes income derived from rental activities, services provided to other entities, customer services and other miscellaneous revenue.

**P. Memorandum Only - Total Columns**

Total columns on the GPFS are captioned (Memorandum Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
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**3. ACCOUNTABILITY AND COMPLIANCE**

**A. Accounting Change**

During fiscal year 2003, the District increased their capitalization threshold from \$500 to \$5,000. Due to variances between the restated balances and amounts previously reported as fixed assets, an adjustment is required to restate the general fixed asset account group (see Note 9) and the retained earnings in the Food Service enterprise fund. The adjustment had the following effect on retained earnings as previously reported as of June 30, 2002:

	Enterprise
Retained earnings as previously reported	\$ (31,152)
Restatement for capitalization threshold	(17,530)
Restated retained earnings as of July 1, 2002	\$ (48,682)

**B. Deficit Fund Balances/Retained Earnings**

Fund balances/retained earnings at June 30, 2003 included the following fund deficits:

	Deficit Balance
<u>Special Revenue Funds</u>	
District Managed Student Activities	\$ 2,600
Management Information Systems	20
Title I	254
Title II	2
Classroom Reduction Grant	1,025
<u>Enterprise Fund</u>	
Food Service	54,825

All funds complied with Ohio state law, which does not permit a cash basis deficit at year-end.

The deficit fund balances in the District Managed Student Activities, Management Information Systems, Title I, Title II and Classroom Reduction Grant special revenue funds are caused by accruing wage, benefit and retirement obligations in accordance with GAAP.

The deficit retained earnings in the Food Service enterprise fund is a result of accruing wage, benefit, retirement obligations in accordance with GAAP.

**C. Agency Fund**

The following are accruals for the agency fund, which, in another fund type, would be recognized in the combined balance sheet:

**SENECA EAST LOCAL SCHOOL DISTRICT  
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(Continued)

ASSETS	
Accounts receivable	\$ 1,082
LIABILITIES	
Accounts payable	160

**4. EQUITY IN POOLED CASH AND INVESTMENTS**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories:

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

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

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

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

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

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



**SENECA EAST LOCAL SCHOOL DISTRICT  
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NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
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value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments 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 District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand: At fiscal year-end, the District had \$430 in undeposited cash on hand which is included on the balance sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents".

Cash with Fiscal Agent: At fiscal year-end, the District had \$71 in cash and cash equivalents held by the North Central Ohio Educational Service Center. This amount is included on the balance sheet as "Cash with Fiscal Agent". The North Central Ohio Educational Service Center holds this flow through grant money for the District together with that of other school districts and therefore the District cannot classify this money by risk under GASB Statement No. 3.

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

Deposits: At year-end, the carrying amount of the District's deposits, including non-negotiable certificates of deposit, was \$343,673 and the bank balance, including non-negotiable certificates of deposit, was \$375,252. Of the bank balance:

1. \$220,000 was covered by federal depository insurance; and

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2. \$155,252 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to § 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposits in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name.

	Category 3	Reported Amount	Fair Value
Repurchase agreement	\$ 386,005	\$ 386,005	\$ 386,005

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and cash equivalents on the combined balance sheet and the classifications of deposits and investments per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 730,179	\$ -
Cash with fiscal agent	(71)	-
Cash on hand	(430)	-
Investments of the cash management pool:		
Repurchase agreement	(386,005)	386,005
GASB Statement No. 3	\$ 343,673	\$ 386,005

**5. INTERFUND TRANSACTIONS**

- A. The following is a summarized breakdown of the District's operating transfers for fiscal year 2003:

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	Transfers In	Transfers Out
General Fund	\$ -	\$ 156,705
Debt Service Fund:		
Bond Retirement	16,505	-
Special Revenue Fund:		
Termination Benefits	140,200	-
Total	\$ 156,705	\$ 156,705

- B.** The following is a summarized breakdown of the District's interfund loans receivable and payable at June 30, 2003:

	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$ 31,955	\$ -
Special Revenue Fund:		
District Managed Activities	-	11,582
Enterprise Fund:		
Food Service	-	20,373
Total	\$ 31,955	\$ 31,955

- C.** The following is a reconciliation of the District's long-term advances to and from other funds at June 30, 2003:

	Advances to Other Funds	Advances from Other Funds
General Fund	\$ 417	\$ -
Enterprise Fund:		
Food Service	-	417
Total	\$ 417	\$ 417

**6. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District. Real property taxes and public utility taxes are levied after November 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35 percent of appraised market value.

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Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35 percent of market value and personal property is assessed at varying rates of true value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25 percent of true value. The assessed value upon which the 2002 taxes were collected was \$88,327,797. Agricultural/residential and public utility real estate represented 80 percent or \$71,201,732 of this total; commercial and industrial real estate represented 4 percent or \$3,846,700 of this total, public utility tangible represented 13 percent or \$10,844,180 of this total and general tangible property represented 3 percent or \$2,435,187 of this total. The voted general tax rate at the fiscal year ended June 30, 2003 was \$38.30 per \$1,000.00 of assessed valuation for operations.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20.

The Seneca and Huron County Treasurers collect property tax on behalf of the District and periodically remit, to the District, its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2003. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. A total of \$130,624 available to the District as an advance at June 30, and is recognized as revenue.

Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2003, are reflected as a reservation of fund balance. The District is prohibited, by law, from appropriating this revenue in accordance with ORC § 5705.35, since an advance of revenue was not requested or received prior to fiscal year-end.

**7. SCHOOL DISTRICT INCOME TAX**

The voters of the District passed a 1 percent school district income tax at the November 7, 2000 election that became effective January 1, 2001. This tax is effective for five years. School district income tax revenue received by the general fund during fiscal year 2003 was \$1,054,951.

**8. RECEIVABLES**

Receivables at June 30, 2003, consisted of taxes, accrued interest, accounts (billings for user charged services and student fees) and interfund loans. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of receivables follows:

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	Amounts
General Fund:	
Taxes - current and delinquent	\$ 2,021,805
Accrued interest	164
Interfund loan receivable	31,955
Special Revenue Funds:	
Accounts	880
Enterprise Funds:	
Accounts	142

**9. FIXED ASSETS**

- A. The general fixed assets account group has been restated as of July 1, 2002 due to an increase in the capitalization threshold from \$500 to \$5,000 during fiscal year 2003.

	Balance 07/01/02	Adjustment	Restated Balance 07/01/02
Land / Improvements	\$ 108,564	\$ (19,806)	\$ 88,758
Buildings / Improvements	1,435,634	(24,655)	1,410,979
Furniture / Equipment	1,280,767	(1,121,129)	159,638
Books	435,167	(63,976)	371,191
Vehicles	896,815	(325,207)	571,608
Total	\$ 4,156,947	\$ (1,554,773)	\$ 2,602,174

A summary of the changes in the general fixed assets account group during the fiscal year follows:

Asset Category	Restated Balance 07/01/02	Increase	Decrease	Balance 06/30/03
Land / Improvements	\$ 88,758	\$ -	\$ -	\$ 88,758
Buildings / Improvements	1,410,979	30,600	-	1,441,579
Furniture / Equipment	159,638	177,820	-	337,458
Books	371,191	-	-	371,191
Vehicles	571,608	50,299	-	621,907
Total	\$ 2,602,174	\$ 258,719	\$ -	\$ 2,860,893

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**B.** A summary of the proprietary fixed assets at June 30, 2003 follows:

Furniture / Equipment	\$	42,633
Less: Accumulated Depreciation		25,858
Net Fixed Assets	\$	16,775

**10. CAPITAL LEASE**

During fiscal year 2003, the District entered into a capitalized lease for physical fitness equipment. This lease meets the criteria of a capital lease as defined by GASB Statement no. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined GPFS for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General fixed assets consisting of equipment has been capitalized in the general fixed assets account group in the amount of \$155,787. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments of \$50,567 were made during fiscal year 2003 from the District Managed Student Activities special revenue fund.

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

Fiscal Year Ended	Amount
June 30, 2003	
2004	\$ 54,820
2005	54,820
Total	109,640
Less: Amount representin interest	(4,420)
Present value of minimum lease payments	\$ 105,220

**11. EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and state laws. Classified employees earn 10 to 20 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 225 days for school personnel. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of fifty-six and one-quarter days.

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**B. Health Care Benefits**

The District provides medical, dental, and life insurance to all employees through the North Central Ohio Joint Self-Insurance Association. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

**12. LONG-TERM OBLIGATIONS**

**A.** During the fiscal year-ended June 30, 2003, the following changes occurred in liabilities reported in the general long-term obligations account group. Compensated absences are reported net of actual increases and decreases due to the impracticality of determining these values. Compensated absences and the pension benefit obligation will ultimately be paid from the fund from which the employee is paid.

	Balance 07/01/02	Increase	Decrease	Balance 06/30/03
Compensated absences	\$ 494,027	\$ 21,876	\$ -	\$ 515,903
Pension obligation payable	55,732	65,009	55,732	65,009
Capital lease obligation	-	155,787	50,567	105,220
Energy conservation loan payable - 5.00%	14,591	-	12,793	1,798
Energy conservation loan payable - 5.35%	<u>15,868</u>	<u>-</u>	<u>2,516</u>	<u>13,352</u>
<b>Total</b>	<u>\$ 580,218</u>	<u>\$ 242,672</u>	<u>\$ 121,608</u>	<u>\$ 701,282</u>

FY 1994 Energy Conservation Loan - On November 15, 1993, the School District obtained a loan, in the amount of \$75,547, from Sutton Bank to provide energy conservation measures for the School District. The loan was issued under the authority of Ohio Revised Code § 133.06 for a ten-year period, with final maturity in fiscal year 2004. The loan is being retired through the Bond Retirement debt service fund.

FY 2000 Energy Conservation Loan - On November 16, 1999, the District obtained a loan, in the amount of \$30,000, from Sutton Bank to provide funds for an energy conservation lighting project for the District. The loan was issued under the authority of Ohio Revised Code § 133.06 for a five-year period, with final maturity in fiscal year 2005. The loan is being retired through the Bond Retirement debt service fund.

Compensated absences and pension obligations, representing the District's contractually required pension contribution, will be paid from the fund from which the employees' salaries are paid. Compensated absences are presented net of actual increases and decrease due to the impracticality of determining these values.

Principal and interest requirements to retire the energy conservation loans outstanding at June 30, 2003, are as follows:

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Fiscal Year Ending June 30,	Principal	Interest	Total
2004	\$ 11,243	\$ 441	\$ 11,684
2005	3,907	53	3,960
Total	<u>\$ 15,150</u>	<u>\$ 494</u>	<u>\$ 15,644</u>

**B. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9 percent of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District. The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$7,949,502 and an unvoted debt margin 73,178.

**13. RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the District contracted for the following insurance coverages:

Coverages provided by Lindsey Insurance are as follows:

Buildings and contents - replacement cost (\$2,500 deductible)	\$ 15,190,709
Computer equipment (\$250 deductible)	443,003
Contractor's equipment (\$250 deductible)	46,518
Miscellaneous radio (\$250 deductible)	17,213
Musical instruments	173,837
Automobile liability	1,000,000
Uninsured motorists	100,000
Medical payments - per person	5,000
Comprehensive (\$50 deductible)	
Collision (\$100 deductible)	
Umbrella liability (per occurrence)	1,000,000
Umbrella liability (aggregate)	2,000,000
Fire damage (any one fire)	300,000
Medical expense (any one person)	15,000

Coverages provided by Ohio Mutual Insurance Association are as follows:

Farm buildings and contents (\$100 deductible)	\$ 101,900
Crop hailstorm	17,500

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



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**B. Health Insurance**

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

**C. Workers' Compensation**

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

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**14. SEGMENT INFORMATION - ENTERPRISE FUNDS**

The District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects, in a summarized format, the more significant financial data relating to the enterprise funds of the District as of and for the fiscal year ended June 30, 2003.

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	Food Service	Uniform School Supplies	Total
Operating revenue	\$ 244,709	\$ -	\$ 244,709
Operating expenses before depreciation	348,421	1	348,422
Depreciation	1,245	-	1,245
Operating loss	(104,957)	(1)	(104,958)
Operating grants	62,284	-	62,284
Federal donated commodities	36,531	-	36,531
Net loss	(6,142)	(1)	(6,143)
Net working capital	(38,671)	-	(38,671)
Total assets	32,495	-	32,495
Total liabilities	72,648	-	72,648
Contributed capital	14,672	-	14,672
Total equity	(40,153)	-	(40,153)

**15. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate of 14 percent for 2003, 8.17 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$72,565, \$47,409, and \$33,227, respectively; 40 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$43,490 represents the unpaid contribution for fiscal year 2003.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial

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statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$440,243, \$307,231, and \$291,087, respectively; 83 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$74,579 represents the unpaid contribution for fiscal year 2003.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2003, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

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**16. POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$33,865 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.011 billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002 (the latest information available), net health care costs paid by STRS were \$354.697 million and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$182.947 million and the target level was \$274.4 million. At June 30, 2002, (the latest information available) SERS had net assets available for payment of health care benefits of \$335.2 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$73,849 during the 2003 fiscal year.

**17. BUDGETARY BASIS OF ACCOUNTING**

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

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances -Budget and Actual Comparison - All Governmental Fund Types is presented on the budgetary basis to provide

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a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

	Excess of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses		
	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Budget basis	\$ (237,428)	\$ 114,573	\$ (60,195)
Net adjustment for revenue accruals	(150,042)	58,549	(418)
Net adjustment for expenditure accruals	28,214	(229,535)	38
Net adjustment for other financing sources/uses	(6,861)	144,205	418
Encumbrances (budget basis)	178,603	8,312	-
GAAP basis	\$ (187,514)	\$ 96,104	\$ (60,157)

**18. CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2003.

**B. State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003  
(Continued)

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**19. STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	Textbooks	Capital Acquisition
Set-aside balance as of June 30, 2002	\$ (46,704)	\$ 98
Current year set-aside requirement	137,109	137,109
Qualifying disbursements	(123,939)	(195,540)
Balance carried forward to FY 2004	\$ (33,534)	\$ -

Although the District had qualifying disbursements during the fiscal year that reduced the set-aside amount below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

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**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
<i>Passed Through Ohio Department of Education:</i>		
<u>Nutrition Cluster:</u>		
Food Distribution Program		10.550
National School Lunch Program	049684-LLP4-2002 049684-LLP4-2003	10.555
Total Nation School Lunch Program		
Total U.S. Department of Agriculture - Nutrition Cluster		
<b>U.S. DEPARTMENT OF EDUCATION</b>		
<i>Passed Through Ohio Department of Education:</i>		
Grants to Local Educational Agencies (ESEA Title I)	049684-C1S1-2002 049684-C1S1-2003	84.010
Total Grants to Local Educational Agencies		
Special Education Grants to States (IDEA Part B)	049684-6BSF-2003-P	84.027
Drug-Free Schools Grant	049684-DRS1-2002 049684-DRS1-2003	84.186
Total Drug-Free School Grant		
Innovative Educational Program Strategies	049684-C2S1-2002 049684-C2S1-2003	84.298
Total Innovative Educational Program Strategies		
Technology Literacy Challenge Fund Grants (Title II Part D)	049684-TJS1-2002	84.318
Class Size Reduction	049684-CRS1-2002	84.340
ATIP Grant	049684-ATS2-2002 049684-ATS3-2002	84.352A
Total ATIP Grant		
Improving Teacher Quality State Grants (Title II Part A)	049684-TRS1-2003	84.367
Total U.S. Department of Education		

**Totals**

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



<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
\$ -	\$ 36,531	\$ -	\$ 36,531
9,180	-	9,180	-
51,370	-	51,370	-
<u>60,550</u>	<u>-</u>	<u>60,550</u>	<u>-</u>
<b>60,550</b>	<b>36,531</b>	<b>60,550</b>	<b>36,531</b>
1,660	-	27,018	-
99,449	-	88,293	-
<u>101,109</u>	<u>-</u>	<u>115,311</u>	<u>-</u>
119,409	-	119,409	-
-	-	491	-
4,792	-	4,535	-
<u>4,792</u>	<u>-</u>	<u>5,026</u>	<u>-</u>
-	-	753	-
5,754	-	5,754	-
<u>5,754</u>	<u>-</u>	<u>6,507</u>	<u>-</u>
2,723	-	2,723	-
-	-	2,802	-
2,290	-	321	-
6,894	-	6,879	-
<u>9,184</u>	<u>-</u>	<u>7,200</u>	<u>-</u>
42,164	-	38,204	-
<u>285,135</u>	<u>-</u>	<u>297,182</u>	<u>-</u>
<b>\$ 345,685</b>	<b>\$ 36,531</b>	<b>\$ 357,732</b>	<b>\$ 36,531</b>

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B – CHILD NUTRITION CLUSTER**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Seneca East Local School District  
Seneca County  
109 Seneca Street, P.O. Box 462  
Attica, Ohio 44807-0462

To the Board of Education:

We have audited the financial statements of the Seneca East Local School District (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 16, 2003, in which we noted that the District changed the capitalization threshold for capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the management of the District in a separate letter dated December 16, 2003.

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Seneca East Local School District  
Seneca County  
Independent Accountants' Report on Compliance and on Internal  
Control Required by *Government Auditing Standards*  
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 16, 2003



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Seneca East Local School District  
Seneca County  
109 Seneca Street, P.O. Box 462  
Attica, Ohio 44807-0462

To the Board of Education:

**Compliance**

We have audited the compliance of the Seneca East Local School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

### **Internal Control over Compliance**

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

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

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



**Betty Montgomery**  
Auditor of State

December 16, 2003

**SENECA EAST LOCAL SCHOOL DISTRICT  
SENECA COUNTY**

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505  
JUNE 30, 2003

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Nutrition Cluster: Food Distribution Program CFDA #10.550 National School Lunch Program CFDA #10.555  Special Education Grants to States CFDA #84.027
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

None.

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

None.

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**Auditor of State  
Betty Montgomery**

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**SENECA EAST LOCAL SCHOOL DISTRICT**

**SENECA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JANUARY 29, 2004**