



Mary Taylor, CPA  
Auditor of State



**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
ROSS COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets .....	10
Statement of Activities.....	11
Balance Sheet – Governmental Funds.....	12
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities .....	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Budgetary Basis) and Actual - General Fund.....	16
Statement of Fund Net Assets – Governmental Activities - Internal Service Fund .....	17
Statement of Revenues, Expenses and Changes in Fund Net Assets - Governmental Activities – Internal Service Fund.....	18
Statement of Cash Flows – Governmental Activities – Internal Service Fund .....	19
Statement of Fiduciary Net Assets – Fiduciary Funds.....	20
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund.....	21
Notes to the Basic Financial Statements .....	22
Federal Awards Receipts and Expenditures Schedule.....	47
Notes to the Federal Awards Receipts and Expenditures Schedule .....	48
Independent Accountants' Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Required By <i>Government Auditing Standards</i> .....	49
Independent Accountants' Report on Compliance with Requirements Applicable to each Major Federal Program and Internal Control Over Compliance In Accordance with OMB Circular A-133 .....	51
Schedule of Findings.....	53
Schedule of Prior Audit Findings.....	56

**THIS PAGE INTENTIONALLY LEFT BLANK**



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Southeastern Local School District  
Ross County  
2003 Lancaster Road  
Chillicothe, Ohio 45601

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southeastern Local School District, Ross County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southeastern Local School District, Ross County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards receipts and expenditures schedule is 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 basic financial statements. We subjected the federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

April 5, 2007

**Southeastern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

---

---

The discussion and analysis of the Southeastern Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

**FINANCIAL HIGHLIGHTS**

**Key financial highlights for the fiscal year 2006 are as follows:**

- Net assets of governmental activities increased \$95,344.
- General revenues accounted for \$8,240,337 or 77% of all revenues. Program specific revenues in the form of charges for services and sales, operating and capital grants and contributions, accounted for \$2,498,480 or 23% of total revenues of \$10,738,817.
- The School District had \$10,643,473 in expenses related to governmental activities; only \$2,498,480 of these expenses were offset by program specific charges for services and sales, operating and capital grants and contributions.

**USING THIS ANNUAL FINANCIAL REPORT**

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

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

**Southeastern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

---

---

***Reporting the School District as a Whole***

*Statement of Net Assets and Statement of Activities*

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

*Fund Financial Statements*

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, the Bond Retirement Debt Service Fund, and the Classroom Facilities Capital Projects Fund.

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

***Proprietary Funds*** The District maintains a proprietary fund. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical and dental self insurance.

***Fiduciary Funds*** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The School District's fiduciary funds are agency funds and private purpose trust funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.



**Southeastern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

The School District's fiduciary funds are agency funds which are used to maintain financial activity of the School District's Student Managed Activities, and private purpose trust funds which are used to maintain the financial activity of the School District's Scholarship Funds.

**THE SCHOOL DISTRICT AS A WHOLE**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2006 compared to 2005.

Table 1  
Net Assets

	Governmental Activities	
	2006	2005
<b>Assets</b>		
Current and Other Assets	\$5,866,572	\$5,670,508
Capital Assets	27,077,303	27,588,678
<b>Total Assets</b>	<u>32,943,875</u>	<u>33,259,186</u>
<b>Liabilities</b>		
Current and Other Liabilities	3,094,151	3,331,348
Long-term Liabilities	5,525,955	5,694,654
<b>Total Liabilities</b>	<u>8,620,106</u>	<u>9,026,002</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	22,040,886	22,387,324
Restricted	1,384,313	1,496,354
Unrestricted	898,570	349,506
<b>Total Net Assets</b>	<u>\$24,323,769</u>	<u>\$24,233,184</u>

Please note that the 2005 amounts were not restated for comparative purposes.

Total net assets of the District as a whole increased \$95,344. This slight increase was due to lower instructional costs this fiscal year.

**Southeastern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2006 and June 30, 2005.

Table 2  
Changes in Net Assets

	Governmental Activities	Governmental Activities
	2006	2005
<b>Revenues</b>		
Program Revenues		
Charges for Services and Sales	\$ 743,800	\$ 282,430
Operating Grants and Contributions	1,726,006	1,741,907
Capital Grants and Contributions	28,674	20,195
Total Program Revenues	<u>2,498,480</u>	<u>2,044,532</u>
General Revenues		
Property Taxes	1,832,216	1,860,877
Income Taxes	122,968	506,810
Grants and Entitlements Not Restricted to Specific Programs	5,983,853	6,070,679
Investment Earnings	124,610	69,563
Gain on Sale of Capital Assets	102,651	-
Gifts and Donations	22,000	-
Miscellaneous	52,039	483,831
Total General Revenues	<u>8,240,337</u>	<u>8,991,760</u>
Total Revenues	<u>10,738,817</u>	<u>11,036,292</u>
<b>Program Expenses</b>		
Instruction:		
Regular	4,539,719	4,885,608
Special	1,098,345	984,934
Support Services:		
Pupils	408,061	542,708
Instructional Staff	376,218	346,663
Board of Education	26,400	29,056
Administration	518,218	499,340
Fiscal	184,461	220,476
Business	352,994	556,377
Operation and Maintenance of Plant	1,079,756	1,129,756
Pupil Transportation	1,016,244	846,297
Central	-	94,098
Operation of Non-Instructional Services	400,633	399,800
Extracurricular Activities	354,707	555,418
Interest and Fiscal Charges	287,717	295,189
Total Expenses	<u>10,643,473</u>	<u>11,385,720</u>
Increase (Decrease) in Net Assets	95,344	(349,428)
Net Assets, Beginning of Year - (As Restated See Note 3)	24,228,425	24,582,612
Net Assets, End of Year	<u>\$ 24,323,769</u>	<u>\$ 24,233,184</u>

Please note that amounts in the 2005 column were not restated for comparative purposes.

Income tax revenue is down as the levy expired December 30, 2004 and the only collections are for delinquencies.

**Southeastern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

The most significant program expenses for the District are Regular Instruction, Operation and Maintenance of Plant and Special Instruction. These programs account for 63 percent of the total governmental activities. Regular Instruction, which accounts for 43 percent of the total, represents costs associated with providing general educational services. Operation and Maintenance of Plant, which represents 10 percent of the total, represents costs associated with operating and maintaining the District's facilities. Special Instruction, which represents 10 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students.

The majority of the funding for the most significant programs indicated above is from program revenue operating grants, property taxes, and grants and entitlements not restricted for specific programs. Program revenue operating grants, property taxes, and grants and entitlements not restricted for specific programs account for 86 percent of total revenues for governmental activities.

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

Table 3  
 Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2006		2005	
Program Expenses				
Instruction:				
Regular	\$4,539,719	\$3,845,126	\$4,885,608	\$4,455,240
Special	1,098,345	224,209	984,934	192,526
Support Services:				
Pupils	408,061	340,718	542,708	420,827
Instructional Staff	376,218	172,568	346,663	158,452
Board of Education	26,400	24,909	29,056	28,905
Administration	518,218	485,964	499,340	495,567
Fiscal	184,461	172,691	220,476	218,963
Business	352,994	327,958	556,377	549,268
Operation and Maintenance of Plant	1,079,756	1,018,046	1,129,756	1,123,043
Pupil Transportation	1,016,244	950,457	846,297	814,105
Central	0	0	94,098	94,098
Operation of Non-Instructional Services	400,633	62,453	399,800	45,677
Extracurricular Activities	354,707	238,218	555,418	449,328
Interest and Fiscal Charges	287,717	281,676	295,189	295,189
Total	<u>\$10,643,473</u>	<u>\$8,144,993</u>	<u>\$11,385,720</u>	<u>\$9,341,188</u>

It should be noted that 23 percent of the costs of services are derived from program revenues including charges for services, sales, operating grants and contributions.

**Southeastern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

**THE SCHOOL DISTRICT'S FUNDS**

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$11,050,943 and expenditures and other financing uses of \$10,965,466.

The School District has three major funds; the General Fund, the Bond Retirement Debt Service Fund, and the Classroom Facilities Capital Projects Fund. The General Fund had \$8,606,144 in revenues and other financing sources and \$8,429,640 in expenditures and other financing uses. The General Fund's balance increased \$176,504. The Bond Retirement Debt Service Fund had \$340,848 in revenues and \$315,628 in expenditures. The Bond Retirement Debt Service Fund's balance increased by \$25,220. The Classroom Facilities Capital Projects Fund had \$33,054 in revenues and \$11,750 in expenditures. The Classroom Facilities Capital Projects Fund's balance increased by \$21,304. The increase in fund balance in the General Fund was \$176,504 due to savings in instruction costs with consistent revenue.

***General Fund Budgeting Highlights***

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2006, the School District amended its General Fund budget.

For the General Fund, final budget basis revenue was \$9,163,568, which increased from the original estimates of \$8,550,544. Of this \$613,024 difference, most was due to receiving more tuition and fees revenue than expected. For the General Fund, final budget basis expenditures was \$10,036,642, which decreased from the original estimates of \$10,087,178. Of this \$50,536 difference, most was due to lower than anticipated instructional costs.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

***Capital Assets***

At the end of fiscal year 2006, the School District had \$27,077,303 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, and library and textbooks. For additional information on capital assets, see Note 10 to the basic financial statements. Table 4 shows fiscal year 2006 balances compared to 2005.

Table 4  
 Capital Assets  
 (Net of Depreciation)

	Governmental Activities	
	2006	2005
Land	\$705,000	\$705,000
Construction in Progress	-	1,767,146
Land Improvements	2,643,069	2,673,725
Buildings and Improvements	22,436,186	21,040,270
Furniture and Equipment	450,206	493,416
Vehicles	546,236	568,754
Library Books and Textbooks	296,606	340,367
Totals	\$27,077,303	\$27,588,678

The overall decrease in capital assets of \$511,375 is due to depreciation expense of \$1,066,191 exceeding capital additions in the current period.

**Southeastern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

---

***Debt***

At June 30, 2006, the School District had \$5,036,417 in bonds and certificate of participation outstanding with \$156,000 due within one year. Table 5 summarizes the bond and notes outstanding. The bonds were issued for school construction.

Table 5  
Outstanding Debt at Year End

	2006	2005
2000 General Obligation Bonds	\$ 3,557,417	\$ 3,654,304
Certificate of Participation	1,479,000	1,509,000

For additional information on debt, see Note 15 to the basic financial statements.

**CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

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

**Southeastern Local School District**  
*Statement of Net Assets*  
*June 30, 2006*

	Governmental Activities
<b>Assets</b>	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 3,468,178
Cash and Cash Equivalents with fiscal agents	273,788
Cash and Cash Equivalents with Trustee	3,364
Investment with Trustee	225,481
Intergovernmental Receivable	120,653
Taxes Receivable	1,775,108
Noncurrent Assets:	
Nondepreciable Capital Assets	705,000
Depreciable Capital Assets, Net	26,372,303
<i>Total Assets</i>	<i>32,943,875</i>
<b>Liabilities</b>	
Current Liabilities:	
Accounts Payable	102,077
Accrued Wages and Benefits Payable	744,141
Intergovernmental Payable	509,151
Accrued Interest Payable	37,636
Matured Compensated Absences Payable	11,774
Deferred Revenue	1,543,461
Claims Payable	145,911
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	181,944
Due In More Than One Year	5,344,011
<i>Total Liabilities</i>	<i>8,620,106</i>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	22,040,886
Restricted for:	
Debt Service	345,749
Capital Outlay	1,038,564
Unrestricted	898,570
<i>Total Net Assets</i>	<i>\$ 24,323,769</i>

See accompanying notes to the basic financial statements.

**Southeastern Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2006

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$ 4,539,719	\$ 233,515	\$ 461,078	\$ -	\$ (3,845,126)
Special	1,098,345	39,486	834,650	-	(224,209)
Support Services:					
Pupils	408,061	20,242	32,637	14,464	(340,718)
Instructional Staff	376,218	7,787	195,863	-	(172,568)
Board of Education	26,400	1,491	-	-	(24,909)
Administration	518,218	29,022	3,232	-	(485,964)
Fiscal	184,461	10,120	1,650	-	(172,691)
Business	352,994	20,036	5,000	-	(327,958)
Operation and Maintenance of Plant	1,079,756	60,240	1,470	-	(1,018,046)
Pupil Transportation	1,016,244	51,577	-	14,210	(950,457)
Operation of Non-Instructional					
Services	400,633	147,754	190,426	-	(62,453)
Extracurricular Activities	354,707	116,489	-	-	(238,218)
Interest and Fiscal Charges	287,717	6,041	-	-	(281,676)
<b>Totals</b>	<b>\$ 10,643,473</b>	<b>\$ 743,800</b>	<b>\$ 1,726,006</b>	<b>\$ 28,674</b>	<b>(8,144,993)</b>
<b>General Revenues</b>					
Property Taxes Levied for:					
General Purposes					1,492,348
Debt Service					309,622
Special Purposes					30,246
Income Taxes					122,968
Grants and Entitlements not Restricted to Specific Programs					5,983,853
Investment Earnings					124,610
Gain on Sale of Capital Assets					102,651
Gifts and Donations not Restricted to Specific Programs					22,000
Miscellaneous					52,039
<i>Total General Revenues</i>					<u>8,240,337</u>
<i>Change in Net Assets</i>					95,344
<i>Net Assets Beginning of Year - (As Restated See Note 3)</i>					<u>24,228,425</u>
<i>Net Assets End of Year</i>					<u>\$ 24,323,769</u>

See accompanying notes to the basic financial statements.

**Southeastern Local School District**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2006*

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$ 1,799,550	\$ 304,315	\$ 804,590	\$ 453,896	\$ 3,362,351
Cash and Cash Equivalents with Trustee	-	-	-	3,364	3,364
Investment with Trustee	-	-	-	225,481	225,481
Interfund Receivable	229,414	-	-	-	229,414
Receivables:					
Intergovernmental	-	-	-	95,856	95,856
Taxes	1,443,027	302,712	-	29,369	1,775,108
<i>Total Assets</i>	<u>\$ 3,471,991</u>	<u>\$ 607,027</u>	<u>\$ 804,590</u>	<u>\$ 807,966</u>	<u>\$ 5,691,574</u>
<b>Liabilities</b>					
Accounts Payable	\$ 67,418	\$ -	\$ -	\$ 34,659	\$ 102,077
Accrued Wages and Benefits Payable	606,403	-	-	137,738	744,141
Interfund Payable	-	-	-	229,414	229,414
Intergovernmental Payable	394,323	-	-	114,828	509,151
Matured Compensated Absences Payable	11,774	-	-	-	11,774
Deferred Revenue	1,302,516	271,406	-	35,159	1,609,081
<i>Total Liabilities</i>	<u>2,382,434</u>	<u>271,406</u>	<u>-</u>	<u>551,798</u>	<u>3,205,638</u>
<b>Fund Balances</b>					
Reserved:					
Reserved for Encumbrances	201,514	-	-	122,843	324,357
Reserved for Property Taxes	140,511	31,306	-	2,996	174,813
Reserved for Advances	104,978	-	-	-	104,978
Unreserved, Undesignated, Reported in:					
General Fund	642,554	-	-	-	642,554
Special Revenue Funds	-	-	-	(103,645)	(103,645)
Debt Service Funds	-	304,315	-	-	304,315
Capital Projects Funds	-	-	804,590	233,974	1,038,564
<i>Total Fund Balances</i>	<u>1,089,557</u>	<u>335,621</u>	<u>804,590</u>	<u>256,168</u>	<u>2,485,936</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,471,991</u>	<u>\$ 607,027</u>	<u>\$ 804,590</u>	<u>\$ 807,966</u>	<u>\$ 5,691,574</u>

See accompanying notes to the basic financial statements.



**Southeastern Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 For the Fiscal Year Ended June 30, 2006*

<b>Total Governmental Fund Balances</b>		\$ 2,485,936
Amounts reported for governmental activities in the statement of activities are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		27,077,303
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	56,834	
Intergovernmental	8,786	
Total		65,620
An internal service fund is used by management to charge the cost of insurance to individuals. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		258,501
Long-Term Liabilities, including bonds, certificate of participation obligations and the long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
Accrued Interest Payable	(37,636)	
Compensated Absences	(489,538)	
Certificate of Participation Obligations	(1,479,000)	
General Obligation Bonds	(3,557,417)	
Total		(5,563,591)
<b>Net Assets of Governmental Activities</b>		<b>\$24,323,769</b>

See accompanying notes to the basic financial statements.

**Southeastern Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2006*

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$ 1,482,771	\$ 307,038	\$ -	\$ 30,022	\$ 1,819,831
Income Taxes	122,968	-	-	-	122,968
Intergovernmental	6,081,825	33,810	-	1,348,938	7,464,573
Interest	91,556	-	33,054	-	124,610
Tuition and Fees	752,864	-	-	-	752,864
Rent	49,372	-	-	1,100	50,472
Extracurricular Activities	-	-	-	133,929	133,929
Gifts and Donations	22,000	-	-	-	22,000
Customer Sales and Services	-	-	-	147,754	147,754
Miscellaneous	1,986	-	-	50,015	52,001
<i>Total Revenues</i>	<u>8,605,342</u>	<u>340,848</u>	<u>33,054</u>	<u>1,711,758</u>	<u>10,691,002</u>
<b>Expenditures</b>					
Current:					
Instruction:					
Regular	3,693,260	-	-	526,921	4,220,181
Special	692,732	-	-	398,655	1,091,387
Support Services:					
Pupils	362,901	-	-	49,744	412,645
Instructional Staff	138,981	-	-	201,676	340,657
Board of Education	26,400	-	-	-	26,400
Administration	532,401	-	-	3,466	535,867
Fiscal	168,188	-	-	5,314	173,502
Business	335,198	7,542	-	10,000	352,740
Operation and Maintenance of Plant	1,084,895	-	-	4,957	1,089,852
Pupil Transportation	914,626	-	-	-	914,626
Operation of Non-Instructional Services	-	-	-	395,775	395,775
Extracurricular Activities	147,125	-	-	123,838	270,963
Capital Outlay	-	-	11,750	488,102	499,852
Debt Service:					
Principal	30,000	115,000	-	-	145,000
Interest	76,932	193,086	-	-	270,018
<i>Total Expenditures</i>	<u>8,203,639</u>	<u>315,628</u>	<u>11,750</u>	<u>2,208,448</u>	<u>10,739,465</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>401,703</u>	<u>25,220</u>	<u>21,304</u>	<u>(496,690)</u>	<u>(48,463)</u>
<b>Other Financing Sources and Uses:</b>					
Transfers In	-	-	-	226,001	226,001
Proceeds from Sale of Capital Assets	802	-	-	133,138	133,940
Transfers Out	(226,001)	-	-	-	(226,001)
<i>Total Other Financing Sources and Uses</i>	<u>(225,199)</u>	<u>-</u>	<u>-</u>	<u>359,139</u>	<u>133,940</u>
<i>Net Change in Fund Balances</i>	176,504	25,220	21,304	(137,551)	85,477
<i>Fund Balances at Beginning of Year , As Restated (See Note 3)</i>	<u>913,053</u>	<u>310,401</u>	<u>783,286</u>	<u>393,719</u>	<u>2,400,459</u>
<i>Fund Balances at End of Year</i>	<u>\$ 1,089,557</u>	<u>\$ 335,621</u>	<u>\$ 804,590</u>	<u>\$ 256,168</u>	<u>\$ 2,485,936</u>

See accompanying notes to the basic financial statements.

**Southeastern Local School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2006*

<b>Net Change in Fund Balances-Total Governmental Funds</b>		\$ 85,477
<b>Amounts reported for governmental activities in the statement of activities are different because:</b>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		
Capital Asset Additions	586,105	
Depreciation Expense	<u>(1,066,191)</u>	
Total		(480,086)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. These are the amounts of the proceeds from the sale of capital assets and the gain on the disposal of fixed assets.		
Proceed from Sale of Capital Assets	(133,940)	
Gain on Sale of Capital Assets	<u>102,651</u>	
Total		(31,289)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	12,385	
Intergovernmental	<u>(67,221)</u>	
Total		(54,836)
Repayment of bond and note principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.		
		115,000
Repayment of certificate of participation obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.		
		30,000
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The expense of the internal service fund is allocated among the governmental activities.		
		406,965
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Decrease in Compensated Absences	41,812	
Decrease in Interest Payable	414	
Increase in Accreted Interest	<u>(18,113)</u>	
Total		<u>24,113</u>
<b>Net Change in Net Assets of Governmental Activities</b>		<u>\$ 95,344</u>

See accompanying notes to the basic financial statements.

**Southeastern Local School District**  
**Statement of Revenues, Expenditures and Changes**  
**In Fund Balance - Budget and Actual (Budgetary Basis)**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
Total Revenues and Other Financing Sources	\$ 8,550,544	\$ 9,163,568	\$ 8,628,273	\$ (535,295)
Total Expenditures and Other Financing Uses	<u>10,087,178</u>	<u>10,036,642</u>	<u>8,957,114</u>	<u>1,079,528</u>
Net Change in Fund Balance	(1,536,634)	(873,074)	(328,841)	544,233
Fund Balance at Beginning of Year	1,591,364	1,591,364	1,591,364	-
Prior Year Encumbrances Appropriated	<u>225,065</u>	<u>225,065</u>	<u>225,065</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 279,795</u>	<u>\$ 943,355</u>	<u>\$ 1,487,588</u>	<u>\$ 544,233</u>

See accompanying notes to the basic financial statements.

**Southeastern Local School District**

*Statement of Fund Net Assets*

*Governmental Activities*

*Internal Service Fund*

*June 30, 2006*

---

---

ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 105,827
Cash and Cash Equivalents with Fiscal Agents	273,788
Intergovernmental Receivable	<u>24,797</u>
<i>Total Current Assets</i>	<u>404,412</u>
<i>Total Assets</i>	<u>404,412</u>
LIABILITIES:	
Current Liabilities:	
Claims Payable	<u>145,911</u>
<i>Total Current Liabilities</i>	<u>145,911</u>
<i>Total Liabilities</i>	<u>145,911</u>
NET ASSETS:	
Unrestricted	<u>258,501</u>
<i>Total Net Assets</i>	<u><u>\$ 258,501</u></u>

See accompanying notes to the basic financial statements.

**Southeastern Local School District**  
*Statement of Revenues, Expenses and  
 Changes In Fund Net Assets  
 Governmental Activities  
 Internal Service Fund  
 For the Fiscal Year Ended June 30, 2006*

---



---

Operating Revenues:	
Charges for Services	\$1,227,926
<i>Total Operating Revenues</i>	<i>1,227,926</i>
Operating Expenses:	
Purchased Services	158,109
Claims Expense	668,156
<i>Total Operating Expenses</i>	<i>826,265</i>
Operating Income	401,661
Non-Operating Revenues:	
Interest	5,304
Total Non-Operating Revenues	5,304
Net Change in Net Assets	406,965
Net Assets (Deficit) at Beginning of Year	(148,464)
Net Assets at End of Year	\$258,501

See accompanying notes to the basic financial statements.

**Southeastern Local School District**  
*Statement of Cash Flows*  
*Governmental Activities*  
*Internal Service Fund*  
For the Fiscal Year Ended June 30, 2006

***Increase (Decrease) in Cash and Cash Equivalents***

*Cash Flows from Operating Activities:*

Cash Received from Customers	\$1,227,926
Cash Payments for Purchased Services	(158,109)
Cash Payments for Claims	<u>(712,051)</u>

*Net Cash Provided by Operating Activities* 357,766

*Cash Flows from Noncapital Financing Activities:*

Loan from Other Governments	<u>(103,505)</u>
-----------------------------	------------------

*Cash Flows from Investing Activities:*

Interest	<u>5,304</u>
----------	--------------

*Net Increase in Cash and Cash Equivalents* 259,565

Cash and Cash Equivalents at Beginning of Year 120,050

Cash and Cash Equivalents at End of Year \$379,615

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

Operating Income \$401,661

*Changes in Assets and Liabilities:*

Decrease in Claims Payable	<u>(43,895)</u>
----------------------------	-----------------

*Net Cash Provided by Operating Activities* \$357,766

See accompanying notes to the basic financial statements.

**Southeastern Local School District**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2006*

	<b>Private Purpose Trust Fund</b>	<b>Agency Fund</b>
<b>ASSETS:</b>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 4,128	\$ 27,060
<i>Total Assets</i>	4,128	27,060
<b>LIABILITIES:</b>		
Current Liabilities:		
Undistributed Monies	-	27,060
<i>Total Liabilities</i>	-	\$ 27,060
<b>NET ASSETS:</b>		
Restricted for Other Purposes	4,128	
<i>Total Net Assets</i>	\$ 4,128	

See accompanying notes to the basic financial statements.



**Southeastern Local School District**  
*Statement of Changes in Fiduciary Net Assets*  
*Fiduciary Funds*  
*For the Fiscal Year Ended June 30, 2006*

---

	<b><u>Private Purpose Trust Fund</u></b>
ADDITIONS:	
Gifts and Contributions	\$ 1,000
Interest	619
Total Additions	<u>1,619</u>
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>2,250</u>
Change in Net Assets	(631)
Net Assets Beginning of Year - As Restated (See Note 3)	<u>4,759</u>
Net Assets End of Year	<u><u>\$ 4,128</u></u>

See accompanying notes to the basic financial statements.

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

**NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

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

The School District was established in 1938 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 140 square miles. It is located in Ross County, and includes the Hamlets of Londonderry, Higby, Harrison and Richmond Dale, and portions of Liberty, Jefferson, Harrison, Springfield, Franklin and Scioto Townships. It is staffed by 72 non-certificated employees, and 75 certificated full-time teaching personnel who provide services to 1,206 students and other community members. The School District currently operates a k-12 instructional building.

*Reporting Entity:*

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

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

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

- Parent Teacher Organization
- Ross County Educational Service Center

The School District participates in six organizations, four of which are defined as jointly governed organizations, and two are insurance purchasing pools. These organizations are the South Central Ohio Computer Association, the Pickaway-Ross Career and Technology Center, the Great Seal Education Network of Tomorrow, School Study Council of Ohio, the Ross County School Employees Insurance Consortium, and the Ohio School Boards Association Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

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

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

**A. Basis of Presentation**

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

***Government-wide Financial Statements:***

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

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

***Fund Financial Statements:***

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

**B. Fund Accounting**

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

**Governmental Funds**

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

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

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

**General Fund**

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

**Bond Retirement Fund**

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

**Classroom Facilities Fund**

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

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

**Proprietary Funds**

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no Enterprise Funds. The following is a description of the School District's internal service fund:

**Internal Service Fund**

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

**Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The School District's fiduciary funds are agency funds and private purpose trust funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

The School District's fiduciary funds are agency funds which are used to maintain financial activity of the School District's Student Managed Activities, and private purpose trust funds which are used to maintain the financial activity of the School District's Scholarship Funds.

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

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

**Measurement Focus**

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

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

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

**Basis of Accounting**

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

**Revenues – Exchange and Non-exchange Transactions**

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

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

**Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities as payments come due each period upon the occurrence of employee resignations and retirements. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**C. Budgetary Process**

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

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

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

**D. Cash and Cash Equivalents**

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

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

During fiscal year 2006, the School District's investments were limited to Allegiant Govt Money Market Fund, Bayerische Hypo Und Verinsbank Investment Agreement, a certificate of deposit, and the State Treasury Assets Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund amounted to \$91,556, \$33,054 to the Classroom Facilities Fund and \$5,304 to the Internal Service Fund.

**E. Capital Assets and Depreciation**

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

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

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. All reported capital assets except land and construction in progress, are depreciated. Depreciable capital assets are depreciated using the straight-line method over an estimated useful life of 20 to 50 years for buildings and improvements, 5 to 20 years for furniture and equipment, 10 to 25 years for land improvements, 5 to 15 years for textbooks and library books, and 10 years for vehicles.

**F. Interfund Activity**

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

**G. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after 10 years of current service with the School District.

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

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “matured compensated absences payable” in the fund from which the employee will be paid.

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

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

All payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

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

**I. Fund Balance Reserves**

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

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

**J. Estimates**

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

**K. Net Assets**

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

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

Of the District’s \$1,384,313 restricted net assets, \$0 is restricted by enabling legislation.



***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**L. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “Interfund Receivables” and “Interfund Payables.” These amounts are eliminated in the governmental activities column of the statement of net assets.

**M. Operating Revenues and Expenses**

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

**NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE/NET ASSETS**

For fiscal year 2006, the School District implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year balances.

The restated fund balance amount for governmental funds and the restated net asset amount for government programs and fiduciary funds reflects the change in net assets for governmental funds at June 30, 2005 and were due to the reclassification of funds from a special revenue fund to a private purpose trust fund.

	All Other Governmental Funds
Fund Balances, June 30, 2005	\$ 398,478
Fund Reclassification	(4,759)
Restated Fund Balances, June 30, 2005	\$ 393,719
	Fiduciary Funds Private Purpose Trust Fund
Net Assets, June 30, 2005	\$ -
Net Asset Reclassification	4,759
Restated Net Assets, June 30, 2005	\$ 4,759
	Total
Net Assets, June 30, 2005	\$ 24,233,184
Fund Reclassification	(4,759)
Restated Net Assets, June 30, 2005	\$ 24,228,425

**Southeastern Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

**NOTE 4 – ACCOUNTABILITY**

At June 30, 2006, the Lunchroom, EMIS, Summer Intervention, Poverty Based, Chapter 1, Drug Free, and Reduction in Class Size Special Revenue Funds had deficit fund balances of \$140,042, \$500, \$18,029, \$13,040, \$24,354, \$185, and \$4,098 respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

**NOTE 5 – BUDGETARY BASIS OF ACCOUNTING**

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

The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

Net Change in Fund Balance	
GAAP Basis	\$176,504
Adjustments:	
Revenue Accruals and Other Financing Sources	22,128
Expenditure Accruals and Other Financing Uses	(173,224)
Encumbrances	(354,249)
Budget Basis	(\$328,841)

**NOTE 6 – DEPOSITS AND INVESTMENTS**

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

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

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

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

**NOTE 6 – DEPOSITS AND INVESTMENTS** (continued)

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.

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

1. United States treasury notes, bills, bonds, or other obligations of or security issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lend securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's total average portfolio.

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

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

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

**NOTE 6 – DEPOSITS AND INVESTMENTS** (continued)

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.

**Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The District’s policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities.

As of June 30, 2006, \$2,102,839 of the District’s bank balance of \$2,302,839 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the District’s name.

**Investments**

As of June 30, 2006, the School District had the following investments and maturities:

	<u>Carrying/Fair Value</u>	<u>Maturities 6 months or less</u>	<u>Maturities 6 to 12 months</u>
STAR Ohio	\$ 1,026,627	\$ 1,026,627	\$ -
Allegiant Govt Money Market Fund	5,481	-	5,481
Bayerische Hypo Und Verinsbank Investment Agreement	<u>220,000</u>	<u>-</u>	<u>220,000</u>
<b>Total Investment</b>	<b><u>\$ 1,252,108</u></b>	<b><u>\$ 1,026,627</u></b>	<b><u>\$ 225,481</u></b>

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting investment portfolio maturities to five years or less.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The District limited their investments to STAR Ohio and Money Market Mutual Funds. Below are the credit ratings of the School District’s investments:

	<u>Standard &amp; Poor's</u>
STAR Ohio	AAAm
Allegiant Money Market	AAAm
Bayerische Hypo	A-1

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single user. The School District’s investment policy allows investments in Federal Agencies or Instrumentalities. More than 5 percent of the District’s investments are in Money Market Mutual Funds; Bayerische Hypo Money Market Mutual fund comprised 17% of the School District’s investments and Allegiant Money Market comprised 1% of the School District’s investments. The remaining 82% is invested with STAR Ohio.

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

**NOTE 6 – DEPOSITS AND INVESTMENTS** (continued)

Custodial credit risk is the risk that in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the School District’s securities are held in the name of the School District.

**NOTE 7 – PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005.

Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The assessed values upon which fiscal year 2006 taxes were collected are:

	2005 First- Half Collections		2006 Second- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$59,412,390	79.12%	\$60,423,340	81.93%
Public Utility	9,566,690	12.74%	9,063,010	12.29%
Tangible Personal Property	6,114,710	8.14%	4,260,970	5.78%
<b>Total Assessed Value</b>	<b>\$75,093,790</b>	<b>100.00%</b>	<b>\$73,747,320</b>	<b>100.00%</b>
 Tax rate per \$1,000 of assessed valuation	 \$33.30		 \$33.30	

The School District receives property taxes from Ross County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

**NOTE 7 – PROPERTY TAXES** (continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2006, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 was levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

The amount available as an advance at June 30, 2006, was \$140,511 in the General Fund, \$31,306 in the Bond Retirement Debt Service Fund, and \$2,996 in the Classroom Facilities Maintenance Nonmajor Special Revenue Fund.

**NOTE 8 – INCOME TAX**

The School District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2000, for five years. This levy expired on December 31, 2004 and was not renewed. The District continues to receive delinquent income taxes. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund. Income tax revenues received during the year were \$122,968.

**NOTE 9 – RECEIVABLES**

Receivables at June 30, 2006, consisted of property and income taxes, intergovernmental grants and interfund amounts. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

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

	<u>Amounts</u>
Non-Major Special Revenue Funds:	
Special Education, Title VI-B	\$51,390
Chapter 1	28,653
Class Size Reduction	11,225
Safe & Drug Free Schools	4,588
Internal Service Fund	24,797
Total All Funds	<u><u>\$120,653</u></u>

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

**NOTE 10 – CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2006, was as follows:

	Ending Balance <u>06/30/05</u>	Additions	Disposals	Ending Balance <u>06/30/06</u>
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 705,000	\$ -	\$ -	\$ 705,000
Construction in Progress	<u>1,767,146</u>	-	<u>1,767,146</u>	-
Total Capital Assets, Not Being Depreciated	<u>2,472,146</u>	-	<u>1,767,146</u>	<u>705,000</u>
Capital Assets Being Depreciated				
Land Improvements	3,014,653	121,868	25,101	3,111,420
Buildings and Improvements	22,925,752	2,150,344	92,186	24,983,910
Furniture and Equipment	571,524	7,624	11,250	567,898
Vehicles	1,494,580	73,415	-	1,567,995
Library Books and Textbooks	<u>406,010</u>	-	-	<u>406,010</u>
Total Capital Assets, Being Depreciated	<u>28,412,519</u>	<u>2,353,251</u>	<u>128,537</u>	<u>30,637,233</u>
Less Accumulated Depreciation:				
Land Improvements	(340,928)	(152,524)	(25,101)	(468,351)
Buildings and Improvements	(1,885,482)	(731,576)	(69,334)	(2,547,724)
Furniture and Equipment	(78,108)	(42,397)	(2,813)	(117,692)
Vehicles	(925,826)	(95,933)	-	(1,021,759)
Library Books and Textbooks	<u>(65,643)</u>	<u>(43,761)</u>	-	<u>(109,404)</u>
Total Accumulated Depreciation	<u>(3,295,987)</u>	<u>(1,066,191)</u>	<u>(97,248)</u>	<u>(4,264,930)</u>
Total Capital Assets Being Depreciated, Net	<u>25,116,532</u>	<u>1,287,060</u>	<u>31,289</u>	<u>26,372,303</u>
Governmental Activities Capital Assets, Net	<u>\$ 27,588,678</u>	<u>\$ 1,287,060</u>	<u>\$ 1,798,435</u>	<u>\$27,077,303</u>

Depreciation expense was charged to government functions as follows:

Instruction:	
Regular	\$ 826,775
Support Services:	
Instructional Staff	36,579
Business	254
Administration	1,016
Pupil Transportation	103,252
Operation of Non-Instructional Services	14,202
Extracurricular Activities	<u>84,113</u>
Total Depreciation Expense	<u>\$ 1,066,191</u>

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

**NOTE 11 – RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted with Indiana Insurance for property and fleet insurance, liability insurance and inland marine coverage. Coverage provided by Indiana Insurance was as follows:

Building and Contents replacement cost (\$2,500 deductible)	\$30,836,941
Inland Marine Coverage (\$500 deductible)	350,000
Builders Risk (\$2,500 deductible)	500,000
Automobile Liability (\$500 deductible)	
Bodily Injury - Each person	100,000
Bodily Injury - Each accident	1,000,000
Property Damage - Each accident	50,000
General Liability:	
Per occurrence	2,000,000
Total per year	5,000,000

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

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate.

Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The School District is a member of a claims servicing pool (Note 19), consisting of fourteen school districts within Ross County and its surrounding area, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$145,911 reported in the internal service fund at June 30, 2006, is based on an estimate provided by the third party administrator and the requirements of *GASB Statement No. 30 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,"* which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:



***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

**NOTE 11 – RISK MANAGEMENT** (continued)

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2005	152,704	756,209	719,107	189,806
2006	189,806	668,156	712,051	145,911

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800)878-5853, or visiting the SERS website at [ohsers.org](http://ohsers.org).

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund health care benefits; for fiscal year 2006, 10.58% of annual covered salary was the portion allocated 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$227,614, \$330,862, and \$220,278, respectively. 55% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004.

**B. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits, to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614)227-4090, or by visiting [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plan options, 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 divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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.

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

**NOTE 12 - DEFINED BENEFIT PENSION PLANS** (continued)

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13% was the portion allocated to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13%. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$527,924, \$534,510 and \$445,536, respectively; 84% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$787,781 made by the School District and \$547,369 made by the plan members.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$40,437 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

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

**Southeastern Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

**NOTE 13 - POSTEMPLOYMENT BENEFITS** (continued)

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2% of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$337,170.

The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were \$178,221,113. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

**NOTE 14 – EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

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

**B. Insurance Benefits**

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

**C. Deferred Compensation**

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

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

**NOTE 15 – LONG-TERM OBLIGATIONS**

The changes in the School District’s long-term obligations during fiscal year 2006 were as follows:

	Amount			Amount	
	Outstanding 6/30/05	Additions	Deductions	Outstanding 6/30/06	Due in One Year
2000 General Obligation Bonds - 5.84%	3,654,304	18,113	115,000	3,557,417	125,000
Total Long-Term Bonds and Loans	3,654,304	18,113	115,000	3,557,417	125,000
Certificate of Participation Payable	1,509,000	0	30,000	1,479,000	31,000
Compensated Absences	531,350	489,538	531,350	489,538	25,944
Total General Long-Term Obligations	<u>\$5,694,654</u>	<u>\$507,651</u>	<u>\$676,350</u>	<u>\$5,525,955</u>	<u>\$181,944</u>

The amortization schedule on page 43 does not match the outstanding debt amounts listed above due to capital appreciation bonds which are being accreted.

General Obligation Bonds - The School District issued \$3,982,000 in voted general obligation bonds in 2000 for the purpose of constructing a new K-12 facility. The bonds were issued for a twenty-three year period with final maturity in December 2022. The bonds will be retired from the debt service fund.

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

Fiscal Year Ending June 30,	Amount
2013	\$175,000
2014	185,000
2015	200,000
2016	215,000
2017	235,000
2018	255,000
2019	275,000
2020	295,000
2021	320,000
2022	345,000
2023	350,000
Total	<u>\$2,850,000</u>

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

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

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

**NOTE 15 – LONG-TERM OBLIGATIONS** (continued)

The capital appreciation bonds, issued at \$27,000, are not subject to prior redemption. The capital appreciation bonds will mature in fiscal years 2010 and 2011. The maturity amount of the capital appreciation bonds is \$208,185. For fiscal year 2006, the capital appreciation bonds were accreted \$18,113.

The total outstanding bond value at fiscal year end was \$3,557,417.

In prior years, the School District has entered into a certificate of participation obligation for the construction of a new athletic complex. The School District is leasing the project from Rickenbacker Port Authority. Rickenbacker Port Authority will retain title to the project during the certificate term. Rickenbacker Port Authority has assigned US Bank as trustee. US Bank deposited \$1,525,000 in the School District's name with an escrow agent for the construction of the complex. Amounts will be paid to contractors by the School District as the work progresses. The School District will then submit the invoices to the agent for reimbursement. The School District will make semi-annual payments to US Bank. Interest rates are based on a calculation of the TBMA Index. The certificate is renewable annually and expires in 2032. The intention of the School District is to renew the certificate annually.

Principal payments in fiscal year 2006 totaled \$30,000 in the governmental funds.

At year-end, capital assets being constructed under this certificate have been capitalized as part of buildings and improvements in the statement of net assets for governmental activities in the amount of \$1,767,146. The School District has contributed additional monies for this project.

The following table represents the payments required on the Certificate of Participation for the amount outstanding at June 30, 2006:

Fiscal Year Ending June 30,	
2007	106,894
2008	106,712
2009	106,402
2010	105,982
2011	106,408
2012-2016	525,976
2017-2021	521,884
2022-2026	510,488
2027-2032	604,837
Total	2,695,583
Less: Amount Representing Interest and Admin Fees	(1,216,583)
Total Principal Outstanding	\$1,479,000

Compensated absences will be paid from the fund from which the employees' salaries are paid. The certificate of participation will be paid from the General Fund.

The School District's overall legal debt margin was \$3,079,842 with an unvoted debt margin of \$73,747 at June 30, 2006.

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

**NOTE 15 – LONG-TERM OBLIGATIONS** (continued)

Principal and interest requirements to retire Classroom Facilities Bonds outstanding at June 30, 2006, are as follows:

Fiscal Year Ending June 30,	Term Bonds		Serial Bonds		Capital Appreciation	Total
	Principal	Term Bonds Interest	Principal	Serial Bonds Interest	Principal	
2007	\$ -	\$ -	\$ 125,000	\$ 187,115	\$ -	\$ 312,115
2008	-	-	135,000	180,581	-	315,581
2009	-	-	150,000	173,347	-	323,347
2010	-	-	165,000	84,761	-	249,761
2011	15,080	320,945	-	-	-	336,025
2012-2016	786,920	884,443	-	-	350,000	2,021,363
2017-2021	1,380,000	403,127	-	-	-	1,783,127
2022-2023	695,000	39,409	-	-	-	734,409
Total	<u>\$ 2,877,000</u>	<u>\$ 1,647,924</u>	<u>\$ 575,000</u>	<u>\$ 625,804</u>	<u>\$ 350,000</u>	<u>\$ 6,075,728</u>

**NOTE 16 – INTERFUND ACTIVITY**

***Interfund Transfers***

Transfers made during the year ended June 30, 2006, were as follows:

Fund	Transfer From	Transfer To
Major Fund:		
General	\$226,001	\$0
Nonmajor Special Revenue Funds:		
Lunchroom	0	13,457
EMIS	0	4,813
Title VI	0	875
Total Nonmajor Special Revenue Funds	0	19,145
Nonmajor Capital Project Fund:		
Permanent Improvement	0	206,856
Total	<u>\$226,001</u>	<u>\$226,001</u>

The transfers were made from the General Fund (a major fund) to the Lunchroom Fund, the EMIS fund, the Title VI Fund, and the Permanent Improvement fund to provide support for activities of that fund.

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

**NOTE 16 – INTERFUND ACTIVITY** (continued)

Interfund balances at June 30, 2006, consist of the following individual fund receivables and payables, which are expected to be repaid during the 2007 fiscal year:

<u>Interfund Loans</u>	<u>Receivable</u>	<u>Payable</u>
Major Funds:		
General Fund	\$ 229,414	\$ -
Nonmajor Special Revenue Funds		
Lunchroom		65,309
Athletic		23,142
Summer Intervention		16,027
EMIS	-	500
Total Nonmajor Special Revenue Funds	-	104,978
Nonmajor Capital Project Fund		
Permanent Improvement	-	124,436
 Total Interfund Receivables/Payables	 <u>\$ 229,414</u>	 <u>\$ 229,414</u>

Advances were made from the general fund to nonmajor special revenue funds and capital project fund in anticipation of grant monies, student food service charges, athletic receipts, and other operating receipts not received during the current fiscal year. Advances to nonmajor special revenue funds are expected to be repaid in fiscal year 2008.

**NOTE 17 – JOINTLY GOVERNED ORGANIZATIONS**

*South Central Ohio Computer Association* - The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The School District paid SCOCA \$375 for services provided during the year. Financial information can be obtained from their fiscal agent, the Vern Riffe Career and Technology Center, Tonya Cooper who serves as Treasurer, at P.O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

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

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

***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

**NOTE 17 – JOINTLY GOVERNED ORGANIZATIONS** (continued)

*School Study Council of Ohio (SSCO)* – The School Study Council of Ohio (SSCO), created in 1965, is a non-profit consortium of fifty-six school districts, eleven educational service centers, four colleges of education, and eight related educational schools and agencies from thirty counties. It is owned and governed by the member organizations with the Board of Trustees representing member organizations. The District’s Superintendent represents the District on the Board of Trustees. Their mission is to enable district improvement through planning assistance, professional development, funding and related resource acquisition, research, system assessment and impact evaluation, leadership development, and other personalized technical assistance. The District has no ongoing financial interest or ongoing financial responsibility to the Council. To obtain the SSCO annual report, write to School Study Council of Ohio, 4795 Evanswood Drive, Floor 3, Columbus, Ohio 43229-7216.

**NOTE 18 – CLAIMS SERVICING AND INSURANCE PURCHASING POOLS**

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

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

**NOTE 19 – SET-ASIDE CALCULATIONS**

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

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

	Textbooks	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2005	(\$310,942)	\$0
Current Year Set-aside Replacement	176,288	176,288
Qualifying Disbursements	(139,661)	(618,651)
Set-aside Reserve Balance as of June 30, 2006	(\$274,315)	(\$442,363)

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



***Southeastern Local School District***  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006

---

**NOTE 20 – CONTINGENCIES**

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

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

**THIS PAGE INTENTIONALLY LEFT BLANK**

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
ROSS COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education</i>						
<b>Child Nutrition Cluster:</b>						
School Breakfast Program	049528-05PU-2005	10.553	\$ 4,504	\$ -	\$ 4,504	\$ -
School Breakfast Program	049528-05PU-2006	10.553	28,065	-	28,065	-
Total School Breakfast Program			32,569	-	32,569	-
National School Lunch Program	049528-LLP4-2005	10.555	25,296	-	25,296	-
National School Lunch Program	049528-LLP4-2006	10.555	122,800	-	122,800	-
Total National School Lunch Program			148,096	-	148,096	-
Total Child Nutrition Cluster (See Note "B")			180,665	-	180,665	-
Food Donation (See Note "C")	N/A	10.550	-	46,193	-	46,193
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u>180,665</u>	<u>46,193</u>	<u>180,665</u>	<u>46,193</u>
<b><u>U.S. DEPARTMENT OF Education</u></b>						
<i>Passed Through Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	049528-C1-S1-2005	84.010	12,344	-	45,335	-
Title I Grants to Local Educational Agencies	049528-C1-S1-2006	84.010	219,337	-	213,715	-
Total Title I Grants to Local Educational Agencies			231,681	-	259,050	-
Special Education Grants to States	049528-6B-SF-2005	84.027	72,140	-	55,208	-
Special Education Grants to States	049528-6B-SF-2006	84.027	248,990	-	244,588	-
Special Education Grants to States	049528-6B-PB-2005	84.027	93	-	705	-
Special Education Grants to States	049528-6B-SD-2005	84.027	2,121	-	6,849	-
Special Education Grants to States	049528-6B-SD-2006	84.027	5,128	-	4,751	-
Total Special Education Grants to States			328,472	-	312,101	-
Safe and Drug Free Schools and Communities State Grants	049528-DR-S1-2005	84.186	(742)	-	1,900	-
Safe and Drug Free Schools and Communities State Grants	049528-DR-S1-2006	84.186	9,994	-	9,508	-
Total Safe and Drug Free Schools and Communities State Grants			9,252	-	11,408	-
State Grants for Innovative Programs	049528-C2-S1-2005	84.298	2,609	-	2,999	-
State Grants for Innovative Programs	049528-C2-S1-2006	84.298	3,895	-	4,770	-
Total Innovative Educational Program Strategies			6,504	-	7,769	-
Education Technology State Grants	049528-TJ-S1-2005	84.318	(49)	-	277	-
Education Technology State Grants	049528-TJ-S1-2006	84.318	5,787	-	5,787	-
Total Education Technology State Grants			5,738	-	6,064	-
Improving Teacher Quality State Grants	049528-TR-S1-2005	84.367	11,652	-	11,861	-
Improving Teacher Quality State Grants	049528-TR-S1-2006	84.367	56,262	-	56,819	-
Total Improving Teacher Quality State Grants			67,914	-	68,680	-
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<u>649,561</u>	<u>-</u>	<u>665,072</u>	<u>-</u>
<b>Total Federal Awards Receipts and Expenditures</b>			<u>\$ 830,226</u>	<u>\$ 46,193</u>	<u>\$ 845,737</u>	<u>\$ 46,193</u>

The accompanying notes are an integral part of this schedule.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
ROSS COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (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**

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

**NOTE C – FOOD DONATION PROGRAM**

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 value of the commodities received.



# Mary Taylor, CPA

Auditor of State

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

Southeastern Local School District  
Ross County  
2003 Lancaster Road  
Chillicothe, Ohio 45601

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southeastern Local School District (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2006-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the District's management dated April 5, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

### Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 and 2006-002. In a separate letter to the District's management dated April 5, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

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

**Mary Taylor, CPA**  
Auditor of State

April 5, 2007



# Mary Taylor, CPA

Auditor of State

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

Southeastern Local School District  
Ross County  
2003 Lancaster Road  
Chillicothe, Ohio 45601

To the Board of Education:

### Compliance

We have audited the compliance of the Southeastern Local School District, Ross County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Southeastern Local School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006.

### Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated April 5, 2007.

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



**Mary Taylor, CPA**  
Auditor of State

April 5, 2007



**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
ROSS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006**

**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>	Yes
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<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>	Child Nutrition Cluster: School Breakfast Program – 10.553 National School Lunch Program– 10.555 Special Education Grant 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>	Yes

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
ROSS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
---

<b>Finding Number</b>	<b>2006-001</b>
-----------------------	-----------------

**Education Management Information System Records- Reportable Condition/Material Non-Compliance**

Ohio Rev. Code Section 3317.03 (E) requires a school district to accurately show, for each day the school is in session, the actual membership enrolled in regular day classes. This code provision further delineates which students should and should not be included in a school district's Average Daily Membership (ADM) count on the basis of residency, school attendance, and proficiency testing attendance.

ADM is one variable used to compute school districts' funding. Each school district is responsible for accurately reporting statistics to the Ohio Department of Education's Educational Management Information System (EMIS), which uses the statistics to compute the school district's ADM. Of the many statistics required to be reported, one of the most important is the determination of school attendance. Pursuant to Ohio Rev. Code Section 3317.03 (E), a school district's attendance for ADM purposes is arrived at by determining the number of students *enrolled* during the first full school week in October. This code provision also defines *enrolled* to include students who are handicapped and receiving home instruction, in attendance, or not attending but having an excused absence for a valid legal reason.

The District had no policies or procedures in place that safeguards the District's EMIS records. The District discarded the FY06 EMIS information for the attendance taken the first full school week in October as well as the attendance for the previous and subsequent weeks. As such, we can not verify the EMIS data was accurately reported to the Ohio Department of Education.

We recommend the District establish policies and procedures to ensure the EMIS records are maintained.

**Officials' Response**

The District's EMIS coordinator will be storing the records in her office locked up.

<b>Finding Number</b>	<b>2006-002</b>
-----------------------	-----------------

**Self-Insurance Fund – Material Non-Compliance**

Ohio Rev. Code Section 9.833(C)(2) and 5705.13(A) requires that health self-insurance pool members establish a separate internal service fund by ordinance or resolution to account for all claims, administrative and other related program costs.

The District established an internal service self-insurance fund for dental and vision benefits but health benefits activity was not reflected in this fund. The health benefit self-insurance activity was adjusted into the fund for GAAP financial statement presentation. By not accounting for all self-insurance transactions in an established internal service fund, the District is not in compliance with Ohio Revised Code.

We recommend the District throughout the year account for all self-insurance claims, administrative and other related program costs in a separate internal service fund.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
ROSS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006  
(Continued)**

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

<b>Finding Number</b>	<b>2006-002 (Continued)</b>
-----------------------	-----------------------------

**Self-Insurance Fund – Material Non-Compliance (continued)**

**Officials' Response**

The Treasurer will process all health insurance activity through the Internal Service Fund 024.

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

None.

**SOUTHEASTERN LOCAL SCHOOL DISTRICT  
ROSS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR § .315 (b)  
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	Ohio Revised Code Section 5705.39- Appropriations exceeding Estimated Resources	Yes	
2004-002	Ohio Revised Code Section 5705.41B- Expenditures exceeding Appropriations	Yes	



**Mary Taylor, CPA**  
Auditor of State

**SOUTHEASTERN LOCAL SCHOOL DISTRICT**

**ROSS COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 10, 2007**