



OHIO AUDITOR OF STATE
KEITH FABER



**SOUTHEAST LOCAL SCHOOL DISTRICT
PORTAGE COUNTY
JUNE 30, 2018**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Management's Discussion and Analysis	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	16
Statement of Activities.....	17
Fund Financial Statements:	
Balance Sheet	
Governmental Funds	18
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual General Fund.....	22
Statement of Fiduciary Fund Net Position Proprietary Fund.....	23
Statement of Revenues, Expenses, and Changes in Fund Net Position Proprietary Fund.....	24
Statement of Cash Flows Proprietary Fund.....	25
Statement of Fiduciary Assets and Liabilities Fiduciary Funds	26
Notes to the Basic Financial Statements	27

**SOUTHEAST LOCAL SCHOOL DISTRICT
PORTAGE COUNTY
JUNE 30, 2018**

TABLE OF CONTENTS

TITLE	PAGE
Required Supplementary Information:	
Schedule of the School District's Proportionate Share of the Net Pension Liability.....	67
Schedule of the School District's Contributions-Pension	68
Schedule of the School District's Proportionate Share of the Net OPEB Liability	70
Schedule of the School District's Contributions-OPEB	71
Notes to Required Supplementary Information	73
Federal Awards Receipts and Expenditures Schedule.....	75
Notes to the Federal Awards Receipts and Expenditures Schedule	76
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	77
Independent Auditor's Report on Compliance with Requirements Applicable to the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	79
Schedule of Findings.....	83
Prepared by Management:	
Corrective Action Plan	87

OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

Southeast Local School District
Portage County
8245 Tallmadge Road
Ravenna, Ohio 44266

To the Board of Education

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Southeast Local School District, Portage County, Ohio (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Southeast Local School District, Portage County, Ohio, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during 2018, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2019, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

February 11, 2019

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Southeast Local School District
Portage County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The discussion and analysis of the Southeast Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2018 are as follows:

- Net position increased \$6,616,977, which represents a 103% increase from 2017.
- Capital assets decreased \$1,492,012 during fiscal year 2018.
- During the fiscal year, outstanding debt decreased from \$3,038,591 to \$2,645,068 due to principal payments made by the School District.
- The School District implemented GASB 75, which reduced beginning net position as previously reported by \$5,562,836
- A decrease in net pension liability and net OPEB liability substantially decreased all instructional and support services expenses compared to fiscal year 2017. See further explanation after Table 1.

Using this Annual Report

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

The *Statement of Net Position and Statement of Activities* provide information about the activities of the whole School District, 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 nonmajor funds presented in total in one column. In the case of the School District, the general fund is by far the most significant fund.

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While the basic financial statements contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2018?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources 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.

Southeast Local School District
Portage County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

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

In the *Statement of Net Position* and the *Statement of Activities*, governmental activities include the School District's programs and services, including instruction, support services, extracurricular activities, and non- instructional services, i.e., food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The major funds financial statements begin on page 18. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the general fund.

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps 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 Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Fund The School District maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an internal service fund to account for its health insurance benefits. Because this service predominately benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements. The proprietary fund financial statements begin on page 23.

Reporting the School District's Fiduciary Responsibilities

The School District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in an agency fund. The School District's fiduciary activities are reported in separate Statement of Fiduciary Assets and Liabilities on page 26. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

Southeast Local School District
Portage County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2018 compared to 2017:

Table 1
Net Position

	Governmental Activities	
	2018	Restated 2017
Assets		
Current and Other Assets	\$ 25,129,096	\$ 25,840,658
Capital Assets	18,740,980	20,232,992
<i>Total Assets</i>	<u>43,870,076</u>	<u>46,073,650</u>
Deferred Outflows of Resources		
Pension & OPEB	<u>7,369,885</u>	<u>6,056,481</u>
Liabilities		
Current and Other Liabilities	2,518,737	2,749,040
Long-Term Liabilities:		
Due Within One Year	451,277	444,273
Due Within More Than One Year:		
Pension & OPEB	25,002,286	33,074,666
Other Amounts	<u>3,816,183</u>	<u>4,116,946</u>
<i>Total Liabilities</i>	<u>31,788,483</u>	<u>40,384,925</u>
Deferred Inflows of Resources		
Property Taxes and Other	4,939,240	4,965,443
Pension & OPEB	<u>1,464,489</u>	<u>348,991</u>
<i>Total Deferred Inflows of Resources</i>	<u>6,403,729</u>	<u>5,314,434</u>
Net Position		
Net Investment in Capital Assets	16,159,635	16,671,767
Restricted	2,025,124	2,165,127
Unrestricted	<u>(5,137,010)</u>	<u>(12,406,122)</u>
<i>Total Net Position</i>	<u>\$ 13,047,749</u>	<u>\$ 6,430,772</u>

Southeast Local School District
Portage County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2018 and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*. For fiscal year 2018, the School District adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Southeast Local School District
Portage County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the School District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the School District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at July 1, 2017, from \$11,993,608 to \$6,430,772.

At year end, capital assets represented 43% of total assets. Capital assets include construction in progress, land, land improvements, buildings and improvements, machinery and equipment, and vehicles. Net investment in capital assets was \$16,159,635 at June 30, 2018. These capital assets are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net position, \$2,025,124 or 16%, represents resources that are subject to external restrictions on how they may be used. The deficit balance of government-wide unrestricted net position was \$5,137,010.

Total current and other assets showed a net decrease of \$711,562 with a substantial decrease in pooled cash and cash equivalents and segregated cash of \$818,398. This is primarily attributed to cash basis expenditures exceeding receipts.

The significant decrease in net pension liability is largely the result of a change in benefit terms in which STRS reduced their COLA to zero coupled by a slight reduction in COLA benefits by SERS. The significant increase in deferred outflows and inflows related to pension/OPEB are primarily from the change of assumptions and the difference in projected and actual investments earnings, respectively. All components of pension and OPEB accruals contribute to the fluctuations in deferred outflows/inflows and NPL/NOL and are described in more detail in their respective notes.

Contracts payable showed a decrease of \$262,671 during the fiscal year as a result of the School District entering into fewer construction projects.

Southeast Local School District
Portage County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2018 and 2017.

Table 2
Changes in Net Position

	Governmental Activities	
	2018	2017
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 1,638,214	\$ 1,250,711
Operating Grants	2,191,363	2,378,590
Capital Grants	485	0
<i>Total Program Revenues</i>	<u>3,830,062</u>	<u>3,629,301</u>
<i>General Revenues:</i>		
Property Taxes	6,544,176	6,328,524
Grants and Entitlements Not Restricted	10,996,669	10,990,102
Other	226,240	171,120
<i>Total General Revenues</i>	<u>17,767,085</u>	<u>17,489,746</u>
<i>Total Revenues</i>	<u>21,597,147</u>	<u>21,119,047</u>
Program Expenses		
Instruction:		
Regular	3,294,333	9,006,303
Special	2,511,369	3,311,161
Vocational	98,057	181,492
Adult/Continuing	0	278
Student Intervention Services	5,094	4,318
Other	1,499,046	1,370,399
Support Services:		
Pupils	1,129,527	1,687,182
Instructional Staff	456,562	576,884
Board of Education	31,749	1,786
Administration	451,145	1,517,954
Fiscal	429,417	505,233
Business	38,627	39,575
Operation and Maintenance of Plant	2,604,675	2,217,494
Pupil Transportation	1,502,687	1,776,987
Central	21,378	21,717
Operation of Non-Instructional Services:		
Food Service Operations	609,929	694,531
Extracurricular Activities	204,905	571,261
Debt Service:		
Interest and Fiscal Charges	91,670	101,027
<i>Total Expenses</i>	<u>14,980,170</u>	<u>23,585,582</u>
<i>Increase (Decrease) in Net Position</i>	<u>6,616,977</u>	<u>(2,466,535)</u>

Southeast Local School District
Portage County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$33,000 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$690,517. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 Program Expenses under GASB 75	\$	14,980,170
Negative OPEB Expense under GASB 75		690,517
2018 Contractually Required Contribution		45,612
Adjusted 2018 Program Expenses		15,716,299
Total 2017 Program Expenses under GASB 45		23,585,582
Decrease in Program Expenses not Related to OPEB	\$	(7,869,283)

See financial highlights for explanation of fluctuations in instructional and support services expenses.

Overall revenue increased \$478,100, mainly due to an increase of \$387,503 in charges for services, attributable to tuition and payments collected from other districts.

The increase in operations and maintenance of plant expenses was a result of multiple smaller projects being capitalized in 2017 and more projects being expensed in 2018.

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

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Southeast Local School District
Portage County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Table 3
Governmental Activities

	Total Cost of Service		Net Cost of Service	
	2018	2017	2018	2017
Instruction:				
Regular	\$ 3,294,333	\$ 9,006,303	\$ 2,242,578	\$ 8,155,954
Special	2,511,369	3,311,161	897,212	1,613,638
Vocational	98,057	181,492	(115,077)	110,258
Adult/Continuing	0	278	0	278
Student Intervention Services	5,094	4,318	5,094	4,318
Other	1,499,046	1,370,399	1,499,046	1,370,399
Support Services:				
Pupils	1,129,527	1,687,182	1,129,527	1,662,183
Instructional Staff	456,562	576,884	409,092	560,256
Board of Education	31,749	1,786	31,749	1,786
Administration	451,145	1,517,954	426,228	1,447,868
Fiscal	429,417	505,233	429,417	504,224
Business	38,627	39,575	38,627	39,575
Operation and Maintenance of Plant	2,604,675	2,217,494	2,589,091	2,155,793
Pupil Transportation	1,502,687	1,776,987	1,420,194	1,711,148
Central	21,378	21,717	21,378	21,717
Operation of Non-Instructional Services:				
Food Service Operations	609,929	694,531	(19,467)	39,020
Extracurricular Activities	204,905	571,261	53,749	456,839
Debt Service:				
Interest and Fiscal Charges	91,670	101,027	91,670	101,027
<i>Total Expenses</i>	\$ 14,980,170	\$ 23,585,582	\$ 11,150,108	\$ 19,956,281

The dependence upon general revenues for governmental activities is apparent. About 74% of governmental activities are supported through taxes and other general revenues; such revenues are 82% of total governmental revenues. The community, as a whole, is by far the primary support for the School District students.

The total and net cost of services changes were primarily caused by the change in COLA related to NPL as previously discussed.

Governmental Funds

Information about the School District's major funds starts on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$21,533,094 and expenditures of \$22,634,243 for the fiscal year. The net change in fund balances for the fiscal year was a decrease of \$1,090,998 for all governmental funds with the most significant decrease in the general fund.

The general fund's net change in fund balance for fiscal year 2018 was a decrease of \$1,019,719. This decrease was the result of continued operational costs in excess of revenues.

Southeast Local School District
Portage County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

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 2018, the School District amended its general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, actual budget basis revenue was \$187,004 higher than the final budget basis revenue of \$19,131,161. The underestimation of intergovernmental revenues was the primary difference.

Original budget basis revenue of \$17,787,269 was \$1,343,892 lower than the final budget basis revenue due to an initial underestimation of federal impact-aid and tuition and fees.

Final expenditure appropriations of \$22,358,082 were \$1,067,279 higher than the actual expenditures of \$21,290,803, as cost savings were recognized for all programs throughout the year.

Final expenditure appropriations were \$147,101 higher than the original budget expenditures of \$22,210,981, primarily due to an increase in other instruction and operation and maintenance of plant.

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Southeast Local School District
Portage County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2018, the School District had \$18,740,980 invested in capital assets. Table 4 shows fiscal year 2018 balances compared with 2017.

Table 4
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2018	2017
Land	\$ 400,918	\$ 400,918
Construction in Progress	9,654	147,780
Land Improvements	280,373	341,067
Buildings and Improvements	17,196,374	18,510,852
Machinery and Equipment	189,238	163,634
Vehicles	664,423	668,741
<i>Totals</i>	\$ 18,740,980	\$ 20,232,992

The \$1,492,012 decrease in capital assets was attributable to depreciation exceeding additional current year purchases. The School District has construction in progress for a paving project. See Note 6 for more information about the capital assets of the School District.

Debt

At June 30, 2018, the School District had \$2,645,068 in debt outstanding. See Note 9 for additional details. Table 5 summarizes bonds outstanding.

Table 5
Outstanding Debt at Year End

	Governmental Activities	
	2018	2017
2011 Refunding Bond-Serial, Term and Capital Appreciation Bonds	\$ 2,645,068	\$ 3,038,591

Current Issues

In November 2017, the School District was fortunate to pass a renewal of the original 8.9 mill four year emergency levy approved in May 2014 at a rate of 8.66 mills. This levy is certified to raise \$1,866,247 each year for a period of ten years at a current rate of 8.29 mills. The 2017 tax year valuation was \$226,981,800; with 87% of that value coming from residential/agricultural and 13% from all other property values.

Southeast Local School District
Portage County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The School District relies on the State for approximately 60% of its general operating revenues. This is the last year of the biennial budget which contains provisions for districts to remain on the Guarantee. Due to declining enrollment, the School District is on the state guarantee. The fiscal year 2018 Guarantee amount accounted for 22% of the state foundation funds received which was an increase of 4% from the prior year.

The Board of Education and administration will continue to closely monitor its revenues and expenditures in accordance with its financial forecast. The budgeting and internal controls utilized by the School District are well regarded, and we will continue to work diligently to maximize our resources and stay within the parameters of our budget.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Mrs. Cassie J. Bergman, Treasurer of Southeast Local School District, 8245 Tallmadge Road, Ravenna, Ohio 44266 or Cbergman@sepirates.org.

Southeast Local School District
Portage County, Ohio
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 16,404,281
Cash and Cash Equivalents in Segregated Accounts	1,607,005
Receivables:	
Accounts	87,154
Intergovernmental	246,821
Property Taxes	6,783,835
Nondepreciable Capital Assets	410,572
Depreciable Capital Assets (Net)	18,330,408
<i>Total Assets</i>	43,870,076
Deferred Outflows of Resources	
Pension	7,086,185
OPEB	283,700
<i>Total Deferred Outflows of Resources</i>	7,369,885
Liabilities	
Accounts Payable	7,839
Accrued Wages and Benefits	1,553,965
Contracts Payable	265,553
Intergovernmental Payable	347,100
Accrued Vacation Leave Payable	147,507
Matured Compensated Absences Payable	30,423
Accrued Interest Payable	7,617
Claims Payable	158,733
Long Term Liabilities:	
Due Within One Year	451,277
Due In More Than One Year:	
Net Pension Liability (See Note 7)	20,408,343
Net OPEB Liability (See Note 8)	4,593,943
Other Amounts Due in More Than One Year	3,816,183
<i>Total Liabilities</i>	31,788,483
Deferred Inflows of Resources	
Property Taxes Levied for the Next Year	4,939,240
Pension	948,025
OPEB	516,464
<i>Total Deferred Inflows of Resources</i>	6,403,729
Net Position	
Net Investment in Capital Assets	16,159,635
Restricted For:	
Capital Outlay	18,269
Debt Service	384,953
Set Asides	296,500
Other Purposes	1,325,402
Unrestricted	(5,137,010)
<i>Total Net Position</i>	\$ 13,047,749

See accompanying notes and accountant's compilation report.

Southeast Local School District
Portage County, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2018

	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 3,294,333	\$ 978,147	\$ 73,608	\$ 0	\$ (2,242,578)
Special	2,511,369	239,125	1,375,032	0	(897,212)
Vocational	98,057	0	213,134	0	115,077
Student Intervention Services	5,094	0	0	0	(5,094)
Other	1,499,046	0	0	0	(1,499,046)
Support Services:					
Pupils	1,129,527	0	0	0	(1,129,527)
Instructional Staff	456,562	0	47,470	0	(409,092)
Board of Education	31,749	0	0	0	(31,749)
Administration	451,145	0	24,917	0	(426,228)
Fiscal	429,417	0	0	0	(429,417)
Business	38,627	0	0	0	(38,627)
Operation and Maintenance of Plant	2,604,675	0	15,099	485	(2,589,091)
Pupil Transportation	1,502,687	0	82,493	0	(1,420,194)
Central	21,378	0	0	0	(21,378)
Operation of Non-Instructional Services:					
Food Service Operations	609,929	269,786	359,610	0	19,467
Extracurricular Activities	204,905	151,156	0	0	(53,749)
Debt Service:					
Interest and Fiscal Charges	91,670	0	0	0	(91,670)
Total	\$ 14,980,170	\$ 1,638,214	\$ 2,191,363	\$ 485	(11,150,108)

General Revenues

Property Taxes Levied for:		
General Purposes		6,106,598
Debt Service		437,578
Grants and Entitlements Not Restricted to Specific Programs		10,996,669
Insurance Recoveries		10,151
Investment Earnings		156,650
Miscellaneous		59,439
Total General Revenues		17,767,085
Change in Net Position		6,616,977
Net Position Beginning of Year (Restated - See Note 1)		6,430,772
Net Position End of Year		\$ 13,047,749

See accompanying notes and accountant's compilation report.

Southeast Local School District
Portage County, Ohio
Balance Sheet
Governmental Funds
June 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 14,168,110	\$ 1,939,671	\$ 16,107,781
Restricted Cash and Cash Equivalents	296,500	0	296,500
Receivables:			
Accounts	37,108	1,148	38,256
Intergovernmental	119,138	127,683	246,821
Property Taxes	6,235,739	548,096	6,783,835
<i>Total Assets</i>	<u>\$ 20,856,595</u>	<u>\$ 2,616,598</u>	<u>\$ 23,473,193</u>
Liabilities			
Accounts Payable	\$ 6,185	\$ 1,654	\$ 7,839
Accrued Wages and Benefits	1,440,164	113,801	1,553,965
Contracts Payable	265,553	0	265,553
Intergovernmental Payable	322,077	25,023	347,100
Matured Compensated Absences Payable	30,423	0	30,423
<i>Total Liabilities</i>	<u>2,064,402</u>	<u>140,478</u>	<u>2,204,880</u>
Deferred Inflows of Resources			
Property Taxes Levied for the Next Year	4,542,045	397,195	4,939,240
Unavailable Revenue	525,219	66,480	591,699
<i>Total Deferred Inflows of Resources</i>	<u>5,067,264</u>	<u>463,675</u>	<u>5,530,939</u>
Fund Balances			
Restricted	296,500	1,772,304	2,068,804
Committed	265,553	0	265,553
Assigned	4,961,696	240,449	5,202,145
Unassigned	8,201,180	(308)	8,200,872
<i>Total Fund Balances</i>	<u>13,724,929</u>	<u>2,012,445</u>	<u>15,737,374</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 20,856,595</u>	<u>\$ 2,616,598</u>	<u>\$ 23,473,193</u>

See accompanying notes and accountant's compilation report.

Southeast Local School District
Portage County, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2018

Total Governmental Fund Balances		\$ 15,737,374
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		18,740,980
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Intergovernmental	\$ 29,510	
Excess Costs	116,348	
SERS Reimbursement	3,383	
Property Taxes	<u>442,458</u>	591,699
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		1,497,170
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(7,617)
The net pension and OPEB liabilities is not due and payable in the current period; therefore, the liabilities and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	7,086,185	
Deferred Outflows - OPEB	283,700	
Deferred Inflows - Pension	(948,025)	
Deferred Inflows - OPEB	(516,464)	
Net Pension Liability	(20,408,343)	
Net OPEB Liability	<u>(4,593,943)</u>	(19,096,890)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Refunding Bonds	(2,575,000)	
Capital Appreciation Bonds	(4,999)	
Bond Premium	(54,403)	
Accretion of Interest - Capital Appreciation Bonds	(10,666)	
Vacations Payable	(147,507)	
Compensated Absences	<u>(1,622,392)</u>	<u>(4,414,967)</u>
 <i>Net Position of Governmental Activities</i>		 <u>\$ 13,047,749</u>

See accompanying notes and accountant's compilation report.

Southeast Local School District
Portage County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property and Other Local Taxes	\$ 5,972,322	\$ 521,322	\$ 6,493,644
Intergovernmental	11,991,094	1,243,070	13,234,164
Investment Income	151,045	2,990	154,035
Tuition and Fees	1,215,301	0	1,215,301
Extracurricular Activities	38,465	112,691	151,156
Rentals	1,971	0	1,971
Charges for Services	0	223,350	223,350
Contributions and Donations	24,897	0	24,897
Miscellaneous	34,488	88	34,576
<i>Total Revenues</i>	<u>19,429,583</u>	<u>2,103,511</u>	<u>21,533,094</u>
Expenditures			
Current:			
Instruction:			
Regular	7,392,448	66,306	7,458,754
Special	2,838,661	581,400	3,420,061
Vocational	181,630	203	181,833
Student Intervention Services	5,094	0	5,094
Other	1,499,046	0	1,499,046
Support Services:			
Pupils	1,628,944	30,880	1,659,824
Instructional Staff	634,890	11,947	646,837
Board of Education	31,099	0	31,099
Administration	1,288,978	25,500	1,314,478
Fiscal	463,415	11,200	474,615
Business	38,627	0	38,627
Operation and Maintenance of Plant	2,387,983	196,102	2,584,085
Pupil Transportation	1,624,713	0	1,624,713
Central	21,378	0	21,378
Extracurricular Activities	419,812	121,746	541,558
Operation of Non-Instructional Services:			
Food Service Operations	0	643,568	643,568
Debt Service:			
Principal Retirement	2,718	385,000	387,718
Interest and Fiscal Charges	17	100,938	100,955
<i>Total Expenditures</i>	<u>20,459,453</u>	<u>2,174,790</u>	<u>22,634,243</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,029,870)</u>	<u>(71,279)</u>	<u>(1,101,149)</u>
Other Financing Sources (Uses)			
Insurance Recoveries	10,151	0	10,151
<i>Net Change in Fund Balance</i>	(1,019,719)	(71,279)	(1,090,998)
<i>Fund Balances Beginning of Year</i>	<u>14,744,648</u>	<u>2,083,724</u>	<u>16,828,372</u>
<i>Fund Balances End of Year</i>	<u>\$ 13,724,929</u>	<u>\$ 2,012,445</u>	<u>\$ 15,737,374</u>

See accompanying notes and accountant's compilation report.

Southeast Local School District
Portage County, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2018*

Net Change in Fund Balances - Total Governmental Funds	\$	(1,090,998)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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.		
Capital Asset Additions	\$ 247,028	
Current Year Depreciation	(1,591,260)	
Construction in Progress Adjustment	(147,780)	(1,492,012)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Taxes	21,212	
Excess Costs	31,000	
SERS Reimbursement	3,383	
Intergovernmental	(7,298)	48,297
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
Pension		1,365,684
OPEB		45,612
Except for amounts reported as deferred inflows/outflows, changes in net pension and OPEB liabilities are reported as pension/OPEB expense in the statement of activities		
Pension		6,168,473
OPEB		690,517
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		387,718
In the statement of activities, interest is accrued on outstanding bonds, and bond premium and gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.		
Accrued Interest Payable	762	
Amortization of Premium on Bonds	10,881	11,643
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 expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		568,850
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.		
Compensated Absences	(102,482)	
Vacations Payable	18,033	(84,449)
Accretion on capital appreciation bonds is an expenditure in the governmental funds, but is allocated as an expense over the life of the bonds in the statement of activities.		
		(2,358)
<i>Change in Net Position of Governmental Activities</i>	<u>\$</u>	<u>6,616,977</u>

See accompanying notes and accountant's compilation report.

Southeast Local School District
Portage County, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Property and Other Local Taxes	\$ 5,841,552	\$ 5,863,444	\$ 5,900,125	\$ 36,681
Intergovernmental	11,153,717	11,888,717	11,995,564	106,847
Investment Income	50,000	130,000	151,045	21,045
Tuition and Fees	720,000	1,202,000	1,212,907	10,907
Rentals	0	1,000	1,971	971
Contributions and Donations	0	20,000	24,897	4,897
Miscellaneous	22,000	26,000	31,656	5,656
<i>Total Revenues</i>	<u>17,787,269</u>	<u>19,131,161</u>	<u>19,318,165</u>	<u>187,004</u>
Expenditures				
Current:				
Instruction:				
Regular	7,614,206	7,511,753	7,377,720	134,033
Special	2,834,754	2,884,560	2,809,030	75,530
Vocational	182,484	184,704	179,681	5,023
Adult/Continuing	0	0	278	(278)
Student Intervention Services	0	13,530	5,094	8,436
Other	1,480,866	1,551,446	1,498,909	52,537
Support Services:				
Pupils	1,730,543	1,796,030	1,630,525	165,505
Instructional Staff	814,665	822,893	705,587	117,306
Board of Education	38,668	34,518	31,201	3,317
Administration	1,345,861	1,342,436	1,266,848	75,588
Fiscal	494,211	495,086	469,376	25,710
Business	52,000	49,750	41,362	8,388
Operation and Maintenance of Plant	3,348,863	3,430,823	3,205,678	225,145
Pupil Transportation	1,763,255	1,735,966	1,627,473	108,493
Central	27,500	27,500	21,378	6,122
Extracurricular Activities	483,105	477,087	420,663	56,424
<i>Total Expenditures</i>	<u>22,210,981</u>	<u>22,358,082</u>	<u>21,290,803</u>	<u>1,067,279</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(4,423,712)	(3,226,921)	(1,972,638)	1,254,283
Other Financing Sources (Uses)				
Insurance Recoveries	0	0	10,151	10,151
<i>Net Change in Fund Balance</i>	(4,423,712)	(3,226,921)	(1,962,487)	1,264,434
<i>Fund Balance Beginning of Year</i>	14,350,114	14,350,114	14,350,114	0
Prior Year Encumbrances Appropriated	1,258,728	1,258,728	1,258,728	0
<i>Fund Balance End of Year</i>	<u>\$ 11,185,130</u>	<u>\$ 12,381,921</u>	<u>\$ 13,646,355</u>	<u>\$ 1,264,434</u>

See accompanying notes and accountant's compilation report.

Southeast Local School District
Portage County, Ohio
Statement of Fund Net Position
Proprietary Fund
June 30, 2018

	Governmental Activities - Internal Service Fund
Assets	
<i>Current Assets</i>	
Cash and Cash Equivalents in Segregated Accounts	\$ 1,607,005
Accounts Receivable	48,898
<i>Total Assets</i>	1,655,903
Liabilities	
<i>Current Liabilities</i>	
Claims Payable	158,733
Net Position	
Unrestricted	\$ 1,497,170

See accompanying notes and accountant's compilation report.

Southeast Local School District
Portage County, Ohio
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2018

	Governmental Activities - Internal Service Fund
Operating Revenues	
Charges for Services	\$ 3,741,009
Operating Expenses	
Purchased Services	641,049
Claims	2,535,588
Other	1,127
<i>Total Operating Expenses</i>	3,177,764
<i>Operating Income (Loss)</i>	563,245
Non-Operating Revenues (Expenses)	
Interest	5,605
<i>Change in Net Position</i>	568,850
<i>Net Position Beginning of Year</i>	928,320
<i>Net Position End of Year</i>	\$ 1,497,170

See accompanying notes and accountant's compilation report.

Southeast Local School District
Portage County, Ohio
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2018

	<u>Governmental Activities - Internal Service Fund</u>
Cash Flows From Operating Activities	
Cash Received for Charges for Services	\$ 3,728,862
Cash Paid for Goods and Services	(642,176)
Cash Paid for Claims	(2,616,488)
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>470,198</u>
 Cash Flows From Investing Activities	
Interest on Investments	<u>5,605</u>
 <i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	475,803
 <i>Cash and Cash Equivalents, Beginning of Year</i>	<u>1,131,202</u>
 <i>Cash and Cash Equivalents, End of Year</i>	<u>\$ 1,607,005</u>
 Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities	
Operating Income (Loss)	\$ 563,245
Adjustments:	
(Increase) Decrease Assets:	
Accounts Receivable	(12,147)
Increase (Decrease) in Liabilities:	
Claims Payable	(80,900)
<i>Total Adjustments</i>	<u>(93,047)</u>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>\$ 470,198</u>

See accompanying notes and accountant's compilation report.

Southeast Local School District
Portage County, Ohio
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2018

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ <u>69,515</u>
Liabilities	
Due to Students	\$ <u>69,515</u>

See accompanying notes and accountant's compilation report.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Southeast Local School District, Portage County, Ohio (the “School District”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is governed by a locally elected five member Board of Education (the Board) which provides educational services.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No.34*, in that the financial statements include all organizations, activities, functions and component units for which the School District (the reporting entity) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either the School District’s ability to impose its will over the organization or the possibility that the organization will provide a financial benefit to, or impose a financial burden on, the School District. There were no potential component units that met the criteria imposed by GASB Statements No. 14 and No. 61 to be included in the School District’s reporting entity. Based on the foregoing, the reporting entity of the School District includes the following services: instructional (regular, special education, vocational), student guidance, extracurricular activities, food service, pupil transportation and care and upkeep of grounds and buildings.

The School District participates in a jointly governed organization, the Stark-Portage Area Computer Consortium (SPARCC). SPARCC provides the data processing services needed by the participating School Districts. Information regarding this organization is presented in Note 12.

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (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 most significant of the School District’s accounting policies are shown below.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures/expenses. The various funds are grouped into the categories: governmental, proprietary and fiduciary.

Governmental Funds - These are funds through which most governmental functions typically are financed. The acquisition, use and balances of the School District’s expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is based upon determination of “current financial flow” (sources, uses and balances of current financial resources). The following is the School District’s only major governmental fund:

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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

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

Proprietary Funds - The proprietary funds are accounted for on an “economic resources” measurement focus. This measurement focus provides that all assets, deferred outflows of resources, all liabilities and deferred inflows of resources associated with the operation of the proprietary funds are included on the balance sheet. The proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. The School District’s only proprietary fund is an internal service fund.

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the School District or to other governments on a cost-reimbursement basis. The only internal service fund of the School District accounts for a self-insurance program that accounts for health and medical claims of School District employees.

Fiduciary Funds - Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District’s own programs. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District’s agency funds account for student managed activities and Ohio High School Athletics Association (OHSAA) tournaments.

Basis of Presentation – Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund 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.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program 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, with certain limited exceptions. 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 – Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and deferred outflows of resources and current liabilities and deferred inflows and resources, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

Agency funds do not report a measurement focus, as they do not report operations.

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 and the statements presented for the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows of resources, and in the presentation of expenses versus expenditures.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 4). 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 fiscal 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 expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 7 and 8.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources include property taxes, pension and OPEB. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue may include delinquent property taxes, grants and entitlements and miscellaneous revenue. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 7 and 8).

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The value of donated commodities used during the year is reported on the statement of activities as an expense with a like amount reported within the “operating grants, contributions and interest” program revenue account.

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

Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board’s authorization to spend resources and sets annual limits on expenditures plus encumbrances at 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 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 statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board of Education.

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.

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

The major differences between the budget basis and GAAP basis are that:

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

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

3. Encumbrances are treated as expenditures for all funds (budget) rather than as an assignment of fund balance (GAAP).
4. Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

Net Change in Fund Balance

GAAP Basis	\$ (1,019,719)
Net adjustments for revenue accruals	(70,559)
Net adjustments for expenditure accruals	(121,345)
Funds budgeted elsewhere*	1,811
Adjustments for encumbrances	<u>(752,675)</u>
Budget Basis	<u>\$ (1,962,487)</u>

**As part of Governmental Accounting Standards Board No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the uniform school supplies and public school support funds.

Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all 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 balance sheet.

During fiscal year 2018, cash and cash equivalents included amounts in demand deposits, savings accounts, money market accounts and the State Treasury Asset Reserve (STAR Ohio). STAR Ohio is a very liquid investment account which is reported as cash equivalents in the basic financial statements.

The School District pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and cash equivalents represents the balance on hand as if each fund maintained its own cash and investment account. See Note 3, for more detail on the School District's cash and cash equivalents.

The School District has segregated bank accounts for monies held separately from the School District's central bank account. These depository accounts are presented on the financial statements as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the School District's treasury.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for budget stabilization.

Investments

During fiscal year 2018, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2018 amounted to \$151,045, which includes \$4,796 assigned from other School District funds.

Capital Assets and Depreciation

General capital assets are those assets related to activities reported in the governmental funds. All of the School District's capital assets are classified as general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition value as of the date received. The School District maintains a capitalization threshold of \$5,000. The School District does not possess 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 "capitalized."

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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

Description	Estimated Lives (in years)
Land Improvements	20
Buildings and Improvements	25 - 75
Machinery and Equipment	8 - 20
Vehicles	5 - 10

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds 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, compensated absences and net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

Long-term liabilities are being repaid from the following funds:

Obligation	Fund
Compensated Absences	General Fund & Food Service Fund
General Obligation Bond	Bond Retirement Fund
Capital Lease	General Fund

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net position.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, vacation benefits are accrued as a liability when an employee's right to receive compensation is attributable to services already rendered, and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Administrators and classified staff who work twelve month contracts are granted vacation leave based on length of service and position. Sick leave benefits are accrued as a liability using the termination method. Employees earn one and one-fourth days of sick leave per month up to a maximum of 15 days per year. Upon retirement, a percentage of unused sick leave is paid based upon years of experience. For classified staff, the percentages are 15% for 0-5 years, 30% for 6-15 years and 35% for 16 years and up. For the certified staff, the percentages are 10% for 0-5 years, 25% for 6-15 years, and 30% for 16 years and up. Regardless of the percentage received, the maximum number of days payable under this provision per year is 75.

For Professional, Administrative and non-union support staff, the percentages are 20% for 0-5 years, 30% for 6-15 years and 35% for 16 years and up. Regardless of the percentage received, the maximum number of days payable under this provision per year is 76.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is 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. At June 30, 2018, there was no net position restricted by enabling legislation.

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

Interfund Activity

Transfers between governmental activities on the government-wide statements are eliminated. 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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the School District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories can be used:

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

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.

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

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

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Estimates

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

Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are interfund charges for the internal service funds. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Pensions and Other Postemployment Benefits (OPEB)

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

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The School District had no extraordinary or special items during fiscal year 2018.

Implementation of New Accounting Principles and Restatement of Net Position

For the fiscal year ended June 30, 2018, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishments*.

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 75 resulted in the inclusion of net OPEB liability and OPEB expense components on the accrual financial statements. See below for the effect on net position as previously reported.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the School District.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. These changes were incorporated in the School District's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the School District.

Net Position, June 30, 2017	\$ 11,993,608
Adjustments:	
Net OPEB Liability	(5,595,836)
Deferred Outflow-Payments Subsequent to Measurement Date	33,000
Restated Net Position, July 1, 2017	\$ 6,430,772

Other than employer contributions subsequent to the measurement date, the School District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

NOTE 2 - ACCOUNTABILITY

The miscellaneous state grants fund had GAAP deficit balance of \$308 at June 30, 2018.

The deficit was caused by the application of generally accepted accounting principles. The general fund provides transfers to cover deficit balances in other funds; however, this is when cash is needed rather than when accruals occur.

NOTE 3 - 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.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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 no later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies that 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 no more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality;
3. Written repurchase agreements in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 40% of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Investments

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District’s policy indicates that investments must mature within five years, unless matched to a specific obligation or debt of the School District. During the year, the School District’s only investment was in STAR Ohio.

Ending investments in STAR Ohio are reported at its net asset value (NAV). This value as of June 30, 2018 was \$9,294,679. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio to maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2018 is 49 days and carries a rating of AAAM by S & P Global Ratings.

Credit Risk – The School District’s policy does not address credit risk.

Concentration of Credit Risk – The School District places no limit on the amount the School District may invest in any one issuer. During the fiscal year, the School District’s only investment was in STAR Ohio.

NOTE 4 - PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed value listed as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien December 31, 2016, were levied after April 1, 2017 and are collected in 2018 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Portage 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, 2018, are available to finance fiscal year 2018 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2018 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been reported as a deferred inflow of resources.

The assessed values upon which the fiscal year 2018 taxes were collected are:

	2017 Second Half Collections		2018 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$ 213,782,250	94.91%	\$ 214,647,620	94.57%
Public Utility Personal Property	11,455,930	5.09%	12,334,180	5.43%
	\$ 225,238,180	100.00%	\$ 226,981,800	100.00%
Tax rate per \$1,000 assessed valuation	\$ 39.38		\$ 39.21	

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018 consisted of accounts, property taxes and intergovernmental receivables. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the relatively stable condition of state programs, and the current year guarantee of federal funds.

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Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$ 400,918	\$ 0	\$ 0	\$ 400,918
Construction in Progress	147,780	9,654	(147,780)	9,654
<i>Total Capital Assets, Not Being Depreciated</i>	548,698	9,654	(147,780)	410,572
<i>Capital Assets, Being Depreciated</i>				
Land Improvements	2,544,781	0	0	2,544,781
Buildings and Improvements	38,539,912	0	0	38,539,912
Machinery and Equipment	2,236,300	58,958	(72,637)	2,222,621
Vehicles	2,992,859	178,416	(115,001)	3,056,274
<i>Total Capital Assets, Being Depreciated</i>	46,313,852	237,374	(187,638)	46,363,588
<i>Accumulated Depreciation</i>				
Land Improvements	(2,203,714)	(60,694)	0	(2,264,408)
Buildings and Improvements	(20,029,060)	(1,314,478)	0	(21,343,538)
Machinery and Equipment	(2,072,666)	(33,354)	72,637	(2,033,383)
Vehicles	(2,324,118)	(182,734)	115,001	(2,391,851)
<i>Total Accumulated Depreciated</i>	(26,629,558)	(1,591,260)	187,638	(28,033,180)
<i>Total Capital Assets Being Depreciated, Net</i>	19,684,294	(1,353,886)	0	18,330,408
<i>Governmental Activities, Capital Assets, Net</i>	\$ 20,232,992	\$ (1,344,232)	\$ (147,780)	\$ 18,740,980

Depreciation expenses were charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,356,403
Vocational	1,645
Support Services:	
Instructional Staff	1,503
Board of Education	649
Administration	3,404
Operations and Maintenance of Plant	32,139
Pupil Transportation	180,934
Operation of Food Services	6,092
Extracurricular Activities	8,491
Total Depreciation	\$ 1,591,260

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 7 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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

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

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Age and service requirements for retirement are as follows:

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

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

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

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring after January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at three percent.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2018.

The School District’s contractually required contribution to SERS was \$310,143 for fiscal year 2018. Of this amount, \$19,469 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 14 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$1,055,541 for fiscal year 2018. Of this amount, \$186,168 is reported as an intergovernmental payable.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School District's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.07102740%	0.06804659%	
Prior Measurement Date	0.07152200%	0.06645377%	
Change in Proportionate Share	-0.00049460%	0.00159282%	
Proportionate Share of the Net			
Pension Liability	\$ 4,243,730	\$ 16,164,613	\$ 20,408,343
Pension Expense	\$ (164,486)	\$ (6,003,987)	\$ (6,168,473)

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the School District's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

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Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

At June 30, 2018 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ 182,637	\$ 624,201	\$ 806,838
Changes of Assumptions	219,447	3,535,378	3,754,825
Changes in Proportion and Differences between School District Contributions and Proportionate Share of Contributions	73,861	1,084,977	1,158,838
School District Contributions Subsequent to the Measurement Date	310,143	1,055,541	1,365,684
Total Deferred Outflows of Resources	<u>\$ 786,088</u>	<u>\$ 6,300,097</u>	<u>\$ 7,086,185</u>
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	\$ 0	\$ 130,281	\$ 130,281
Net Difference between Projected and Actual Earnings on Pension Plan Investments	20,143	533,448	553,591
Changes in Proportion and Differences between School District Contributions and Proportionate Share of Contributions	79,977	184,176	264,153
Total Deferred Inflows of Resources	<u>\$ 100,120</u>	<u>\$ 847,905</u>	<u>\$ 948,025</u>

\$1,365,684 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	\$ 158,203	\$ 965,009	\$ 1,123,212
2020	264,132	1,690,691	1,954,823
2021	52,421	1,362,317	1,414,738
2022	(98,931)	378,634	279,703
	<u>\$ 375,825</u>	<u>\$ 4,396,651</u>	<u>\$ 4,772,476</u>

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.50 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the most recent actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's Proportionate Share of the Net Pension Liability	\$ 5,889,195	\$ 4,243,730	\$ 2,865,318

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments	0.00 percent effective July 1, 2017

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation*</u>	<u>Long Term Expected Real Rate of Return**</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
Total	<u>100.00 %</u>	

*The target allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability as of June 30, 2017, calculated using the current period discount rate assumption of 7.45 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's Proportionate Share of the Net Pension Liability	\$ 23,171,423	\$ 16,164,613	\$ 10,262,426

Assumption Changes since the Prior Measurement Date

The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Benefit Term Changes since the Prior Measurement Date

Effective July 1, 2017, the COLA was reduced to zero.

NOTE 8 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School District's surcharge obligation was \$34,125.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$45,612 for fiscal year 2018. Of this amount \$34,846 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability was based on the School District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Current Measurement Date	0.07225060%	0.06804659%	
Prior Measurement Date	<u>0.07163531%</u>	<u>0.06645377%</u>	
Change in Proportionate Share	<u>0.00061529%</u>	<u>0.00159282%</u>	
Proportionate Share of the Net OPEB Liability	\$ 1,939,016	\$ 2,654,927	\$ 4,593,943
OPEB Expense	\$ 107,454	\$ (797,971)	\$ (690,517)

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ 0	\$ 153,259	\$ 153,259
Changes in Proportionate Share and Differences between School District Contributions and Proportionate Share of Contributions	11,814	73,015	84,829
School District Contributions Subsequent to the Measurement Date	<u>45,612</u>	<u>0</u>	<u>45,612</u>
Total Deferred Outflows of Resources	<u>\$ 57,426</u>	<u>\$ 226,274</u>	<u>\$ 283,700</u>
Deferred Inflows of Resources			
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	\$ 5,121	\$ 113,478	\$ 118,599
Changes of Assumptions	<u>184,002</u>	<u>213,863</u>	<u>397,865</u>
Total Deferred Inflows of Resources	<u>\$ 189,123</u>	<u>\$ 327,341</u>	<u>\$ 516,464</u>

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

\$45,612 reported as deferred outflows of resources related to OPEB resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	\$ (63,668)	\$ (26,301)	\$ (89,969)
2020	(63,668)	(26,301)	(89,969)
2021	(48,692)	(26,301)	(74,993)
2022	(1,281)	(26,303)	(27,584)
2023	0	2,068	2,068
Thereafter	0	2,071	2,071
	\$ (177,309)	\$ (101,067)	\$ (278,376)

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate	
Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Prior Measurement Date	2.98 percent, net of plan investment expense, including price inflation
Medical Trend Assumption	
Medicare	5.50 percent - 5.00 percent
Pre-Medicare	7.50 percent - 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63 percent) and higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5 percent decreasing to 4.0 percent) and higher (8.5 percent decreasing to 6.0 percent) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School District's Proportionate Share of the Net OPEB Liability	\$ 2,341,609	\$ 1,939,016	\$ 1,620,060
	1% Decrease	Current Trend Rate	1% Increase
School District's Proportionate Share of the Net OPEB Liability	\$ 1,573,366	\$ 1,939,016	\$ 2,422,960

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments (COLA)	0.00 percent effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6.00 percent to 11.00 percent, initial, 4.50 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
	100.00 %	

*Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School District's Proportionate Share of the Net OPEB Liability	\$ 3,564,197	\$ 2,654,927	\$ 1,936,307
	1% Decrease	Current Trend Rate	1% Increase
School District's Proportionate Share of the Net OPEB Liability	\$ 1,844,529	\$ 2,654,927	\$ 3,721,505

NOTE 9 – LONG-TERM DEBT AND OTHER OBLIGATIONS

Detail of the changes in the long-term general obligation bonds, compensated absences, capital lease and net pension/OPEB liability of the School District for the year ended June 30, 2018, is as follows:

	Restated Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018	Amount Due Within One Year
General Obligation Bonds:					
2011 Refunding Bond:					
Refunding Bond	\$ 2,960,000	\$ 0	\$ (385,000)	\$ 2,575,000	\$ 395,000
Capital Appreciation Bond	4,999	0	0	4,999	0
Accretion on Capital Appreciation Bond	8,308	2,358	0	10,666	0
Unamortized Premium	65,284	0	(10,881)	54,403	0
Total General Obligation Bonds	3,038,591	2,358	(395,881)	2,645,068	395,000
Other Long-Term Obligations:					
Net Pension Liability	27,478,830	0	(7,070,487)	20,408,343	0
Net OBEB Liability	5,595,836	0	(1,001,893)	4,593,943	0
Compensated Absences	1,519,910	159,037	(56,555)	1,622,392	56,277
Capital Lease	2,718	0	(2,718)	0	0
Total Other Long Term Obligations	34,597,294	159,037	(8,131,653)	26,624,678	56,277
Total Long Term Debt and Other Obligations	\$ 37,635,885	\$ 161,395	\$ (8,527,534)	\$ 29,269,746	\$ 451,277

2011 School Improvement Refunding General Obligation Bond: On June 2, 2011, the School District issued \$5,114,999 in refunded general obligation bond. The proceeds of the bonds were used to refund \$5,115,000 of the School District's outstanding 2001 Classroom Facilities Improvement bond. The bonds were issued for 13 year period with final maturity at December 1, 2023. At the end of the refunding \$5,136,436 (including premium and after underwriting fees) was deposited in an irrevocable trust to provide for all future payments on the refunded bond. As of June 30, 2018, \$2,760,000 of these bonds are considered to be defeased.

This refunding bond was issued with a premium of \$141,449, which is reported as an increase to bonds payable. The amounts are being amortized as interest expense over the life of the bonds using the straight-line method. The issuance resulted in an economic gain of \$544,501.

The bond issue consists of serial and capital appreciation bonds. These bonds are not subject to early redemption.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

The capital appreciation bond matures December 1, 2019. This bond was purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as an increase in long-term liability. The maturity amount of the bond is \$20,000.

Net Pension/OPEB Liability: There is no repayment schedule for the net pension liability and net OPEB liability; however, employer pension and OPEB contributions are made from the General Fund. For additional information related to the net pension liability and net OPEB liability see Notes 7 and 8.

A summary of the School District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2018, follows:

Fiscal Year Ending June 30,	General Obligation Bond			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 395,000	\$ 90,694	\$ 485,694	\$ 0	\$ 0	\$ 0
2020	385,000	77,937	462,937	4,999	15,001	20,000
2021	420,000	62,587	482,587	0	0	0
2022	440,000	45,950	485,950	0	0	0
2023	460,000	28,169	488,169	0	0	0
2024	475,000	9,500	484,500	0	0	0
	<u>\$ 2,575,000</u>	<u>\$ 314,837</u>	<u>\$ 2,889,837</u>	<u>\$ 4,999</u>	<u>\$ 15,001</u>	<u>\$ 20,000</u>

NOTE 10 – STATUTORY RESERVES

The School District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for acquisition and 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 purpose in future years.

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

	Capital Improvement Reserve	Budget Stabilization BWC Refund
Set-Aside Restricted Balance, June 30, 2017	\$ 0	\$ 296,500
Current Year Set-Aside Requirement	292,054	0
Current Year Offset	(149,338)	0
Prior Year Offset From Bond Proceeds	(142,716)	0
Total	<u>\$ 0</u>	<u>\$ 296,500</u>
Balance Carried Forward to Fiscal Year 2019	<u>\$ 0</u>	<u>\$ 296,500</u>
Set-Aside Restricted Balance June 30, 2018	<u>\$ 0</u>	<u>\$ 296,500</u>

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

The School District has prior year bond proceeds in connection with a refunding bond that may be carried forward to offset future set-aside requirements. The remaining amount of these bond proceeds as of June 30, 2018 is \$2,271,694. This negative balance is therefore not presented as being carried forward to future years. Monies representing BWC refunds that were received prior to April 20, 2001, have been shown as a restricted cash/restricted fund balance in the general fund. The non-BWC portion of the budget stabilization has been returned to the general fund.

NOTE 11 - RISK MANAGEMENT

Public Entity Risk Pools

The School District participates in the Ohio Schools Council (OCS) Workers' Compensation Group Retrospective Rating Program (program). The intent of the program 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 program. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the program.

Each participant pays its workers' compensation premium to the State based on the rate for the program rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings 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 program. Participation in the program is limited to districts that can meet the program's selection criteria. The Sheakley Group provides administrative, cost control and actuarial services to the program.

Other Insurance

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2018, the School District contracted for various insurance coverages, as follows:

<u>Insurance Provider</u>	<u>Coverage</u>	<u>Deductible</u>	
		<u>Description</u>	<u>Amount</u>
Ohio School Plan	Automobile/Fleet	Buses	\$ 1,000
		Auto-Comprehensive	250
		Auto - Collision	500
Ohio School Plan	Property	General	1,000
Ohio School Plan	General Liability	General	0
		Employee Benefits Liability	0
		Employers Liability	0
		Educational Legal Liability	2,500

There has been no significant reduction in insurance coverages as compared to the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

The School District also maintains a self-funded health insurance program for employee health coverage. The plan was started in July 2003. The claims are processed by the third party administrator, Mutual Health Services, Inc. An internal service fund is presented in the financial statements and reflects premiums paid into the self-insurance fund by other funds which are available to pay claims and administrative costs, and establish claims reserves. Claims are paid weekly through the third party administrator and fixed costs for administrative and stop loss costs are paid on a monthly basis. The School District purchases stop-loss coverage through Sun Life Insurance Company to protect the plan in the occurrence of catastrophic claims. The outstanding claims at June 30, 2018 for the self-insurance program amounted to \$158,733.

The claims liability reported in the fund at June 30, 2018 is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the fund's claims liability amount in 2017 and 2018 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims	Claims Payments	Balance at Fiscal Year End
2017	\$ 191,640	\$ 2,891,946	\$ (2,843,953)	\$ 239,633
2018	239,633	2,535,588	(2,616,488)	158,733

NOTE 12 - JOINTLY GOVERNED ORGANIZATION

Stark Portage Area Computer Consortium

The Stark Portage Area Computer Consortium (SPARCC) is the computer service organization used by the School District. SPARCC is an association of public districts in a geographic area determined by the Ohio Department of Education. The Stark County Educational Service Center acts as the fiscal agent for the consortium.

The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All districts in the consortium are required to pay fees, charges and assessments as charged. SPARCC is governed by a board made up of superintendents from all of the participating districts. An elected Executive Board consisting of five members of the governing board is the managerial body of the consortium and meets on a monthly basis. During fiscal year 2018, the amount paid by the School District was \$74,515. The School District does not maintain an ongoing financial interest or an ongoing financial responsibility.

Payments to SPARCC are made from the general fund and the data communications fund. Financial information can be obtained from James Carman, who serves as Treasurer, at 6057 Strip Avenue, NW, North Canton, Ohio 44720.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 13 - CONTINGENCIES

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2018, if applicable, cannot be determined at this time.

Litigation

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

School Foundation

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, ODE adjustments for fiscal year 2018 are finalized. As a result, the finalized FTE adjustments for fiscal year 2018 had no impact on the School District's financial statements.

NOTE 14 – CAPITAL LEASE

Capital lease obligations relate to copier equipment which is leased under a long-term agreement. This lease meets the criteria of a capital lease as it transfers benefits and risks of ownership to the lessee. \$72,637 has been recorded as capital assets relating to capital leases. The capital lease is classified as equipment with accumulated depreciation of \$72,637. Capital lease payments in the general fund have been reclassified and are reflected as debt service in the basic financial statements for the general fund. Final lease payments were made in fiscal year 2018 and capital assets relating to capital leases recorded a disposal of \$72,637.

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 15 – FUND BALANCE

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows:

	General	Other Governmental Funds	Total
Restricted for:			
Budget Stabilization-BWC Refund*	\$ 296,500	\$ 0	\$ 296,500
Debt Service	0	416,531	416,531
Capital Outlay	0	18,269	18,269
Food Service	0	120,168	120,168
Classroom Facilities Maintenance	0	1,056,937	1,056,937
Other Purposes	0	160,399	160,399
Total Restricted	296,500	1,772,304	2,068,804
Committed for:			
Operation and Maintenance of Plant	265,553	0	265,553
Assigned for:			
Encumbrances			
Instruction	81,763	0	81,763
Support Services	373,158	0	373,158
Subsequent Year Appropriations	4,441,057	0	4,441,057
Capital Outlay	0	240,449	240,449
Other Purposes	65,718	0	65,718
Total Assigned	4,961,696	240,449	5,202,145
Unassigned	8,201,180	(308)	8,200,872
Total Fund Balance (Deficit)	\$ 13,724,929	\$ 2,012,445	\$ 15,737,374

*See Note 10

Southeast Local School District
Portage County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 16 – COMMITMENTS

Other Commitments

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

	Amount
General Fund	\$ 455,081
Nonmajor Governmental	24,236
	\$ 479,317

Construction Commitments

The School District had the following construction commitments at June 30, 2018:

	Contract Amount	Expenditures	Amount Remaining of Contract
Network Equipment	\$ 46,092	\$ 0	\$ 46,092
Roof Replacement Design	31,298	20,343	10,955
Roof Replacement Project	337,144	177,852	159,292
Paving Project	201,492	152,278	49,214
	\$ 616,026	\$ 350,473	\$ 265,553

Based on timing of when contracts are encumbered, contractual commitments identified above may or may not be included in the outstanding encumbrance commitments previously disclosed in this note.

Southeast Local School District
Portage County, Ohio
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Last Five Fiscal Years (1)

	2018	2017	2016	2015	2014
<i>School Employees Retirement System (SERS)</i>					
School District's Proportion of the Net Pension Liability	0.07102740%	0.07152200%	0.06922010%	0.07163500%	0.07163500%
School District's Proportionate Share of the Net Pension Liability	\$ 4,243,730	\$ 5,234,750	\$ 3,949,766	\$ 3,625,407	\$ 4,259,904
School District's Covered Payroll	\$ 2,188,857	\$ 2,408,057	\$ 2,414,294	\$ 2,251,833	\$ 2,162,760
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	193.88%	217.38%	163.60%	161.00%	196.97%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%
<i>State Teachers Retirement System (STRS)</i>					
School District's Proportion of the Net Pension Liability	0.06804659%	0.06645377%	0.06226224%	0.06387279%	0.06387279%
School District's Proportionate Share of the Net Pension Liability	\$ 16,164,613	\$ 22,244,080	\$ 17,207,462	\$ 15,536,073	\$ 18,506,469
School District's Covered Payroll	\$ 7,639,086	\$ 6,832,971	\$ 6,796,286	\$ 6,423,277	\$ 7,128,654
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	211.60%	325.54%	253.19%	241.87%	259.61%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

Southeast Local School District
Portage County, Ohio
Required Supplementary Information
Schedule of the School District's Contributions - Pension
Last Ten Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>School Employees Retirement System (SERS)</i>				
Contractually Required Contribution	\$ 310,143	\$ 306,440	\$ 337,128	\$ 318,204
Contributions in Relation to the Contractually Required Contribution	<u>(310,143)</u>	<u>(306,440)</u>	<u>(337,128)</u>	<u>(318,204)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's Covered Payroll	\$ 2,297,356	\$ 2,188,857	\$ 2,408,057	\$ 2,414,294
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%
<i>State Teachers Retirement System (STRS)</i>				
Contractually Required Contribution	\$ 1,055,541	\$ 1,069,472	\$ 956,616	\$ 951,480
Contributions in Relation to the Contractually Required Contribution	<u>(1,055,541)</u>	<u>(1,069,472)</u>	<u>(956,616)</u>	<u>(951,480)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's Covered Payroll	\$ 7,539,579	\$ 7,639,086	\$ 6,832,971	\$ 6,796,286
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%

See accompanying notes to the required supplementary information.

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 312,104	\$ 299,326	\$ 303,104	\$ 291,689	\$ 324,496	\$ 213,844
<u>(312,104)</u>	<u>(299,326)</u>	<u>(303,104)</u>	<u>(291,689)</u>	<u>(324,496)</u>	<u>(213,844)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 2,251,833	\$ 2,162,760	\$ 2,253,561	\$ 2,320,517	\$ 2,396,573	\$ 2,173,211
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%
\$ 835,026	\$ 926,725	\$ 922,160	\$ 949,028	\$ 1,044,913	\$ 920,284
<u>(835,026)</u>	<u>(926,725)</u>	<u>(922,160)</u>	<u>(949,028)</u>	<u>(1,044,913)</u>	<u>(920,284)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 6,423,277	\$ 7,128,654	\$ 7,093,538	\$ 7,300,215	\$ 8,037,792	\$ 7,079,108
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

See accompanying notes to the required supplementary information

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Southeast School District
Portage County, Ohio
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net OPEB Liability
Last Two Fiscal Years (1)

	<u>2018</u>	<u>2017</u>
<i>School Employees Retirement System (SERS)</i>		
School District's Proportion of the Net OPEB Liability	0.07225060%	0.07163531%
School District's Proportionate Share of the Net OPEB Liability	\$ 1,939,016	\$ 2,041,871
School District's Covered Payroll	\$ 2,188,857	\$ 2,408,057
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	88.59%	84.79%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%
<i>State Teachers Retirement System (STRS)</i>		
School District's Proportion of the Net OPEB Liability	0.06804659%	0.06645377%
School District's Proportionate Share of the Net OPEB Liability	\$ 2,654,927	\$ 3,553,965
School District's Covered Payroll	\$ 7,639,086	\$ 6,832,971
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	34.75%	52.01%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

Southeast School District
Portage County, Ohio
Required Supplementary Information
Schedule of the School District's Contributions - OPEB
Last Ten Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>School Employees Retirement System (SERS)</i>				
Contractually Required Contribution (1)	\$ 45,612	\$ 33,000	\$ 32,625	\$ 51,672
Contributions in Relation to the Contractually Required Contribution	<u>(45,612)</u>	<u>(33,000)</u>	<u>(32,625)</u>	<u>(51,672)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's Covered Payroll	\$ 2,297,356	\$ 2,188,857	\$ 2,408,057	\$ 2,414,294
OPEB Contributions as a Percentage of Covered Payroll (1)	1.99%	1.51%	1.35%	2.14%
<i>State Teachers Retirement System (STRS)</i>				
Contractually Required Contribution	\$ 0	\$ 0	\$ 0	\$ 0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's Covered Payroll	\$ 7,539,579	\$ 7,639,086	\$ 6,832,971	\$ 6,796,286
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%

(1) Includes surcharge

See accompanying notes to the required supplementary information.

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 34,653	\$ 35,560	\$ 12,441	\$ 33,184	\$ 11,024	\$ 92,452
<u>(34,653)</u>	<u>(35,560)</u>	<u>(12,441)</u>	<u>(33,184)</u>	<u>(11,024)</u>	<u>(92,452)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 2,251,833	\$ 2,162,760	\$ 2,253,561	\$ 2,320,517	\$ 2,396,573	\$ 2,173,211
1.54%	1.64%	0.55%	1.43%	0.46%	4.25%
\$ 64,233	\$ 71,287	\$ 70,935	\$ 73,002	\$ 80,378	\$ 70,791
<u>(64,233)</u>	<u>(71,287)</u>	<u>(70,935)</u>	<u>(73,002)</u>	<u>(80,378)</u>	<u>(70,791)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 6,423,277	\$ 7,128,654	\$ 7,093,538	\$ 7,300,215	\$ 8,037,792	\$ 7,079,108
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

See accompanying notes to the required supplementary information.

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Southeast Local School District
Portage County, Ohio
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

Note 1 - Net Pension Liability

Changes in Assumptions - SERS

For fiscal year 2017, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to the following:
 - RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females.
- Mortality among service retired members, and beneficiaries was updated to the following:
 - RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates.
- Mortality among disable member was updated to the following:
 - RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

Changes in Benefit Terms - SERS

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Changes in Assumptions – STRS

For fiscal year 2018, the Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms - STRS

Effective for fiscal year 2018, the cost-of-living adjustment (COLA) was reduced to zero.

Southeast Local School District
Portage County, Ohio
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

Note 2 - Net OPEB Liability

Changes in Assumptions – SERS

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:

Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Single Equivalent Interest Rate, net of plan investment expense, including price inflation

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Changes in Assumptions – STRS

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

**SOUTHEAST LOCAL SCHOOL DISTRICT
PORTAGE COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance:				
National School Breakfast Program	N/A	10.553	\$ 9,521	\$ 9,521
National School Lunch Program	N/A	10.555	36,355	36,355
Cash Assistance:				
National School Breakfast Program	049221-3L70-18	10.553	73,198	73,198
National School Lunch Program	049221-3L60-18	10.555	279,490	279,490
Total U.S. Department of Agriculture - Child Nutrition Cluster			<u>398,564</u>	<u>398,564</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Direct:</i>				
Impact Aid	N/A	84.041	462,259	462,259
<i>Passed Through Ohio Department of Education:</i>				
Title I, Grants to Local Educational Agencies	049221-3M00-17	84.010	42,172	42,172
Title I, Grants to Local Educational Agencies	049221-3M00-18	84.010	207,143	207,143
Total Title I			<u>249,315</u>	<u>249,315</u>
Improving Teacher Quality State Grants, Title II-A	049221-3Y60-17	84.367	8,296	8,296
Improving Teacher Quality State Grants, Title II-A	049221-3Y60-18	84.367	53,531	53,531
Total Improving Teacher Quality			<u>61,827</u>	<u>61,827</u>
Title IV-A Student Support and Academic Enrichment Program	049221-3H10-18	84.424A	6,056	6,056
Special Education Cluster:				
Special Education-Grants to States, IDEA-B	049221-3M20-17	84.027	55,141	55,141
Special Education-Grants to States, IDEA-B	049221-3M20-18	84.027	301,436	301,436
<i>Passed Through Mahoning County Educational Service Center</i>				
Special Education-Preschool Grants	MCESC	84.173	8,421	8,421
Total Special Education Cluster			<u>364,998</u>	<u>364,998</u>
<i>Passed Through Mahoning County Educational Service Center</i>				
Title III, Limited English Proficiency	MCESC	84.365	180	180
Total U.S. Department of Education			<u>1,144,635</u>	<u>1,144,635</u>
Total Federal Financial Assistance			<u>\$1,543,199</u>	<u>\$ 1,543,199</u>

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

**SOUTHEAST LOCAL SCHOOL DISTRICT
PORTAGE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE A – BASIS OF PRESENTATION

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) includes the federal award activity of Southeast Local School District (the District) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D – FOOD DONATION PROGRAM

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

OHIO AUDITOR OF STATE KEITH FABER



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

Southeast Local School District
Portage County
8245 Tallmadge Road
Ravenna, Ohio 44266

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Southeast Local School District, Portage County, (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 11, 2019 wherein we noted the District adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

February 11, 2019

OHIO AUDITOR OF STATE KEITH FABER



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

Southeast Local School District
Portage County
8245 Tallmadge Road
Ravenna, Ohio 44266

To the Board of Education:

Report on Compliance for each Major Federal Program

We have audited Southeast Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of Southeast Local School District's major federal program for the year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

The District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, Southeast Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which Uniform Guidance requires us to report, described in the accompanying schedule of findings as item 2018-001. Our opinion on *the* major federal program is not modified with respect to these matters.

The District's response to our noncompliance finding is described in the accompanying schedule of findings corrective action plan. We did not subject the District's response to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

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

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

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

Southeast Local School District
Portage County
Independent Auditor's Report on Compliance with Requirements
Applicable to The Major Federal Program and on Internal Control over
Compliance Required by the Uniform Guidance
Page 3

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

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

Keith Faber
Auditor of State
Columbus, Ohio

February 11, 2019

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**SOUTHEAST LOCAL SCHOOL DISTRICT
PORTAGE COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR §200.516(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster, CFDA #84.027, #84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Schedule of Expenditures of Federal Awards

Finding Number	2018-001		
CFDA Title and Number	Impact Aid, CFDA #84.041		
Federal Award Identification Number / Year	2018		
Federal Agency	U.S. Department of Education		
Repeat Finding from Prior Audit?	No	Finding Number? (if repeat)	N/A – Not repeated

NONCOMPLIANCE

2 C.F.R Subpart F § 200.510(b) requires that the auditee prepare a Schedule of Expenditures of Federal Awards (the Schedule) for the period covered by the District’s financial statements which must include the total federal awards expended as determined in accordance with § 200.502.

At a minimum, the schedule must:

1. List individual Federal programs by Federal agency.
2. For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
3. Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
4. Include the total amount provided to subrecipients from each Federal program.
5. For loan or loan guarantee programs described in §_200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period.
6. Include notes that describe the significant accounting policies used in preparing the schedule, and note whether or not the auditee has elected to use the 10 percent de minimis cost rate as covered in §_200.414 Indirect (F&A) costs.

The District prepared the Schedule, but failed to include Impact Aid, which resulted in an understatement of federal expenditures for the Impact Aid program totaling \$426,259.

Errors and omissions to the Schedule of Expenditures of Federal Awards could have an adverse effect on future grant awards by the awarding agency or agencies in addition to an inaccurate assessment of major federal programs that would be subjected to audit. Adjustments, to which management have agreed, are reflected in the accompanying Schedule.

District management should review all grant and loan awards and be familiar with federal reporting requirements. The District should implement a system to track all federal expenditures and related information separately from other expenditures and report federal expenditures with proper support including, but not limited to, grant agreements, calculation of the expenditures, and any federal reporting requirements. This will help ensure the Schedule is complete and accurate and major federal programs are correctly identified for audit.

Official's Response: Section 7002 of the Impact Aid Program is designed to reimburse school districts for tax revenue lost due to the takeover of land by the United States Government (Payment in Lieu of Taxes). It is not a competitive or consolidated grant program. This funding is property tax replacement money, receipted into the general fund with no restrictions, and there are no direct and material compliance requirements that would require testing as a major program.

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Southeast Local Schools

8245 Tallmadge Road
Ravenna, Ohio 44266

Cassie J. Bergman
Treasurer

330-654-5841
Fax 330-654-9110

Robert Dunn
Superintendent

CORRECTIVE ACTION PLAN 2 CFR § 200.511(c) JUNE 30, 2018

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	Impact Aid revenues will be listed on the Federal Schedule.	Current Fiscal Year	Cassie Bergman

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OHIO AUDITOR OF STATE
KEITH FABER



SOUTHEAST LOCAL SCHOOL DISTRICT

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 19, 2019**