

SOUTHEAST LOCAL SCHOOL DISTRICT
PORTAGE COUNTY OHIO
SINGLE AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Varney, Fink & Associates, Inc.
Certified Public Accountants



Mary Taylor, CPA
Auditor of State

Board of Education
Southeast Local School District
8245 Tallmadge Rd.
Ravenna, OH 44266

We have reviewed the *Independent Auditor's Report* of the Southeast Local School District, Portage County, prepared by Varney, Fink & Associates, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Southeast Local School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 10, 2008

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**SOUTHEAST LOCAL SCHOOL DISTRICT
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Southeast Local School District
8423 Tallmadge Road
Ravenna, OH 44266

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Southeast Local School District (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District, as of June 30, 2007 and the respective changes in financial position and cash flows, were applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (continued)

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

February 22, 2008

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2007 (Unaudited)

The discussion and analysis of Southeast Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2007 are as follows:

- Net assets increased \$833,852 which represents a 2.9 percent increase from 2006.
- General revenues accounted for \$18,170,997 in revenue or 90 percent of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,915,450 or 10 percent of total revenues of \$20,086,447.
- The District had \$19,252,595 in expenses related to governmental activities; \$1,915,450 of these expenses were offset by program specific charges for services, grants or contributions.
- Among major funds, the general fund had \$18,090,742 in revenues and \$15,920,488 in expenditures. The general fund's fund balance increased \$2,037,693 to \$(22,974).

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

These statements are as follows:

1. The Government-Wide Financial Statements – These statements provide both long-term and short-term information about the District's overall financial status.
2. The Fund Financial Statements – These statements focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2007 (Unaudited)

The two government-wide statements report the District's net assets and how they have changed. Net-assets (the difference between the District's assets and liabilities) is one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District you need to consider additional nonfinancial factors such as the property tax base, current property tax laws, student enrollment growth and facility conditions.

The government-wide financial statements of the District reflect the following category for its activities:

Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

Governmental Funds – Most of the 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 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 Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds – The District uses an internal service fund to report activities that provide services for the District's other programs and activities. Proprietary funds are reported in the same manner that all activities are reported in the statement of net assets and the statement of activities.

Fiduciary Funds – The District is the trustee, or fiduciary, for various student managed activity programs listed as agency. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)*

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The following table provides a summary of the District's net assets for 2007 compared to 2006.

	Governmental Activities	
	2007	2006
Current and other assets	\$ 11,584,122	\$ 7,558,544
Capital assets, net	<u>34,012,556</u>	<u>35,619,047</u>
Total assets	45,596,678	43,177,591
Long-term liabilities	7,680,373	7,778,166
Other liabilities	<u>8,581,156</u>	<u>6,898,128</u>
Total liabilities	16,261,529	14,676,294
Net assets		
Invested in capital assets, net of related debt	28,090,556	29,447,047
Restricted	2,003,000	1,370,223
Restricted - nonexpendable	0	10,001
Unrestricted (deficit)	<u>(758,407)</u>	<u>(2,325,974)</u>
Total net assets	<u>\$ 29,335,149</u>	<u>\$ 28,501,297</u>

Total assets increased \$2,419,087 with a large portion, \$1,939,292 from taxes receivable from the passage in May 2006 of a 8.9 mill emergency operating levy. The decrease of \$1,606,491 in capital assets was attributed to the depreciation expense exceeding the additions for the current year. Total liabilities increased \$1,585,235 and was attributed to an increase in deferred revenue in relation to property taxes available.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)***

Changes in Net Assets - The following table shows the changes in net assets for the fiscal year 2007 compared to 2006.

	Governmental Activities	
	2007	2006
Revenues		
Program Revenues:		
Charges for Sales and Services	\$ 741,332	\$ 829,255
Operating Grants and Contributions	1,174,118	1,102,109
General Revenues:		
Property Taxes	5,578,222	4,502,664
Grants and Entitlements	12,292,616	11,652,198
Miscellaneous and Investment Earnings	300,159	418,259
Total Revenues	20,086,447	18,504,485
Program Expenses:		
Instruction	10,134,564	10,249,307
Support Services:		
Pupils	1,093,525	1,117,938
Instructional Staff	427,294	491,085
Board of Education	28,616	33,499
Administration	1,397,149	1,353,410
Fiscal Services	406,319	342,794
Business	2,965	170,817
Operation and Maintenance of Plant	1,339,008	1,615,505
Pupil Transportation	1,162,172	1,146,543
Central	1,770,302	2,154,052
Operation of Non-Instructional Services	14,041	11,339
Operation of Food Service	638,812	694,702
Extracurricular Activities	513,704	474,509
Interest and Fiscal Charges	324,124	330,943
Total Expenses	19,252,595	20,186,443
Change in Net Assets	833,852	(1,681,958)
Beginning Net Assets	28,501,297	30,183,255
Ending Net Assets	\$ 29,335,149	\$ 28,501,297

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)***

Overall revenue increased approximately \$1,582,000 over fiscal year 2006. Program expenses decreased from \$20.2 million in 2006 to \$19.3 million in 2007. The decrease in total program expenses reflects decreases in salaries, fringe benefits (health insurance and retirement), purchased services (utilities and special education costs) and other expenses.

Governmental Activities

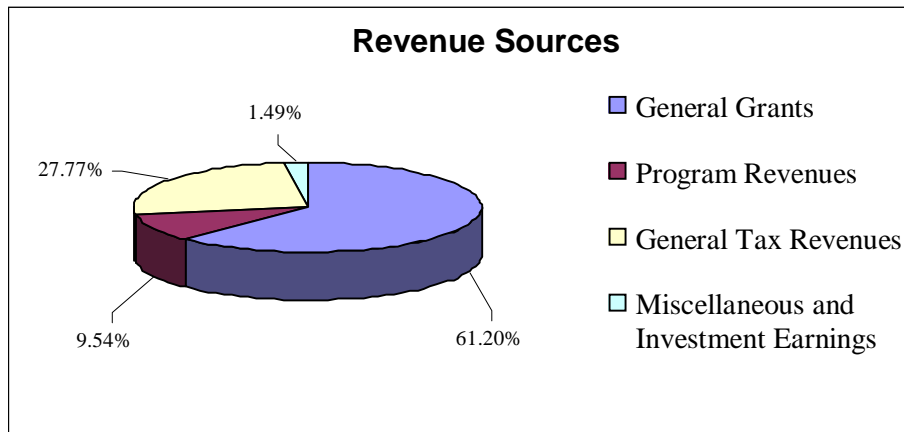
Net assets of the District's governmental activities increased by \$833,852.

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Property taxes made up 27.77 percent of revenues for governmental activities for Southeast Local Schools in fiscal year 2007. These revenues increased \$1,075,558 over 2006, primarily from the first year collections of the new emergency levy.

Revenue Sources	2007	Percent of Total
General Grants	\$ 12,292,616	61.20%
Program Revenues	1,915,450	9.54%
General Tax Revenues	5,578,222	27.77%
Miscellaneous and Investment Earnings	300,159	1.49%
Total Revenue	\$ 20,086,447	100.00%

The District's reliance upon tax revenues is demonstrated by the following graph:



SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$1,394,069, which is above last year's total of (\$862,655). The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	<u>Fund Balance</u> <u>June 30, 2007</u>	<u>Fund Balance</u> <u>June 30, 2006</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ (22,974)	\$ (2,060,667)	\$ 2,037,693
Bond Retirement	309,785	318,306	(8,521)
Other Governmental	1,107,258	879,706	227,552
Total	<u>\$ 1,394,069</u>	<u>\$ (862,655)</u>	<u>\$ 2,256,724</u>

General Fund –The table that follows assists in illustrating the financial activities and balance of the General Fund:

	<u>2007</u> <u>Revenues</u>	<u>2006</u> <u>Revenues</u>	<u>Increase</u> <u>(Decrease)</u>
Taxes	\$ 5,111,666	\$ 3,946,508	\$ 1,165,158
Tuition and Fees	177,957	100,710	77,247
Investment Earnings	80,559	37,877	42,682
Intergovernmental	12,701,176	11,176,969	1,524,207
Other Revenue Types	19,384	204,128	(184,744)
Total	<u>\$ 18,090,742</u>	<u>\$ 15,466,192</u>	<u>\$ 2,624,550</u>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)***

General Fund revenues in 2007 increased approximately 16.7 percent compared to revenues in fiscal year 2006. The primary factor contributing to this increase included an increase in taxes and school foundation grants and entitlements.

	2007 Expenditures	2006 Expenditures	Increase (Decrease)
Instruction	\$ 8,021,210	\$ 7,990,982	\$ 30,228
Supporting Services:			
Pupils	972,347	1,041,991	(69,644)
Instructional Staff	281,876	363,020	(81,144)
Board of Education	28,616	33,499	(4,883)
Administration	1,315,967	1,199,090	116,877
Fiscal Services	383,503	332,345	51,158
Business	0	169,521	(169,521)
Operation and Maintenance of Plant	1,218,276	1,244,801	(26,525)
Pupil Transportation	1,033,389	1,069,726	(36,337)
Central	2,295,779	2,373,744	(77,965)
Operation of Non-Instructional Services	916	0	916
Food Service	0	10,580	(10,580)
Extracurricular Activities	368,609	355,690	12,919
Total	\$ 15,920,488	\$ 16,184,989	\$ (264,501)

The District's general fund expenditures remained fairly stable, decreasing \$264,501, or about 1.6 percent.

General Fund Budgeting Highlights

The 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.

For the general fund, the actual revenue was \$17,557,873 representing a \$161,893 increase from the final budget estimates of \$17,395,980. Most of this difference was in the areas of taxes and intergovernmental revenue. The School District's general unencumbered fund balance at end of year was \$1,152,401.

The District revises its appropriations throughout the fiscal year. During fiscal year 2007, no significant fluctuations between actual and final budget were noted. Final expenditures plus outstanding encumbrances were under the final appropriated amounts by \$573,644. There were no individually significant events that caused this variance. The District has adopted a fund level of budgeting.

For the general fund, the final budget basis revenue estimate was \$17,557,873, which was higher than the original budget estimate of \$15,571,289. This difference of \$1,986,584 was due to changes in state and federal grants as well as state foundation funding, the exact amounts of which are often unknown during the original budgeting process. Near the closing of the fiscal year, the Treasurer adjusts the final budget

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)***

(estimated resources) in the accounting system to reflect the actual amounts received or anticipated to be received by June 30, 2007. Due to these adjustments, the variance between the actual and final budget are immaterial.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2007 the District had \$34,012,556 net of accumulated depreciation invested in land, land improvements, buildings, equipment and vehicles. The following table shows fiscal year 2006 and 2007 balances:

	Governmental Activities		Increase (Decrease)
	2007	2006	
Land	\$ 1,475,065	\$ 1,475,065	\$ 0
Land Improvements	1,437,674	1,415,533	22,141
Buildings and Improvements	38,539,912	38,533,344	6,568
Machinery and Equipment	1,930,788	1,895,417	35,371
Vehicles	1,835,045	1,835,045	0
Less: Accumulated Depreciation	(11,205,928)	(9,535,357)	(1,670,571)
Total	\$ 34,012,556	\$ 35,619,047	\$ (1,606,491)

The primary cause for this decrease in capital assets is due to depreciation on the assets.

Additional information on the District's capital assets can be found in Note 6.

Debt

At June 30, 2007, the District had \$6,107,734 in bonds outstanding, \$275,000 of which is due within one year. The following table summarizes the District's debt outstanding as of June 30.

	2007	2006
Governmental Activities:		
General Obligation Bonds:		
Classroom Facilities	\$ 6,107,734	\$ 6,319,483

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2007, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Note 9.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2007 (Unaudited)

ECONOMIC FACTORS

Until this year, Southeast Local School District has operated without the passage of any new local operating revenue through a voted operating levy since 1995. The District had been able to build some reserves that it had relied on for a number of years; however, due to major changes in state funding the District's expenditures have exceeded its revenues since fiscal year 1999. Due to the District's reliance upon state funding (68% of general fund revenues), the cuts that the State made over the last few years have had a tremendous impact on the operation of this District. In addition to State cuts, the District's enrollment has been declining over the past several years, including losses due to open enrollment and community schools. Unfortunately, the current biennium budget does not give our district any increases in state funding. Fortunately, the District passed an 8.9 mill, 4 year emergency levy in May of 2006. This money is used for current operating expenses and should stabilize the District's finances through December 2010.

The District's tax base has grown steadily over the years with some new construction, but primarily due to the 3-year triennial updates and re-appraisals. The tax base now stands at \$229,734,367, with 89% of that coming from residential/agricultural. Our tangible personal property tax base is now less 1% of our valuation.

REQUESTS FOR INFORMATION

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

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>
Assets:	
Cash and Cash Equivalents	\$ 3,914,863
Receivables:	
Accounts	1,874
Taxes	6,879,183
Intergovernmental	747,930
Materials and Supplies Inventory	30,076
Inventory Held for Resale	10,196
Nondepreciable Capital Assets	1,475,065
Depreciable Capital Assets, Net	<u>32,537,491</u>
Total Assets	<u>45,596,678</u>
Liabilities:	
Accounts Payable	14,738
Accrued Wages and Benefits	1,465,700
Intergovernmental Payable	428,143
Claims Payable	378,873
Deferred Revenue	6,218,884
Accrued Vacations Payable	26,272
Matured Compensated Absences Payable	48,546
Long -Term Liabilities:	
Due Within One Year	377,609
Due Within More Than One Year	<u>7,302,764</u>
Total Liabilities	<u>16,261,529</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	28,090,556
Restricted for:	
Capital Projects	324,950
Debt Service	338,222
Other Purposes	838,151
Set Asides	501,677
Unrestricted (Deficit)	<u>(758,407)</u>
Total Net Assets	<u>\$ 29,335,149</u>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Activities
For the Fiscal Year Ended June 30, 2007

	Program Revenues			Net (Expense) Revenue and and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:				
Instruction:				
Regular	\$ 7,614,303	\$ 121,551	\$ 156,953	\$ (7,335,799)
Special	1,573,683	0	676,364	(897,319)
Vocational	62,055	0	0	(62,055)
Other	877,723	0	0	(877,723)
Support Services:				
Pupils	1,093,525	0	0	(1,093,525)
Instructional Staff	427,294	0	65,040	(362,254)
Board of Education	28,616	0	0	(28,616)
Administration	1,397,149	0	22,012	(1,375,137)
Fiscal	406,319	0	0	(406,319)
Business	2,965	0	0	(2,965)
Operation and Maintenance of Plant	1,339,008	1,014	0	(1,337,994)
Pupil Transportation	1,162,172	0	0	(1,162,172)
Central	1,787,632	0	0	(1,787,632)
Operation of Non-Instructional Services	14,041	0	49,783	35,742
Operation of Food Services	628,282	411,019	203,966	(13,297)
Extracurricular Activities	513,704	207,748	0	(305,956)
Interest and Fiscal Charges	324,124	0	0	(324,124)
Total Governmental Activities	\$ 19,252,595	\$ 741,332	\$ 1,174,118	(17,337,145)

General Revenues

Property Taxes Levied for:	
General Purposes	5,044,347
Debt Service	458,384
Other Purposes	75,491
Grants and Entitlements not Restricted to Specific Programs	12,292,616
Investment Earnings	147,179
Miscellaneous	152,980
Total General Revenues	18,170,997
 <i>Change in Net Assets</i>	 833,852
 <i>Net Assets Beginning of Year</i>	 28,501,297
<i>Net Assets End of Year</i>	\$ 29,335,149

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Balance Sheet
Governmental Funds
June 30, 2007

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 668,632	\$ 286,867	\$ 1,155,800	\$ 2,111,299
Cash and Cash Equivalents - Restricted	501,677	0	0	501,677
Receivables:				
Accounts	1,874	0	0	1,874
Taxes	6,266,614	526,430	86,139	6,879,183
Intergovernmental	577,028	0	170,902	747,930
Interfund Receivable	792	0	0	792
Materials and Supplies Inventory	30,076	0	0	30,076
Inventory Held for Resale	0	0	10,196	10,196
Total Assets	\$ 8,046,693	\$ 813,297	\$ 1,423,037	\$ 10,283,027
Liabilities:				
Accounts Payable	\$ 11,759	\$ 0	\$ 2,979	\$ 14,738
Accrued Wages and Benefits	1,322,145	0	143,555	1,465,700
Interfund Payable	0	0	792	792
Intergovernmental Payable	408,413	0	19,730	428,143
Matured Compensated Absences Payable	48,546	0	0	48,546
Due to Other Funds	212,420	0	0	212,420
Deferred Revenue	6,066,384	503,512	148,723	6,718,619
Total Liabilities	8,069,667	503,512	315,779	8,888,958
Fund Balances:				
Reserved for Encumbrances	12,477	0	61,059	73,536
Reserved for Property Taxes	266,491	22,918	3,738	293,147
Reserved for Textbooks and Instructional Materials	501,677	0	0	501,677
Unreserved:				
Undesignated, Reported in:				
General Fund	(803,619)	0	0	(803,619)
Special Revenue Funds	0	0	717,511	717,511
Capital Projects Funds	0	0	324,950	324,950
Debt Service Funds	0	286,867	0	286,867
Total Fund Balances	(22,974)	309,785	1,107,258	1,394,069
Total Liabilities and Fund Balances	\$ 8,046,693	\$ 813,297	\$ 1,423,037	\$ 10,283,027

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

**Reconciliation of Total Governmental Fund Balances
To Net Assets of Governmental Activities
June 30, 2007**

Total Governmental Fund Balances	\$	1,394,069
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		34,012,556
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds:		
Grants	\$	66,321
Excess Cost		66,261
Delinquent Property Taxes		367,153
		<u>499,735</u>
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.		
Classroom Facilities Serial Bonds	(5,665,000)	
Classroom Facilities Capital Appreciation Bonds	(257,000)	
Accretion of Capital Appreciation Bonds	(185,735)	
Total		<u>(6,107,735)</u>
Some expenses reported in the statement of activities do not use the current financial resources and therefore, are not reported as expenditures in governmental funds.		
Compensated Absences	(1,572,638)	
Accrued Vacation Payable	(26,272)	
		<u>(1,598,910)</u>
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 assets.		<u>1,135,434</u>
Net Assets of Governmental Activities	\$	<u>29,335,149</u>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 5,111,666	\$ 478,878	\$ 79,206	\$ 5,669,750
Intergovernmental	12,701,176	57,311	1,088,022	13,846,509
Investment Earnings	80,559	0	16,335	96,894
Tuition and Fees	177,957	0	2,604	180,561
Rentals	1,014	0	0	1,014
Extracurricular Activities	0	0	205,143	205,143
Charges for Services	0	0	411,019	411,019
Gifts and Donations	300	0	135,244	135,544
Miscellaneous	18,070	0	0	18,070
Total Revenues	18,090,742	536,189	1,937,573	20,564,504
Expenditures:				
Current:				
Instruction:				
Regular	5,944,154	0	151,888	6,096,042
Special	1,126,936	0	439,830	1,566,766
Vocational	72,397	0	0	72,397
Other	877,723	0	0	877,723
Support Services:				
Pupils	972,347	0	141,997	1,114,344
Instructional Staff	281,876	0	89,914	371,790
Board of Education	28,616	0	0	28,616
Administration	1,315,967	0	118,342	1,434,309
Fiscal	383,503	8,837	1,474	393,814
Operation and Maintenance of Plant	1,218,276	0	44,530	1,262,806
Pupil Transportation	1,033,389	0	0	1,033,389
Central	2,295,779	0	0	2,295,779
Operation of Non-Instructional Services:	916	0	13,125	14,041
Food Service Operations	0	0	641,762	641,762
Extracurricular Activities	368,609	0	142,659	511,268
Capital Outlay	0	0	57,061	57,061
Debt Service:				
Principal Retirement	0	250,000	0	250,000
Interest and Fiscal Charges	0	285,873	0	285,873
Total Expenditures	15,920,488	544,710	1,842,582	18,307,780
Excess of Revenues Over (Under) Expenditures	<u>2,170,254</u>	<u>(8,521)</u>	<u>94,991</u>	<u>2,256,724</u>
Other Financing Sources (Uses):				
Transfers In	0	0	132,561	132,561
Transfers Out	(132,561)	0	0	(132,561)
Total Other Financing Sources and (Uses)	(132,561)	0	132,561	0
Net Change in Fund Balance	2,037,693	(8,521)	227,552	2,256,724
Fund Balance (Deficit) at Beginning of Year	(2,060,667)	318,306	879,706	(862,655)
Fund Balance (Deficit) at End of Year	\$ (22,974)	\$ 309,785	\$ 1,107,258	\$ 1,394,069

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2007**

Net Change in Fund Balances - Total Governmental Funds \$ 2,256,724

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

Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded additions in the current period.

Capital Asset Additions	\$ 64,080	
Current Year Depreciation	(1,670,571)	
Total	(1,606,491)	(1,606,491)

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

Grants	66,323	
Excess Cost	(503,137)	
Delinquent Property Taxes	(91,528)	(528,342)

Repayment of note and bond principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Bond Principal		250,000
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Some expenses reported in the statement of activities do not use the current financial resources and therefore, are not reported as expenditures in governmental funds.

Increase in Compensated Absences	(113,955)	
Decrease in Vacation Payable	8,028	
Total	(105,927)	(105,927)

In statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.

Current Year Bond Accretion		(38,251)
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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. The net revenue (expense) of internal service funds is reported with governmental activities.

606,139

Change in Net Assets of Governmental Activities **\$ 833,852**

SOUTHEAST LOCAL SCHOOL DISTRICT, 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, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 4,540,883	\$ 4,966,941	\$ 5,090,399	\$ 123,458
Intergovernmental	10,890,291	12,170,853	12,190,409	19,556
Investment Income	35,000	71,991	80,559	8,568
Tuition and Fees	93,715	170,498	178,509	8,011
Rental	1,600	1,014	1,014	0
Gifts and Donations	2,300	300	300	0
Miscellaneous	7,500	14,383	16,683	2,300
Total Revenues	<u>15,571,289</u>	<u>17,395,980</u>	<u>17,557,873</u>	<u>161,893</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,566,337	5,950,127	5,871,105	79,022
Special	1,050,089	1,115,925	1,107,582	8,343
Vocational	67,953	72,220	71,673	547
Other	832,866	871,467	878,466	(6,999)
Support Services:				
Pupils	1,207,358	1,358,892	1,273,461	85,431
Instructional Staff	277,778	296,472	292,986	3,486
Board of Education	27,121	30,049	28,606	1,443
Administration	1,239,736	1,358,567	1,307,612	50,955
Fiscal	365,426	401,669	385,433	16,236
Business	49,623	83,159	52,340	30,819
Operation and Maintenance of Plant	1,162,870	1,314,342	1,226,538	87,804
Pupil Transportation	947,687	1,150,806	999,573	151,233
Central	2,293,553	2,468,927	2,419,126	49,801
Operation of Non-Instructional Services:				
Food Service Operations	38,819	0	0	0
Extracurricular Activities	310,906	384,396	368,873	15,523
Total Expenditures	<u>15,438,122</u>	<u>16,857,018</u>	<u>16,283,374</u>	<u>573,644</u>
Excess of Revenues Over (Under) Expenditures	133,167	538,962	1,274,499	735,537
Other Financing Sources (Uses):				
Refund of Prior Year Receipts	(3,132)	(3,303)	(3,303)	0
Advances In	0	0	9,323	9,323
Transfers Out	(125,680)	(130,000)	(132,561)	(2,561)
Advances Out	(9,590)	(10,000)	(792)	9,208
Total Other Financing Sources (Uses)	<u>(138,402)</u>	<u>(143,303)</u>	<u>(127,333)</u>	<u>15,970</u>
Net Change in Fund Balance	(5,235)	395,659	1,147,166	751,507
Fund Balance (Deficit) at Beginning of Year	(420,856)	(420,856)	(420,856)	0
Prior Year Encumbrances Appropriated	426,091	426,091	426,091	0
Fund Balance (Deficit) at End of Year	<u>\$ 0</u>	<u>\$ 400,894</u>	<u>\$ 1,152,401</u>	<u>\$ 751,507</u>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Fund Net Assets
Proprietary Fund
June 30, 2007

	Governmental Activities - Internal Service Funds
	<hr/>
Assets:	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 1,301,887
Due From Other Funds	<hr/> 212,420
Total Assets	<hr/> 1,514,307 <hr/>
Liabilities:	
<i>Current Liabilities:</i>	
Claims Payable	<hr/> 378,873
Net Assets:	
Unrestricted	<hr/> \$ 1,135,434 <hr/>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

*Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2007*

	Governmental Activities - Internal Service Funds
Operating Revenues:	
Charges for Services	\$ 2,717,431
Operating Expenses:	
Purchased Services	252,762
Claims	1,908,815
Total Operating Expenses	<u>2,161,577</u>
Operating Income	555,854
Non-Operating Revenue (Expenses):	
Investment Earnings	<u>50,285</u>
Change in Net Assets	606,139
Net Assets (Deficit) Beginning of Year	<u>529,295</u>
Net Assets (Deficit) End of Year	<u>\$ 1,135,434</u>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2007

	Governmental Activities Internal Service Fund
Cash Flows From Operating Activities:	
Cash Received for Charges for Services	\$ 2,881,567
Cash Paid for Goods and Services	(252,762)
Cash Paid for Claims	(1,987,809)
<i>Net Cash Provided By (Used For) Operating Activities</i>	640,996
Cash Flows From Investing Activities:	
Cash Receipts for Interest	50,285
<i>Net Cash Provided By (Used For) Investing Activities</i>	50,285
<i>Net (Decrease) in Cash and Cash Equivalents</i>	691,281
<i>Cash and Cash Equivalents at Beginning of Year</i>	610,606
<i>Cash and Cash Equivalents at End of Year</i>	\$ 1,301,887
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:	
Operating Income	\$ 555,854
Increase (Decrease) in Liabilities:	
Claims Payable	(78,994)
Due From Other Funds	164,136
<i>Net Cash Provided By (Used For) Operating Activities</i>	\$ 640,996

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Statement of Assets & Liabilities
Fiduciary Funds
June 30, 2007

	<u>Agency Fund</u>
Assets:	
Cash and Cash Equivalents	\$ <u>42,156</u>
Liabilities:	
Due to Students	\$ <u>42,156</u>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Southeast Local School District, Ohio (the 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 District is governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by approximately 96 non-certified and approximately 124 certified teaching personnel and administrative employees providing education to 2,180 students.

The accompanying basic financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, functions and component units for which the 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 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 District. There were no potential component units that met the criteria imposed by GASB Statement No. 14 to be included in the District's reporting entity. Based on the foregoing, the reporting entity of the 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.

Southeast Local 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 Districts. Information regarding this organization is presented in Note 12.

The financial statements of the 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 District will apply Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, to any governmental activities and proprietary funds provided they do not conflict with or contradict GASB pronouncements.

B. 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, liabilities, fund equity, revenues and expenditures/expenses. The various funds are grouped into the categories governmental, proprietary and fiduciary.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

Governmental Funds - These are funds through which most governmental functions typically are financed. The acquisition, use and balances of the 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 are the District's major governmental funds:

General Fund - This fund is the general operating fund of the 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 District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Fund - This fund provides for the retirement of bonds. All revenue derived from general or special levies, either within or exceeding the ten-mil limitation, which is levied for debt charges on bonds or loans, shall be paid into this fund.

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

Proprietary Funds - The proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and all liabilities 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 assets. The 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 District or to other governments on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program that accounts for health and medical claims of District employees.

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

C. Basis of Presentation – Financial Statements

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the 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.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

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.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the 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 District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the 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 current liabilities, 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 all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

D. 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

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the 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 District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. 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 Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue within the basic financial statements.

Grants and entitlements received before the eligibility requirements are met and receivables that will not be collected within the available period have been reported as deferred revenue in the governmental fund financial statements.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the statement of activities as an expense with a like amount reported within the "operating grants and contributions" program revenue account. Unused donated commodities are reported in the account "Inventory held for resale" within the basic financial statements.

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

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. 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 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 fiscal year.

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

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund:

Net Change in Fund Balance	
GAAP Basis	\$ 2,250,113
Advances In	9,323
Net Adjustment for Revenue Accruals	(532,869)
Advances Out	(792)
Net Adjustment for Expenditure Accruals	(560,701)
Adjustment for Encumbrances	<u>(17,908)</u>
Budget Basis	<u><u>\$ 1,147,166</u></u>

F. Cash and Cash Equivalents

To improve cash management, all cash received by the District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through 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 2007, cash and cash equivalents included amounts in demand deposits and the State Treasury Asset Reserve (STAROhio). STAROhio is a very liquid investment account which is reported as cash equivalents in the basic financial statements.

The 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 District's Cash and Cash Equivalents.

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*", the District records all its investments at fair value. See Note 3, for more detail on the District's investments.

The District has invested funds in the State Treasury Asset Reserve of Ohio during 2007. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2007.

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 2007 amounted to \$80,559, which includes \$56,306 assigned from other School District funds.

H. Inventory

On the government-wide financial statements, inventories are presented at cost on a first-in, first-out basis and are expensed when consumed.

Inventories of the food service special revenue fund are stated at cost, which is determined on a first-in, first-out basis. Inventory consists of donated food and purchased food held for resale held for resale and is expensed when consumed.

I. Prepaid Items

Payments to vendors for services that will benefit periods beyond June 30, 2007 are recorded as prepaid items using the consumption method. A current asset for the prepaid item is recorded at the time of purchase and expenditure is reported in the fiscal year in which the services are consumed.

J. Capital Assets and Depreciation

General capital assets are those assets related to activities reported in the governmental funds. All of the 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 assets 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 fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. The 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".

All reported capital assets except land 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:

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

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

K. 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 and accrued liabilities from the internal service fund are reported on the proprietary fund financial statements.

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

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

Obligation	Fund
Compensated Absences	Fund from which employee is paid
General Obligation Bond	Bond Retirement Fund

L. 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. The percentages are 20 percent for 0-5 years, 30 percent for 6-15 years and 35 percent for 16 years and up. Maintenance and custodial employees receive an additional 15 days of severance for 6-15 years of service and an additional 30 days of severance for 16 years of service at retirement. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as expenditure in the fund from which the individual earning the leave is paid.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Pensions

The provision for pension costs are recorded when the related payroll is accrued and the obligation is incurred. For governmental funds, pension liabilities expected to be paid from current available financial resources are recorded as a fund liability.

O. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds 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.

P. Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets may include amounts required by statute to be set-aside for the purchase of textbooks and other instructional material or for the purchase and maintaining of capital assets of the District. See Note 10 for additional information regarding set asides.

Q. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for textbooks and instructional materials, property taxes, and encumbered amounts which have not been accrued at year end. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles, but not available for appropriation under State statute.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

R. 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.

S. 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 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.

T. 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 District had no extraordinary or special items during fiscal year 2007.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

The fund deficits at June 30, 2007 were \$22,974 in the general fund, \$17,488 in the food service fund and \$19 in the miscellaneous federal grant fund. These deficits were 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 District into three categories.

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

Inactive deposits are public deposits 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.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to 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, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan.
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 two percent 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 division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
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 twenty-five percent 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.

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

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of District cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all uninsured public deposits. The face value of the pooled collateral must equal at least 105 percent of uninsured public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Undeposited Cash At year-end, the District had \$2,500 in undeposited cash on hand which is included as part of "equity in pooled cash and cash equivalents."

Deposits At fiscal year end, the carrying amount of the District's deposits was \$2,782,327 and the bank balance was \$2,949,846. Of the bank balance:

1. \$366,009 was covered by federal depository insurance; and
2. \$2,583,837 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

Investments

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

Ending Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2007. This value as of June 30, 2007 was \$1,172,192.

Credit Risk – The District's only investment at June 30, 2007 was in STAROhio, which is rated AAAM by Standard & Poor's. The School District's policy doesn't address credit risk.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer. During the year, the District's only investment was in STAROhio.

NOTE 4 - PROPERTY TAXES

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the District. Real property taxes (other than public utility) collected during 2007 were levied after October 1, 2006 on assessed values as of January 1, 2005, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

market value. All property is required to be reappraised every six years and equalization adjustments made the third year following reappraisal. The last revaluation was completed in 2006, and equalization adjustments were made in 2003. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of true value for capital assets and 23 percent of true value for inventory. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually, the first payment is due April 30; with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County including Southeast Local District and periodically remits to the District its portion of the taxes collected. The County Auditor also periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes are measurable as of June 30, 2007 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/unearned revenue, respectively.

The amount available as an advance at June 30, 2007 was \$266,491 in the general fund, \$22,918 in the bond retirement debt service fund, \$3,738 in the classroom facility maintenance fund.

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

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

The assessed value upon which the fiscal year 2007 receipts were based is:

	2006 Second Half Collections	2007 First Half Collections
Agricultural/Residential and Other Real Estate	\$ 198,630,672	\$ 219,916,778
Public Utility Personal	8,784,000	8,541,850
Tangible Personal Property	2,275,960	1,275,739
Total Assessed Value	\$ 209,690,632	\$ 229,734,367
Tax rate per \$1,000 of assessed valuation	\$ 38.34	\$ 39.36

NOTE 5 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, interfund loans, intergovernmental and accounts receivables. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
General Fund	\$ 577,028
<u>Other governmental funds:</u>	
Food Service	32,915
IDEA Grant	76,430
Title I	46,821
Drug Free	3,373
Title V	344
Improving Teacher Quality	10,972
Miscellaneous Federal Grants	47
Total Intergovernmental Receivable	\$ 747,930

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007*

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Governmental Activities				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$ 1,475,065	\$ 0	\$ 0	\$ 1,475,065
<i>Capital Assets, Being Depreciated</i>				
Land Improvements	1,415,533	22,141	0	1,437,674
Building and Improvements	38,533,344	6,568	0	38,539,912
Machinery and Equipment	1,895,417	35,371	0	1,930,788
Vehicles	1,835,045	0	0	1,835,045
<i>Total Capital Assets, being depreciated</i>	<u>43,679,339</u>	<u>64,080</u>	<u>0</u>	<u>43,743,419</u>
<i>Accumulated Depreciation</i>				
Land Improvements	(1,207,161)	(114,751)	0	(1,321,912)
Building and Improvements	(5,521,589)	(1,318,762)	0	(6,840,351)
Machinery and Equipment	(1,306,402)	(131,756)	0	(1,438,158)
Vehicles	(1,500,205)	(105,302)	0	(1,605,507)
<i>Total Accumulated Depreciation</i>	<u>(9,535,357)</u>	<u>(1,670,571)</u>	<u>0</u>	<u>(11,205,928)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>34,143,982</u>	<u>(1,606,491)</u>	<u>0</u>	<u>32,537,491</u>
<i>Governmental Activities, Capital Assets, net</i>	<u>\$ 35,619,047</u>	<u>\$ (1,606,491)</u>	<u>\$ 0</u>	<u>\$ 34,012,556</u>

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

Depreciation expenses were charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,429,790
Support Services:	
Instructional Staff	68,032
Administration	3,404
Vocational	587
Operation and Maintenance of Plant	31,305
Pupil Transportation	118,729
Central	2,360
Operation of Food Services	11,220
Extracurricular Activities	<u>5,144</u>
 Total Depreciation	 <u><u>\$ 1,670,571</u></u>

NOTE 7- DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. or by calling toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute an actuarially determined rate of 14% of annual covered payroll, which includes 10.68% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to the statutory maximum amounts, by the SERS Retirement Board.

The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$231,391, \$247,564 and \$231,049. 23.4 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$177,360 represents the unpaid contributions for fiscal year 2007, and is recorded as a liability within the respective funds.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand alone financial report that may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to the DB Plan for the fiscal year ended June 30, 2007, were \$912,779. Contributions to the DC and Combined Plans for fiscal year 2007 were \$25,510 made by the District and \$12,657 made by the plan members.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

For fiscal years ended June 30, 2006 and 2005, the District's contributions to STRS were \$982,993 and \$960,173, respectively. 82 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal years 2006 and 2005. \$172,308 represents the unpaid contribution for fiscal year 2007, and is recorded as a liability within the respective funds.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

NOTE 8 - POST EMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District this amount equaled \$70,213 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2006 (the latest information available), the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006 (the latest information available), employer contributions to fund health care benefits were 3.32 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

For fiscal year 2007, the minimum pay has been established at \$35,800. For the District, the amount to fund health care benefits, including surcharge, during the 2007 fiscal year equaled \$114,605.

The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006 (the latest information available), the value of the health care fund was \$295.6 million, which is about 221% of next year's projected net health care costs of \$158,751,207. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. SERS has approximately 59,492 participants eligible to receive benefits.

NOTE 9 – LONG-TERM DEBT AND OTHER OBLIGATIONS

Detail of the changes in the long-term general obligation bonds and compensated absences of the District for the year ended June 30, 2007, is as follows:

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007	Amount Due Within One Year
<i>General Obligation Bonds:</i>					
<i>School Improvement</i>					
<i>Classroom Facilities Improvement</i>					
Serial Bonds	\$5,915,000	\$ 0	(\$250,000)	\$5,665,000	\$275,000
<i>Classroom Facilities Improvement</i>					
Capital Appreciation Bonds	257,000	0	0	257,000	0
<i>Accretion on Capital</i>					
Appreciation Bonds	147,483	38,252	0	185,735	0
<i>Total General Obligation Bonds</i>	<u>6,319,483</u>	<u>38,252</u>	<u>(250,000)</u>	<u>6,107,735</u>	<u>275,000</u>
<i>Other Long-term Liabilities:</i>					
Compensated Absences	1,458,683	255,044	(141,089)	1,572,638	102,609
<i>Total Governmental Long-term Obligations</i>	<u>\$ 7,778,166</u>	<u>293,296</u>	<u>(391,089)</u>	<u>\$ 7,680,373</u>	<u>\$ 377,609</u>

Classroom Facilities Improvement Bonds- On May 15, 2001, the District issued \$7,212,000 in bonds for school construction. The bonds mature on December 1, 2023 and bear an interest rate between 4 and 5.1 percent. The bond issue consists of serial and capital appreciation bonds. These bonds are not subject to early redemption.

The capital appreciation bonds mature December 1, 2010. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007**

holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as long-term liability. The maturity amount of the bonds is \$290,000. For fiscal year 2007, \$38,252 was accreted for a liability of \$185,734.

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2007, follows:

Fiscal Year Ending June 30,	General Obligation Bond			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	275,000	274,973	549,973	0	0	0
2009	275,000	263,217	538,217	0	0	0
2010	0	257,236	257,236	134,303	155,698	290,001
2011	0	257,236	257,236	122,697	167,304	290,001
2012	290,000	249,986	539,986	0	0	0
2013-2017	1,680,000	1,011,680	2,691,680	0	0	0
2018-2022	2,130,000	537,695	2,667,695	0	0	0
2023-2024	1,015,000	52,403	1,067,403	0	0	0
Totals	<u>\$ 5,665,000</u>	<u>\$ 2,904,426</u>	<u>\$ 8,569,426</u>	<u>\$ 257,000</u>	<u>\$ 323,002</u>	<u>\$ 580,002</u>

NOTE 10 – STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined, into various reserves for the purpose of textbooks and other instructional materials and an additional amount for capital improvements. During the fiscal year ended June 30, 2007, the reserve activity (cash-basis) was as follows:

	Capital Improvement	Textbooks Instructional Materials	Totals
Set-Aside Carry Over Balance as of June 30, 2006	\$ 955,074	\$ 527,316	\$ 1,482,390
Current Year Set-Aside Requirement	319,197	319,197	638,394
Qualifying Offset	(1,274,271)	0	(1,274,271)
Qualifying Disbursements	0	(344,836)	(344,836)
Total	<u>\$ 0</u>	<u>\$ 501,677</u>	<u>\$ 501,677</u>
Cash Balance Carried Forward FY 2008	<u>\$ 0</u>	<u>\$ 501,677</u>	<u>\$ 501,677</u>

The District may use any negative amount in the textbooks set-aside to reduce set-aside requirements of future fiscal years. Amounts remaining at the fiscal year-end are represented by a reserve fund balance presented on the balance sheet. Qualifying offsets for the capital improvement reserve represent Ohio Schools Facilities Improvement Bonds issued in fiscal year 2001. These proceeds are eligible to be carried forward over the life of the bonds.

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

NOTE 11 - RISK MANAGEMENT

A. Public Entity Risk Pools

The District participates in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating Districts is calculated as one experience and a common premium rate is applied to all Districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to Districts that can meet the GRP's selection criteria. The Sheakley Group provides administrative, cost control and actuarial services to the GRP.

B. Other Insurance

The 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 2007, the 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 from coverages in 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.

The District also maintains a self-funded health insurance program for employee health coverage. The plan was started in July of 2003. The claims are processed by the third party administrator, Benefit 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 an

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007**

fixed costs for administrative and stop loss costs are paid on a monthly basis. The 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, 2007 for the self-insurance program amounted to \$378,873.

The claims liability reported in the fund at June 30, 2007 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 2006 and 2007 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims	Claims Payments	Balance at Fiscal Year End
2006	\$ 385,372	\$ 2,371,201	\$ (2,298,706)	\$ 457,867
2007	457,867	1,908,815	(1,987,809)	378,873

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 Southeast Local 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 2007, the amount paid by the District was \$74,228. The Southeast Local School District does not maintain an ongoing financial interest or an ongoing financial responsibility. Payments to SPARCC are made from the general fund. Financial information can be obtained from Gene Feucht, who serves as director, at 2100 38th Street, NW, Canton, Ohio 44709.

NOTE 13 - CONTINGENCIES

A. Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and

SOUTHEAST LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007

conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2007.

B. Litigation

The District is not a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2007.

NOTE 14 – INTERFUND TRANSACTIONS

Interfund receivables and payables may result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, (3) payments between funds are made, or (4) to eliminate negative cash balances. The Title I fund repaid an advance from the general fund of \$9,323, in fiscal year 2007.

An interfund receivable was set-up in the general fund and an interfund payable in the drug free school fund for \$792 to eliminate negative cash balances as of June 30, 2007.

As of June 30, 2007, all interfund loans outstanding (\$792) are anticipated to be repaid in fiscal year 2008.

Due from other funds and due to other funds for \$212,420 represents unpaid premiums for health, prescription drugs, dental and vision from the general fund to the self-insurance fund.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education
Southeast Local School District
8423 Tallmadge Road
Ravenna, OH 44266

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Southeast Local School District (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2007-03 to be a significant deficiency in internal control over financial reporting.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as finding 2007-01 and 2007-02.

We noted certain matters that we reported to management of the District in a separate letter dated February 22, 2008.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

February 22, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH *OMB CIRCULAR A-133***

Board of Education
Southeast Local School District
8423 Tallmadge Road
Ravenna, OH 44266

Compliance

We have audited the compliance of the Southeast Local School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in item 2007-04 through 2007-07 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding cash management, period of availability and special tests and provisions that are applicable to the Special Education Grants to States. Compliance with such requirements is necessary, in our opinion for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133* (continued)

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as findings 2007-04 through 2007-07 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2007-04 through 2007-07 to be material weaknesses.

The District's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133* (continued)

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

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

February 22, 2008

Southeast Local School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Receipts	Disbursements
<u>U.S. Department of Agriculture</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
School Breakfast Program	10.553	049221-05PU-2007	\$13,706	\$13,706
National School Lunch Program	10.555	049221-LLP4-2006	51,125	51,125
National School Lunch Program	10.555	049221-LLP4-2007	150,467	150,467
Total National School Lunch Program			201,592	201,592
Total Child Nutrition Cluster			215,298	215,298
Food Donation	10.550	---	37,062	37,062
Total U.S. Department of Agriculture			252,360	252,360
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
State Grants for Innovative Programs	84.298	049221-C2S1-2005	2,803	2,349
Title I Grants to Local Educational Agencies	84.010	049221-C1S1-2006	21,584	18,095
Title I Grants to Local Educational Agencies	84.010	049221-C1S1-2007	147,912	133,464
Title I Grants to Local Educational Agencies	84.010	049221-C1SK-2006	35,609	22,613
Title I Grants to Local Educational Agencies	84.010	049221-C1SK-2007	14,391	14,391
Total Title I Grants to Local Educational Agencies			219,496	188,563
Safe and Drug-Free Schools and Communities - State Grants	84.186	049221-DRS1-2006	3,872	1,432
Safe and Drug-Free Schools and Communities - State Grants	84.186	049221-DRS1-2007	3,511	6,594
Total Safe and Drug-Free Schools and Communities - State Grants			7,383	8,026
Special Education Cluster:				
Special Education-Grants to States	84.027	049221-6BSF-2006	23,021	116,745
Special Education-Grants to States	84.027	049221-6BSF-2007	390,811	401,289
Total Special Education Cluster			413,832	518,034
Improving Teacher Quality State Grants	84.367	049221-TRS1-2006	565	1,524
Improving Teacher Quality State Grants	84.367	049221-TRS1-2007	77,959	69,814
Total Improving Teacher Quality State Grants			78,524	71,338
Education Technology State Grants	84.318	049221-TJS1-2006	1,337	1,337
Education Technology State Grants	84.318	049221-TJS1-2007	1,979	1,688
Total Education Technology State Grants			3,316	3,025
Hurricane Education Recovery	84.938	049221-TRS1-2007	18,000	18,000
Total U.S. Department of Education			743,354	809,335
Total Federal Assistance			995,714	1,061,695

The notes to this Schedule are an integral part of this Schedule.

SOUTHEAST LOCAL SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - FOOD DISTRIBUTION

Non monetary assistance such as food received from the U.S. Department of Agriculture, is reported in the schedule at the fair market value of the commodities received and disbursed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2007, the District had no significant food commodities in inventory.

SOUTHEAST LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of auditor's report issued on the basic financial statements	Unqualified Opinion
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the basic financial statement level?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the basic financial statement level?	Yes
(d)(1)(iii)	Was there any material noncompliance reported at the basic financial statement level?	Yes
(d)(1)(iv)	Were there any material weaknesses in internal control over major programs reported?	Yes
(d)(1)(iv)	Were there any other significant deficiencies in internal control over major programs reported?	Yes
(d)(1)(v)	Type of auditor's report issued on compliance for major programs	Qualified Opinion
(d)(1)(vi)	Were there any reportable audit findings under §510?	Yes

SOUTHEAST LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)

(d)(1)(vii)	Major Program:	Special Education - Grants to States, CFDA #84.027; and Food Donation Program, CFDA # 10.550
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

Finding 2007-01 Noncompliance

Section 5705.10, Revised Code, states, in part, “money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund. Although the District did not have negative fund balances as of June 30, 2007, it was noted that the District had negative fund balances during the year as follows:

Fund	October 31, 2006	March 31, 2007
Food Service	\$140,043	\$106,326
Uniform School Supplies	434	531
IDEA Part B Grants	-	1,768

In accordance with Section 3315.20, Revised Code, school districts may have a deficit in any special fund of the district, as of March 30, 2007, if both of the following conditions are satisfied:

1. The district has a request for payment pending with the State sufficient to cover the amount of the deficit and there is a reasonable likelihood that the payment will be made, and
2. The unspent and unencumbered balance in the district’s general fund is greater than the aggregate of deficit amounts in all of the district’s special funds.

As of March 31, 2007 the District did not satisfy both conditions. In those cases where additional funds are required, the necessary resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code.

SOUTHEAST LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505

FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)

Corrective Action: Contact Person: Cassie Bergman, Treasurer

The District will monitor funds throughout the fiscal year that are at risk of a negative fund balance.

Finding 2007-02 Noncompliance

Section 5705.41 (B), Revised Code, states “that no subdivision or taxing unit is to expend money unless it has been appropriated.”

District expenditures, plus outstanding encumbrances, exceeded appropriations at the fund level for the Title IV – Drug Free School fund by \$475 at June 30, 2007.

Corrective Action: Contact Person: Cassie Bergman, Treasurer

The District will monitor the appropriations to verify that the actual expenditures plus encumbrances do not exceed appropriations at the fund level.

Finding 2007-03 Significant Deficiency

Financial Statement Adjustments

Financial reporting is the responsibility of the Treasurer of the District and the Board of Education and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The District made the following audit adjustment to the June 30, 2007 financial statements:

1. To adjust the understatement of Due from Other Funds in the Self Insurance Fund and the understatement of Due to Other Funds in the General Fund for \$212,420.

The Treasurer should review the adjustments and reclassifications identified above and ensure that similar errors are not reported on financial statements in subsequent years.

Corrective Action: Contact Person: Cassie Bergman, Treasurer

The District will work closely with the GAAP prepares to ensure that adjustments and reclassifications are properly reported.

SOUTHEAST LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505

FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)

3. FINDINGS FOR FEDERAL AWARDS

Federal Program: Special Education – Grants to States
 Identification Number: 049221-6BSF-2007
 CFDA Number: 84.027
 Federal Agency: U.S. Department of Education
 Pass Through Entity: Ohio Department of Education

2007-04 Noncompliance/Significant Deficiency

Criteria: 34 CFR 80.20 states accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant.

Condition Found: The District reported cash basis expenditures on their Project Cash Requests showing fiscal dates, as follows:

Fiscal Information Date	Cash Basis Expenditures Reported	Actual Cash Basis Expenditure s	Variance
December 18, 2006	\$101,877.52	\$74,021.56	\$27,855.96
April 20, 2007	247,983.30	241,110.44	6,872.86
June 5, 2007	414,203.58	329,771.64	84,431.94

Effect: The District did not present accurate, current and complete information.

Recommendations: The District should reconcile the fiscal information presented on the Project Cash Requests to the District's ledgers.

Corrective Action: Contact Person: Cassie Bergman, Treasurer

The District will reconcile the fiscal information presented on the Project Cash Requests to the District's financial ledgers.

SOUTHEAST LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505

FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)

Federal Program: Special Education - Grants to States
 Identification Number: 049221-6BSF-2007
 CFDA Number: 84.027
 Federal Agency: U.S. Department of Education
 Pass Through Entity: Ohio Department of Education

Finding 2007-05 Noncompliance/Significant Deficiency

Criteria: A-102 common rule. Where a funding period is specified, a non-federal entity may charge to the award only costs resulting from obligations incurred during the funding period and pre-award costs authorized by the federal awarding agency. Obligations means the amount of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the non-federal entity during the same or a future period.

Condition: The substantially approved date for the fiscal year 2007 Special Education Part B – IDEA grant was September 15, 2006. The District has charged expenditures for obligations made prior to the fiscal year 2007 substantially approved date to the fiscal year 2007 program.

Questioned Costs:	<u>Description</u>	<u>Amount</u>
	Supplies	\$5,581.13
	Purchased Services	9,712.14

Effect: Costs incurred prior to the fiscal year 2007 substantially approved Date were charged to the fiscal year 2007 grant.

Recommendation: Costs incurred prior to a grants substantially approved date shall not be charged to the grant program.

Corrective Action: Contact Person: Cassie Bergman, Treasurer

The District will not expend funds from the CCIP grants until we have received substantial approval from the ODE Director.

SOUTHEAST LOCAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §505
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(CONTINUED)

Federal Program: Special Education – Grants to States
Identification Number: 049221-6BSF - 2007
CFDA Number: 84.027
Federal Agency: U.S. Department of Education
Pass Through Entity: Ohio Department of Education

Finding 2007-07 Noncompliance/Significant Deficiency

Criteria: 34 CFR 300.341 states that each public agency is to develop and implement an IEP for each child with a disability served by that agency.

Condition Found: Out of 40 IEPs selected for testing two IEPs were not able to be located.

Effect: The District is providing special education and related services to students without an IEP on file.

Recommendations: The District should implement procedures to ensure IEPs are being developed and properly retained.

Corrective Action: Contact Person: Cassie Bergman, Treasurer

The District is utilizing Special Education Director services for the 2007-2008 school year to ensure that IEP's are being developed and properly retained.

**SOUTHEAST LOCAL SCHOOL DISTRICT
PORTAGE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2006-01	Ohio Revised Code Section 5705.10, negative fund balance indicates that money from one fund was used to cover the expenses of another fund.	No	Not corrected. Reissued as finding number 2007-01
2006-02	Ohio Revised Code Section 5705.41(B), funds had expenditures and encumbrances which exceeded appropriations.	No	Not corrected. Reissued as finding number 2007-02
2006-03	34CFR 80.20 Expenditures reported on cash requests did not agree with ledgers.	No	Not corrected. Reissued as finding number 2007-04
2006-04	A-102 common rule. Expenditures incurred prior to substantially approved date charged to program	No	Not corrected. Reissued as finding number 2007-05
2006-05	34CFR80.20(6), the District was unable to provide supporting documentation for expenditures charged to the program	Yes	Finding Corrected



Mary Taylor, CPA
Auditor of State

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
APRIL 29, 2008**