

SENECA EAST LOCAL SCHOOL DISTRICT

SENECA COUNTY

Audit Report

For the Year Ended June 30, 2008

CHARLES E. HARRIS & ASSOCIATES, INC.
Certified Public Accountants and Government Consultants



Mary Taylor, CPA
Auditor of State

Board of Education
Seneca East Local School District
13343 East US 224
Attica, Ohio 44807

We have reviewed the *Report of Independent Accountants* of the Seneca East Local School District, Seneca County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2007 through June 30, 2008. 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 Seneca East Local School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 26, 2009

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SENECA LOCAL SCHOOL DISTRICT
SENECA COUNTY
AUDIT REPORT
For the Year Ending June 30, 2008

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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REPORT OF INDEPENDENT ACCOUNTANTS

Seneca East Local School District
Seneca County
13343 East U.S. 224
Attica, Ohio 44807

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Seneca East Local School District, Seneca County, Ohio, (the District), as of and for the year ended June 30, 2008, 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 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 Seneca East Local School District, Seneca County, Ohio, as of June 30, 2008, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2008 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally on 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.

Charles E. Harris & Associates, Inc.

December 18, 2008

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

The discussion and analysis of the Seneca East 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, 2008. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- In total, net assets of governmental activities increased \$37,186 which represents a 0.17% increase from 2007.
- General revenues accounted for \$7,890,670 in revenue or 79.58% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,024,242 or 20.42% of total revenues of \$9,914,912.
- The District had \$9,877,726 in expenses and a special item related to governmental activities; \$2,024,242 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$7,890,670 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund, the building fund and classroom facilities fund. The general fund had \$8,042,317 in revenues and other financing sources and \$7,613,234 in expenditures and other financing uses. During fiscal year 2008, the general fund's fund balance increased \$429,083 from a balance of \$675,700 to a balance of \$1,104,783.
- The District's debt service fund had \$846,222 in revenues and \$755,689 in expenditures. During fiscal year 2008, the debt service fund's fund balance increased \$90,533 from a balance of \$166,293 to a balance of \$256,826.
- The District's building fund had \$889,879 in revenues and other financing sources and \$3,749,793 in expenditures. During fiscal year 2008, the building fund's fund balance decreased \$2,859,914 from a balance of \$3,084,096 to a balance of \$224,182.
- The District's classroom facilities fund had \$2,443,489 in revenues and \$7,593,288 in expenditures and other financing uses. During fiscal year 2008, the classroom facilities fund's fund balance decreased \$5,149,799 from a balance of \$6,069,419 to a balance of \$919,620.

Using these Basic Financial Statements

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

The *statement of net assets* and *statement of activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, the debt service fund, the building fund and classroom facilities fund are by far the most significant funds, and the only governmental funds reported as major funds.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2008?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operations and maintenance, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental funds are the general fund, the debt service fund, the building fund and the classroom facilities fund.

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* than can readily be converted to cash. The governmental fund financial 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 basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-49 of this report.

The District as a Whole

Recall that the statement of net assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2008 and 2007.

	Net Assets	
	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
<u>Assets</u>		
Current and other assets	\$ 6,131,828	\$ 18,862,917
Capital assets, net	<u>31,360,992</u>	<u>21,585,650</u>
Total assets	<u>37,492,820</u>	<u>40,448,567</u>
<u>Liabilities</u>		
Current liabilities	3,114,908	5,949,363
Long-term liabilities	<u>12,136,786</u>	<u>12,295,264</u>
Total liabilities	<u>15,251,694</u>	<u>18,244,627</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	19,951,420	9,898,487
Restricted	1,860,217	12,282,540
Unrestricted	<u>429,489</u>	<u>22,913</u>
Total net assets	<u>\$ 22,241,126</u>	<u>\$ 22,203,940</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the District's assets exceeded liabilities by \$22,241,126. Of this total, \$1,860,217 is restricted in use.

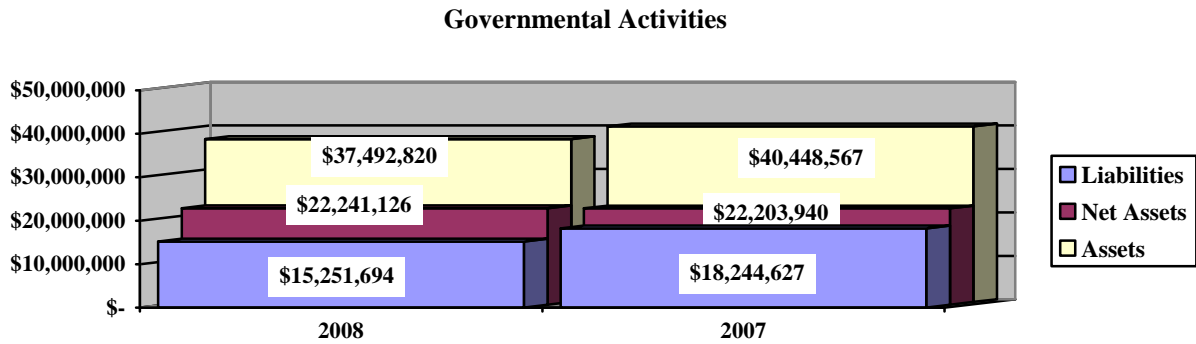
**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

At year-end, capital assets represented 83.65% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2008, were \$19,951,420. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,860,217, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$429,489 may be used to meet the District's ongoing obligations to the students and creditors.

The graph below shows the District's assets, liabilities and net assets at June 30, 2008 and 2007:



The table below shows the change in net assets for fiscal year 2008 and 2007.

Change in Net Assets

	Governmental Activities 2008	Governmental Activities 2007
Revenues		
Program revenues:		
Charges for services and sales	\$ 1,159,990	\$ 1,073,413
Operating grants and contributions	856,418	774,670
Capital grants and contributions	7,834	222,575
General revenues:		
Property taxes	2,686,574	2,471,201
School district income tax	966,237	896,397
Grants and entitlements	3,878,402	3,917,399
Investment earnings	357,981	878,185
Other	1,476	10,274
Total revenues	9,914,912	10,244,114

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Change in Net Assets

	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,979,771	\$ 3,991,869
Special	1,023,666	989,039
Vocational	159,155	137,609
Support services:		
Pupil	96,144	83,356
Instructional staff	293,487	287,677
Board of education	20,542	14,791
Administration	582,128	509,466
Fiscal	274,914	216,641
Operations and maintenance	838,682	476,999
Pupil transportation	870,153	525,902
Operations of non-instructional services		
Food service operations	422,608	303,287
Other non-instructional services	-	40,070
Extracurricular activities	332,100	307,520
Interest and fiscal charges	<u>513,170</u>	<u>517,760</u>
Total expenses	<u>9,406,520</u>	<u>8,401,986</u>
Special item - gain (loss) on sale of capital assets	<u>(471,206)</u>	<u>34,659</u>
Change in net assets	37,186	1,876,787
Net assets at beginning of year	<u>22,203,940</u>	<u>20,327,153</u>
Net assets at end of year	<u>\$ 22,241,126</u>	<u>\$ 22,203,940</u>

Governmental Activities

Net assets of the District's governmental activities increased \$37,186. Total governmental expenses of \$9,406,520 were offset by program revenues of \$2,024,242 and general revenues of \$7,890,670. The District had a special item in 2008, a loss on the sale of capital assets in the amount of \$471,206 (see Note 2.Q to the basic financial statements for further detail). Program revenues supported 21.52% of the total governmental expenses.

The primary sources of revenue for governmental activities in fiscal year 2008 are derived from property taxes, the school district income tax and grants and entitlements. These revenue sources represent 75.96% of total governmental revenue.

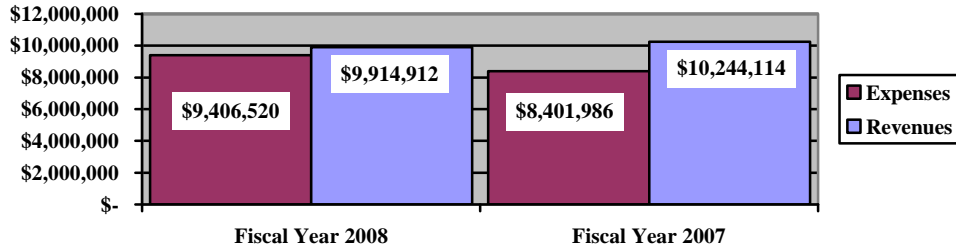
The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,162,592 or 54.88% of total governmental expenses for fiscal 2008.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2008 and 2007.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

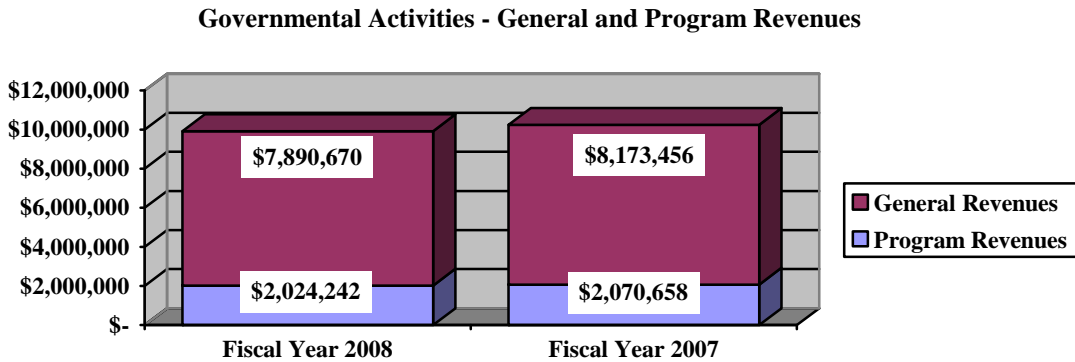
	Total Cost of Services 2008	Net Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2007
Program expenses				
Instruction:				
Regular	\$ 3,979,771	\$ 3,204,189	\$ 3,991,869	\$ 3,029,733
Special	1,023,666	434,574	989,039	492,738
Vocational	159,155	112,306	137,609	88,784
Support services:				
Pupil	96,144	95,786	83,356	83,038
Instructional staff	293,487	268,339	287,677	262,054
Board of education	20,542	20,542	14,791	14,791
Administration	582,128	576,365	509,466	490,869
Fiscal	274,914	274,880	216,641	192,301
Operations and maintenance	838,682	834,348	476,999	470,179
Pupil transportation	870,153	823,118	525,902	512,088
Operations of non-instructional services				
Food service operations	422,608	39,628	303,287	(42,097)
Other non-instructional services	-	-	40,070	40,070
Extracurricular activities	332,100	185,033	307,520	179,020
Interest and fiscal charges	513,170	513,170	517,760	517,760
Total expenses	<u>\$ 9,406,520</u>	<u>\$ 7,382,278</u>	<u>\$ 8,401,986</u>	<u>\$ 6,331,328</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 72.66% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 78.48%. The District's taxpayers, and grants and entitlements received from the State of Ohio, as a whole, are by far the primary support for District's students.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

The graph below presents the District's governmental activities revenue for fiscal year 2008 and 2007.



The District's Funds

The District's governmental funds reported a combined fund balance of \$2,969,942, which is lower than last year's total of \$10,367,236. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

	Fund Balance <u>June 30, 2008</u>	Fund Balance <u>June 30, 2007</u>	Increase (Decrease)	Percentage Change
General	\$ 1,104,783	\$ 675,700	\$ 429,083	63.50 %
Debt service	256,826	166,293	90,533	54.44
Building	224,182	3,084,096	(2,859,914)	(92.73) %
Classroom Facilities	919,620	6,069,419	(5,149,799)	(84.85) %
Other Governmental	<u>464,531</u>	<u>371,728</u>	<u>92,803</u>	24.97 %
Total	<u>\$ 2,969,942</u>	<u>\$10,367,236</u>	<u>\$ (7,397,294)</u>	(71.35) %

General Fund

The District's general fund balance increased \$429,083. Revenues exceeded expenditures for fiscal year 2008 by \$539,224.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2008 <u>Amount</u>	2007 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 2,886,140	\$ 2,639,547	\$ 246,593	9.34 %
Earnings on investments	93,167	72,863	20,304	27.87 %
Intergovernmental	4,313,373	4,071,062	242,311	5.95 %
Other revenues	<u>738,278</u>	<u>711,929</u>	<u>26,349</u>	3.70 %
 Total	 <u>\$ 8,030,958</u>	 <u>\$ 7,495,401</u>	 <u>\$ 535,557</u>	 7.15 %
<u>Expenditures</u>				
Instruction	\$ 4,754,563	\$ 4,567,932	\$ 186,631	4.09 %
Support services	2,526,062	1,917,704	608,358	31.72 %
Extracurricular activities	180,138	165,916	14,222	8.57 %
Capital outlay	11,359	-	11,359	100.00 %
Debt service	<u>19,612</u>	<u>23,157</u>	<u>(3,545)</u>	(15.31) %
 Total	 <u>\$ 7,491,734</u>	 <u>\$ 6,674,709</u>	 <u>\$ 817,025</u>	 12.24 %

Revenue increased over prior year. Earnings on investments increased due to higher interest rates. Expenditures increased 12.24% from last year. Debt service expenditures decreased due to the District paying off less debt in fiscal year 2008 compared to the prior year. Support service expenditures increased during fiscal year 2008 primarily due to the increase in expenditures relating to administration and operations and maintenance costs.

Debt Service Fund

The District's debt service fund had \$846,222 in revenues and \$755,689 in expenditures. During fiscal year 2008, the debt service fund's fund balance increased \$90,533 from a balance of \$166,293 to a balance of \$256,826.

Building Fund

The District's building fund had \$889,879 in revenues and other financing sources and \$3,749,793 in expenditures. During fiscal year 2008, the building fund's fund balance decreased \$2,859,914 from a balance of \$3,084,096 to a balance of \$224,182.

Classroom Facilities Fund

The District's classroom facilities fund had \$2,443,489 in revenues and \$7,593,288 in expenditures and other financing uses. During fiscal year 2008, the classroom facilities fund's fund balance decreased \$5,149,799 from a balance of \$6,069,419 to a balance of \$919,620 due to the completion of the OSFC project.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

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.

During the course of fiscal 2008, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$7,502,032 and final budgeted revenues and other financing sources were \$7,748,368. Actual revenues and other financing sources for fiscal 2008 was \$7,816,342. This represents a \$67,974 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$7,156,251 were increased to \$7,630,101 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2008 totaled \$7,654,599, which was \$24,498 above the final budgeted appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2008, the District had \$31,360,992 invested in land, buildings and improvements, furniture and equipment, and vehicles and construction in progress. This entire amount is reported in governmental activities. The following table shows fiscal 2008 balances compared to 2007:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2008	2007
Land	\$ 20,972	\$ 75,706
Land improvements	-	8,373
Building and improvements	27,089,157	479,727
Furniture and equipment	601,411	248,927
Vehicles	295,265	156,350
Construction in progress	3,354,187	20,616,567
 Total	 \$ 31,360,992	 \$ 21,585,650

The overall increase in capital assets of \$9,775,342 is due to capital outlays of \$10,577,440 exceeding depreciation expense of \$244,177 and disposals of \$557,921 (net of accumulated depreciation) for fiscal 2008. The increase in capital outlay is a result of the completion of some of the construction in progress associated with the OSFC construction project for the new building.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Debt Administration

At June 30, 2008, the District had \$11,419,424 in general obligation bonds and \$33,586 in capital lease obligations outstanding. Of this total, \$325,824 is due within one year and \$11,127,186 is due in greater than one year. The following table summarizes the notes and lease obligations outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
General obligation bonds	\$ 11,419,424	\$ 11,649,260
Capital lease obligations	<u>33,586</u>	<u>40,344</u>
Total	<u>\$ 11,453,010</u>	<u>\$ 11,689,604</u>

See Note 11 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

As the preceding information shows, the Seneca East Local School District relies heavily upon intergovernmental revenue monies, property taxes, income taxes, and miscellaneous revenues making up the remaining balance. The District ended fiscal year 2008 with a cash balance in the general fund of \$1,156,759. This increase over the previous year's balance is due to increasing revenues. The Seneca East Board of Education made approximately \$500,000 in cuts for fiscal year 2007. These cuts included the reduction in force of both certified and non-certified employees and the closing of the Seneca Huron Elementary School building. As a result of these cuts the receipts for fiscal year 2007 actually exceeded the expenditures and thus contributed to an increase in the cash balance. The multiplier effect of those cuts is being seen as the District is able to still increase its cash balance even though expenses have started to increase again. The District passed a levy in February of 2005 for a new building through the Ohio School Facilities Commission and moved into that building in December of 2007. The District is currently in its first full fiscal year of operating within this building and will have a better idea of utilities and other expenses after the first year.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and 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 questions about this report or need additional financial information contact Ms. Laura Brickner, Treasurer, Seneca East Local School District, 13343 East U.S. 224, Attica, Ohio 44807.

**BASIC
FINANCIAL STATEMENTS**

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 3,149,623
Cash with fiscal agent.	288
Cash in segregated accounts	67,234
Receivables:	
Taxes.	2,792,274
Accounts	66,667
Intergovernmental	2,771
Accrued interest	1,136
Prepayments	42,158
Materials and supplies inventory	9,677
Capital assets:	
Land	20,972
Construction in progress	3,354,187
Depreciable capital assets, net	27,985,833
Capital assets, net.	<u>31,360,992</u>
Total assets.	<u>37,492,820</u>
Liabilities:	
Accounts payable.	19,875
Contracts payable.	200,041
Retainage payable	67,234
Accrued wages and benefits	596,306
Matured compensated absences payable	22,399
Pension obligation payable.	173,665
Intergovernmental payable	75,885
Unearned revenue	1,950,395
Accrued interest payable	31,507
Long-term liabilities:	
Due within one year.	345,526
Due in more than one year	11,768,861
Total liabilities	<u>15,251,694</u>
Net Assets:	
Invested in capital assets, net of related debt.	19,951,420
Restricted for:	
Debt service	271,442
Capital projects	1,371,679
State funded programs	3,182
Federally funded programs	3,450
Student activities	25,233
Other purposes	185,231
Unrestricted.	<u>429,489</u>
Total net assets	<u>\$ 22,241,126</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 3,979,771	\$ 730,916	\$ 44,666	\$ -	\$ (3,204,189)
Special	1,023,666	5,016	584,076	-	(434,574)
Vocational	159,155	-	46,849	-	(112,306)
Support services:					
Pupil	96,144	-	358	-	(95,786)
Instructional staff	293,487	-	25,148	-	(268,339)
Board of education	20,542	-	-	-	(20,542)
Administration	582,128	-	5,763	-	(576,365)
Fiscal	274,914	-	34	-	(274,880)
Operations and maintenance	838,682	870	3,464	-	(834,348)
Pupil transportation	870,153	25,143	14,058	7,834	(823,118)
Operation of non-instructional services:					
Food service operations	422,608	258,363	124,617	-	(39,628)
Extracurricular activities	332,100	139,682	7,385	-	(185,033)
Interest and fiscal charges	513,170	-	-	-	(513,170)
Total governmental activities	\$ 9,406,520	\$ 1,159,990	\$ 856,418	\$ 7,834	(7,382,278)

General Revenues:

Property taxes levied for:	
General purposes	1,905,394
Special revenue	43,982
Debt service	737,198
School district income tax	966,237
Grants and entitlements not restricted to specific programs	
Investment earnings	357,981
Miscellaneous	1,476
Total general revenues	7,890,670

Special item:

Loss on sale of capital assets	(471,206)
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Total general revenues and special item . . .	7,419,464
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Change in net assets	37,186
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Net assets at beginning of year	22,203,940
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Net assets at end of year	\$ 22,241,126
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:						
Equity in pooled cash and cash equivalents	\$ 1,156,759	\$ 133,275	\$ 304,971	\$ 1,037,659	\$ 516,959	\$ 3,149,623
Cash with fiscal agent	-	-	-	-	288	288
Cash in segregated accounts	-	-	67,234	-	-	67,234
Receivables:						
Taxes	2,079,254	672,854	-	-	40,166	2,792,274
Accounts	42,528	-	-	-	24,139	66,667
Intergovernmental.	-	-	-	-	2,771	2,771
Accrued interest	-	-	-	1,136	-	1,136
Prepayments	41,920	-	77	-	161	42,158
Materials and supplies inventory	-	-	-	-	9,677	9,677
Total assets	<u>\$ 3,320,461</u>	<u>\$ 806,129</u>	<u>\$ 372,282</u>	<u>\$ 1,038,795</u>	<u>\$ 594,161</u>	<u>\$ 6,131,828</u>
Liabilities:						
Accounts payable	\$ 19,134	\$ -	\$ -	\$ -	\$ 741	\$ 19,875
Contracts payable	-	-	80,866	119,175	-	200,041
Retainage payable	-	-	67,234	-	-	67,234
Accrued wages and benefits	547,710	-	-	-	48,596	596,306
Matured compensated absences payable	3,364	-	-	-	19,035	22,399
Pension obligation payable.	151,631	-	-	-	22,034	173,665
Intergovernmental payable.	72,223	-	-	-	3,662	75,885
Deferred revenue.	37,827	14,616	-	-	3,643	56,086
Unearned revenue	1,383,789	534,687	-	-	31,919	1,950,395
Total liabilities	<u>2,215,678</u>	<u>549,303</u>	<u>148,100</u>	<u>119,175</u>	<u>129,630</u>	<u>3,161,886</u>
Fund Balances:						
Reserved for encumbrances	40,107	-	29,473	587,366	16,377	673,323
Reserved for materials and supplies inventory.	-	-	-	-	9,677	9,677
Reserved for prepayments	41,920	-	77	-	161	42,158
Reserved for property tax unavailable for appropriation	319,755	123,551	-	-	7,375	450,681
Reserved for debt service.	-	133,275	-	-	-	133,275
Unreserved, undesignated, reported in:						
General fund	703,001	-	-	-	-	703,001
Special revenue funds.	-	-	-	-	171,557	171,557
Capital projects funds.	-	-	194,632	332,254	259,384	786,270
Total fund balances	<u>1,104,783</u>	<u>256,826</u>	<u>224,182</u>	<u>919,620</u>	<u>464,531</u>	<u>2,969,942</u>
Total liabilities and fund balances	<u>\$ 3,320,461</u>	<u>\$ 806,129</u>	<u>\$ 372,282</u>	<u>\$ 1,038,795</u>	<u>\$ 594,161</u>	<u>\$ 6,131,828</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2008

Total governmental fund balances		\$	2,969,942
<i>Amounts reported for governmental activities on 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.			31,360,992
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	53,315	
Intergovernmental revenue receivable		<u>2,771</u>	
Total			56,086
In the statement of activities interest is accrued on outstanding bonds, whereas in the governmental funds, interest expenditures are reported when due			(31,507)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences payable		(661,377)	
General obligation bonds payable		(11,419,424)	
Capital lease obligation payable		<u>(33,586)</u>	
Total			<u>(12,114,387)</u>
Net assets of governmental activities		\$	<u><u>22,241,126</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Debt Service</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
From local sources:						
Taxes	\$ 2,886,140	\$ 742,480	\$ -	\$ -	\$ 44,306	\$ 3,672,926
Tuition.	670,089	-	-	-	-	670,089
Charges for services.	-	-	-	-	258,363	258,363
Earnings on investments.	93,167	-	79,364	193,207	13,499	379,237
Classroom materials and fees	44,009	-	-	-	-	44,009
Extracurricular.	-	-	-	-	139,682	139,682
Other local revenues.	24,180	-	-	-	32,528	56,708
Intergovernmental - State.	4,313,373	103,742	-	2,250,282	51,895	6,719,292
Intergovernmental - Federal	-	-	-	-	497,040	497,040
Total revenue	<u>8,030,958</u>	<u>846,222</u>	<u>79,364</u>	<u>2,443,489</u>	<u>1,037,313</u>	<u>12,437,346</u>
Expenditures:						
Current:						
Instruction:						
Regular	3,881,858	-	366,665	-	90,734	4,339,257
Special.	724,448	-	-	-	291,028	1,015,476
Vocational.	148,257	-	-	-	-	148,257
Support services:						
Pupil.	92,894	-	-	-	367	93,261
Instructional staff	259,672	-	-	-	23,737	283,409
Board of education	20,542	-	-	-	-	20,542
Administration.	561,489	-	-	-	5,757	567,246
Fiscal	256,478	13,483	-	-	806	270,767
Operations and maintenance.	739,545	-	698	-	82,841	823,084
Pupil transportation	595,442	-	-	-	197,642	793,084
Operation of non-instructional services:						
Food service operations	-	-	-	-	391,321	391,321
Extracurricular activities.	180,138	-	-	-	132,139	312,277
Facilities acquisition and construction	-	-	3,382,430	6,782,773	613	10,165,816
Capital outlay	11,359	-	-	-	-	11,359
Debt service:						
Principal retirement	18,117	250,000	-	-	-	268,117
Interest and fiscal charges	1,495	492,206	-	-	-	493,701
Total expenditures	<u>7,491,734</u>	<u>755,689</u>	<u>3,749,793</u>	<u>6,782,773</u>	<u>1,216,985</u>	<u>19,996,974</u>
Excess of revenues over (under) expenditures	<u>539,224</u>	<u>90,533</u>	<u>(3,670,429)</u>	<u>(4,339,284)</u>	<u>(179,672)</u>	<u>(7,559,628)</u>
Other financing sources (uses):						
Sale of assets	-	-	-	-	150,975	150,975
Transfers in	-	-	810,515	-	121,500	932,015
Transfers (out).	(121,500)	-	-	(810,515)	-	(932,015)
Capital lease transaction.	11,359	-	-	-	-	11,359
Total other financing sources (uses)	<u>(110,141)</u>	<u>-</u>	<u>810,515</u>	<u>(810,515)</u>	<u>272,475</u>	<u>162,334</u>
Net change in fund balances	429,083	90,533	(2,859,914)	(5,149,799)	92,803	(7,397,294)
Fund balances at beginning of year	<u>675,700</u>	<u>166,293</u>	<u>3,084,096</u>	<u>6,069,419</u>	<u>371,728</u>	<u>10,367,236</u>
Fund balances at end of year.	<u>\$ 1,104,783</u>	<u>\$ 256,826</u>	<u>\$ 224,182</u>	<u>\$ 919,620</u>	<u>\$ 464,531</u>	<u>\$ 2,969,942</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds	\$	(7,397,294)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>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 capital outlays exceeds depreciation expense in the current period.</p>		
Capital asset additions	\$ 10,577,440	
Current year depreciation	<u>(244,177)</u>	
Total		10,333,263
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.</p>		
		(557,921)
<p>Proceeds of capital lease transactions are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets</p>		
		(11,359)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds</p>		
Taxes	(20,115)	
Accounts	(8,756)	
Intergovernmental	(2,475,805)	
Accrued interest	<u>(17,758)</u>	
Total		(2,522,434)
<p>Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets</p>		
		268,117
<p>Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The following item resulted in additional interest being reported on the statement of activities:</p>		
Accreted interest on capital appreciation bonds	(20,164)	
Increase in accrued interest payable	<u>695</u>	
Total		(19,469)
<p>Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		<u>(55,717)</u>
Change in net assets of governmental activities	\$	<u>37,186</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 2,542,571	\$ 2,626,443	\$ 2,634,090	\$ 7,647
Tuition	648,690	670,089	670,089	-
Earnings on investments	80,356	83,007	94,738	11,731
Classroom materials and fees	41,482	42,850	44,352	1,502
Other local revenues	28,637	29,582	24,180	(5,402)
Intergovernmental - State	4,125,873	4,261,974	4,314,423	52,449
Total revenue	<u>7,467,609</u>	<u>7,713,945</u>	<u>7,781,872</u>	<u>67,927</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,936,988	3,902,488	3,936,507	(34,019)
Special	630,190	670,690	728,045	(57,355)
Vocational	160,430	159,430	150,094	9,336
Support services:				
Pupil	90,250	100,250	91,035	9,215
Instructional staff	249,410	280,410	263,096	17,314
Board of education	17,400	19,900	19,663	237
Administration	534,480	570,480	557,521	12,959
Fiscal	216,844	260,944	258,090	2,854
Operations and maintenance	551,604	748,404	747,570	834
Pupil transportation	581,325	615,525	602,024	13,501
Extracurricular activities	173,580	180,080	179,454	626
Total expenditures	<u>7,142,501</u>	<u>7,508,601</u>	<u>7,533,099</u>	<u>(24,498)</u>
Excess of revenues over expenditures	<u>325,108</u>	<u>205,344</u>	<u>248,773</u>	<u>43,429</u>
Other financing sources (uses):				
Refund of prior year expenditure	34,423	34,423	34,423	-
Transfers in	-	-	47	47
Transfers (out)	(13,750)	(121,500)	(121,500)	-
Total other financing sources (uses)	<u>20,673</u>	<u>(87,077)</u>	<u>(87,030)</u>	<u>47</u>
Net change in fund balance	345,781	118,267	161,743	43,476
Fund balance at beginning of year	870,976	870,976	870,976	-
Prior year encumbrances appropriated	72,837	72,837	72,837	-
Fund balance at end of year	<u>\$ 1,289,594</u>	<u>\$ 1,062,080</u>	<u>\$ 1,105,556</u>	<u>\$ 43,476</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 130,802	\$ 36,177
Total assets.	130,802	\$ 36,177
Liabilities:		
Accounts payable.	-	\$ 5,815
Due to students	-	30,362
Total liabilities	-	\$ 36,177
Net Assets:		
Held in trust for scholarships	130,802	
Total net assets	\$ 130,802	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 11,614
Gifts and contributions.	9,005
	20,619
Total additions.	20,619
Deductions:	
Scholarships awarded	7,088
	13,531
Change in net assets	13,531
Net assets at beginning of year.	117,271
Net assets at end of year	\$ 130,802

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in 1971. The District serves an area of approximately 154 square miles and is located in Seneca and Huron Counties. The District is the 439th largest in the State of Ohio among the 896 public and community school districts in terms of enrollment. It is staffed by 69 certified employees and 39 non-certified teaching personnel who provide services to 1,154 students and other community members. The District currently operates 2 elementary schools, an elementary/junior high school, a high school, and an administration building.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food services, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

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

Vanguard-Sentinel Career Center

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

Bay Area Council

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

Northwestern Ohio Educational Research Council, Incorporated

The Northwestern Ohio Educational Research Council, Inc. is a non-profit organization under the direction of a Board of Directors. The Council was formed to provide conferences and training to personnel of the participating districts. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. To obtain financial information write to the Northwestern Ohio Educational Research Council, Inc., David G. Elsass, Treasurer, at P.O. Box 456, Ashland, Ohio 44805.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

RELATED ORGANIZATION

Seneca East Public Library

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

INSURANCE PURCHASING POOLS

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

The Association is a public entity risk pool consisting of the North Central Ohio Educational Service Center, the Sandusky County Educational Service Center, and five local school districts – Tiffin, Old Fort, Bettsville, Seneca East, and New Riegel. The Association was established pursuant to Section 9.833, Ohio Revised Code, in order to act as a common risk management and insurance program. The Association's Board of Directors is comprised of one member from each of the local school districts, the North Central Ohio Educational Service Center, and the Sandusky County Educational Service Center. The North Central Ohio Educational Service Center acts as fiscal agent to the Association. Refer to Note 12.B for further information on this public entity risk pool.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Refer to Note 12.C. for further information on this group rating plan.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Debt service fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and principal and interest from governmental resources when the government is obligated in some manner for payment. It is also used to account for the accumulation of resources and payment of general obligation bonds payable.

Building fund - This fund is used to account for transactions associated with building construction and improvements.

Classroom facilities fund - This fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio School Facilities Commission for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

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. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

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.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

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, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

The private-purpose trust fund is reported using the economic resources measurement focus. The agency fund does not report a measurement focus as it does not report operations.

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 are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from income taxes is recognized in the fiscal year in which the underlying exchange transaction is accrued (see Note 7).

**SENECA EAST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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 fiscal year-end: property taxes available as an advance, income taxes, interest, tuition, grants, student fees and rentals.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, 2008, but which were levied to finance fiscal year 2009 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2008 are recorded as deferred revenue on the fund financial statements.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities used during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2008 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Seneca County Budget Commission for tax rate determination.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final amended certificates issued for fiscal year 2008.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund and function must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2008. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

As part of formal budgetary control, purchase orders, contracts and other commitment for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent year expenditures.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Cash and cash equivalents held for the District by the North Central Ohio Educational Service Center is included on the statement of net assets as "cash with fiscal agent". Cash and cash equivalents on deposit in retainage accounts are included on the statement of net assets as "cash in segregated accounts".

During fiscal year 2008, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio) and an open-ended mutual fund. These investments are reported at fair market value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal year 2008. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2008.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund, capital projects fund and the private-purpose trust fund. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$93,167, which includes \$45,253 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Capital Assets

General capital assets are those assets specifically related to activities reported in the governmental funds. 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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$1,500. Donated capital assets are recorded at their fair market values as of the date received. 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. The District does not possess infrastructure.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	5 - 20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets. The District did not have any interfund loans receivable or payable at June 30, 2008.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for all employees after ten years of service.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, debt service and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under State statute.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation 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. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At the fiscal year end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved on the fund financial statements by an amount equal to the carrying value of the assets.

O. Estimates

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

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. Interfund Activity

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

Interfund activity between governmental funds is eliminated in the statement of activities.

Q. 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 sold the Seneca Huron building during fiscal year 2008. The loss on the sale of the building and land in the amount of \$471,206 is reported as a special item in the statement of activities.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2008, the District has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the District; however, certain disclosures related to postemployment benefits (see Note 14) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the District.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the District.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2008 included the following individual fund deficits:

<u>Nonmajor Funds</u>	
EMIS	\$ 41
Title VI-B	27,425
Title I	206
Classroom reduction grant	148

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - 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 not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal 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, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

**SENECA EAST LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date 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 classifications by at least two nationally recognized rating agencies.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year-end, the District had \$2,570 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents."

B. Cash with Fiscal Agent

At fiscal year-end, the District had \$288 in cash and cash equivalents held by the North Central Ohio Educational Service Center. This amount is included on the balance sheet as "cash with fiscal agent". The North Central Ohio Educational Service Center holds this flow through grant money for the District together with that of other school districts and therefore the District cannot classify this money by risk under GASB Statement No. 3.

C. Cash in Segregated Accounts

At June 30, 2008, the District had \$67,234 on deposit in retainage accounts related to the Ohio School Facilities Construction Project. This amount is included on the financial statements as "cash in segregated accounts" and is included in deposits with financial institutions below.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Deposits with Financial Institutions

At June 30, 2008, the carrying amount of all District deposits was \$2,626,984. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2008, \$2,305,500 of the District’s bank balance of \$2,630,164 was exposed to custodial risk as discussed below, while \$324,664 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

E. Investments

As of June 30, 2008, the District had the following investments and maturities:

<u>Investment types</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
Open ended mutual funds	\$ 680,943	\$ 680,943
STAR Ohio	<u>6,105</u>	<u>6,105</u>
	<u>\$ 687,048</u>	<u>\$ 687,048</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District’s investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District’s investments, except for STAR Ohio, were rated AAA and Aaa by Standard and Poor’s and Moody’s Investor Services respectively. Standard and Poor’s has assigned STAR Ohio an AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2008:

<u>Investment types</u>	<u>Fair Value</u>	<u>% of Total</u>
Open ended mutual funds	\$ 680,943	99.11
STAR Ohio	<u>6,105</u>	<u>0.89</u>
	<u>\$ 687,048</u>	<u>100.00</u>

F. Reconciliation of cash and investments to the statement of net assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2008:

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	\$ 2,626,984
Investments	687,048
Cash on hand	2,570
Cash with fiscal agent	288
Cash in segregated accounts	<u>67,234</u>
Total	<u>\$ 3,384,124</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 3,217,145
Private-purpose trust funds	130,802
Agency funds	<u>36,177</u>
Total	<u>\$ 3,384,124</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2008, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:	
General fund	\$ 121,500
Transfers to building fund from:	
Classroom facilities fund	810,515

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2008 (other than public utility property) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2007. For 2007, tangible personal property was assessed at 12.50% for property including inventory. This percentage was reduced to 6.25% for 2008, and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 6 - PROPERTY TAXES - (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2008-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Seneca County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2008 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 unearned revenue.

The amount available as an advance at June 30, 2008 was \$319,755 in the general fund, \$7,375 in the classroom facilities maintenance fund (a nonmajor governmental fund) and \$123,551 in the debt service fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2007 was \$103,396 in the general fund, \$2,363 in the classroom facilities maintenance fund (a nonmajor governmental fund) and \$39,309 in the debt service fund.

On a full 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.

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007 Second Half Collections		2008 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 80,319,260	89.40	81,613,560	91.14
Public utility personal	8,563,050	9.53	6,960,400	7.77
Tangible personal property	<u>964,190</u>	<u>1.07</u>	<u>973,485</u>	<u>1.09</u>
Total	<u>\$ 89,846,500</u>	<u>100.00</u>	<u>\$ 89,547,445</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 38.99		\$ 38.99	

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 7 - SCHOOL DISTRICT INCOME TAX

The voters of the District passed a 1% school district income tax that was renewed at the November 7, 2005 election. This tax is effective for five years and expires on December 31, 2010. School district income tax revenue received by the general fund during fiscal year 2008 was \$966,237.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2008 consisted of property and income taxes, accounts, accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 2,792,274
Accounts	66,667
Accrued interest	1,136
Intergovernmental	<u>2,771</u>
Total	<u>\$ 2,862,848</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within one year.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

	<u>Balance</u> <u>06/30/07</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>06/30/08</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 75,706	\$ -	\$ (54,734)	\$ 20,972
Construction in progress	20,616,567	10,005,211	(27,267,591)	3,354,187
Total capital assets, not being depreciated	<u>20,692,273</u>	<u>10,005,211</u>	<u>(27,322,325)</u>	<u>3,375,159</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	27,500	-	(27,500)	-
Buildings and improvements	1,328,476	27,267,591	(1,215,068)	27,380,999
Furniture and equipment	1,087,063	503,018	(639,628)	950,453
Vehicles	964,808	69,211	(46,760)	987,259
Total capital assets, being depreciated	<u>3,407,847</u>	<u>27,839,820</u>	<u>(1,928,956)</u>	<u>29,318,711</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(19,127)	-	19,127	-
Buildings and improvements	(848,749)	(99,087)	655,994	(291,842)
Furniture and equipment	(838,136)	(75,397)	564,491	(349,042)
Vehicles	(808,458)	(69,693)	186,157	(691,994)
Total accumulated depreciation	<u>(2,514,470)</u>	<u>(244,177)</u>	<u>1,425,769</u>	<u>(1,332,878)</u>
Governmental activities capital assets, net	<u>\$ 21,585,650</u>	<u>\$ 37,600,854</u>	<u>\$(27,825,512)</u>	<u>\$ 31,360,992</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 73,644
Special	6,889
Vocational	2,362
<u>Support Services:</u>	
Pupil	1,391
Instructional staff	6,706
Administration	9,170
Fiscal	2,633
Operations and maintenance	12,838
Pupil transportation	74,941
Extracurricular	19,823
Food service operations	33,780
Total depreciation expense	<u>\$ 244,177</u>

**SENECA EAST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE

In the current year and in a prior fiscal year, the District entered into capitalized leases for a copier and for physical fitness equipment. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of furniture and equipment have been capitalized in the amount of \$279,542. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2008 was \$191,033, leaving a current book value of \$88,509. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2008 fiscal year totaled \$18,117 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2008:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 22,399
2010	6,054
2011	2,787
2012	2,787
2013	<u>2,787</u>
Total minimum lease payments	36,814
Less amount representing interest	<u>(3,228)</u>
Total	<u>\$ 33,586</u>

NOTE 11 - LONG-TERM OBLIGATIONS

A. During fiscal year 2008, the following changes occurred in governmental activities long-term obligations:

	<u>Interest Rate</u>	<u>Balance at 06/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 06/30/08</u>	<u>Amounts Due in One Year</u>
Governmental Activities:						
General obligation bonds	3.5-4.8%	\$ 11,649,260	\$ 20,164	\$ (250,000)	\$ 11,419,424	\$ 305,000
Capital lease		40,344	11,359	(18,117)	33,586	20,824
Compensated absences		<u>605,660</u>	<u>70,795</u>	<u>(15,078)</u>	<u>661,377</u>	<u>19,702</u>
Total governmental activities long-term liabilities		<u>\$ 12,295,264</u>	<u>\$ 102,318</u>	<u>\$ (283,195)</u>	<u>\$ 12,114,387</u>	<u>\$ 345,526</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid, which for the District is primarily the general fund.

**SENECA EAST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

- B.** On November 1, 2005, the District issued general obligation bonds. The issuance proceeds of \$11,845,986 were issued to finance the District's portion of the Ohio Schools Facilities Project, and retired the \$9,000,000 in bond anticipation notes issued on May 3, 2005. The principal balance of the general obligation bonds at June 30, 2008 was \$11,330,000, including \$43,438 of accreted interest.

The issue is comprised of both current interest bonds, par value \$11,800,000, and capital appreciation bonds, par value \$45,986. The capital appreciation bonds mature between 2019 and December 1, 2021 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$1,335,000. Total accreted interest of \$43,438 has been included in the statement of activities.

The following is a schedule of activity for fiscal 2008 on the general obligation bonds:

	Balance <u>06/30/07</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>06/30/08</u>
Current interest bonds	\$ 11,580,000	\$ -	\$ (250,000)	\$ 11,330,000
Capital appreciation bonds	45,986	-	-	45,986
Accreted interest on capital appreciation bonds	<u>23,274</u>	<u>20,164</u>	<u>-</u>	<u>43,438</u>
Total refunding bonds	<u>\$ 11,649,260</u>	<u>\$ 20,164</u>	<u>\$ (250,000)</u>	<u>\$ 11,419,424</u>

The following is a summary of the future debt service requirements to maturity for the general obligation bonds:

Year Ended	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 305,000	\$ 482,494	\$ 787,494	\$ -	\$ -	\$ -
2010	315,000	471,644	786,644	-	-	-
2011	325,000	460,443	785,443	-	-	-
2012	340,000	448,806	788,806	-	-	-
2013	350,000	435,856	785,856	-	-	-
2014 - 2018	1,980,000	1,946,190	3,926,190	-	-	-
2019 - 2023	910,000	1,695,377	2,605,377	45,986	1,289,014	1,335,000
2024 - 2028	2,660,000	1,242,678	3,902,678	-	-	-
2029 - 2033	3,340,000	572,178	3,912,178	-	-	-
2034	<u>805,000</u>	<u>18,113</u>	<u>823,113</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 11,330,000</u>	<u>\$ 7,773,779</u>	<u>\$ 19,103,779</u>	<u>\$ 45,986</u>	<u>\$ 1,289,014</u>	<u>\$ 1,335,000</u>

**SENECA EAST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2008, are a voted debt margin of \$8,054,128 (including available funds of \$256,826) and an unvoted debt margin of \$86,637.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008, the District contracted for the following insurance coverages:

Coverages provided by Indiana Insurance are as follows:

Buildings and contents - replacement cost (\$2,500 deductible)	\$26,228,087
Computer equipment (\$250 deductible)	443,003
Contractor's equipment (\$250 deductible)	20,000
Miscellaneous radio (\$250 deductible)	10,000
Musical instruments	100,000
Automobile liability	1,000,000
Uninsured motorists	100,000
Medical payments - per person	5,000
General liability	1,000,000 (per occurrence) 2,000,000 (aggregate)
Professional errors and omissions	1,000,000 (each loss) 1,000,000 (aggregate)
Sexual misconduct liability	1,000,000 (each loss) 1,000,000 (aggregate)
Employers stop gap liability	1,000,000 (each accident loss) 1,000,000 (each employee limit) 2,000,000 (aggregate)

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

**SENECA EAST LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 12 - RISK MANAGEMENT - (Continued)

B. Health Insurance

The District joined together with other area school districts to form the North Central Ohio Joint-Self Insurance Association (Note 2.A.), a public entity risk pool for seven member school districts. The risk of loss transfers entirely to the pool. The pool is self-sustaining through member premiums. The District paid a monthly premium to the pool for health insurance. The agreement for formation of the pool provided that it will be self-sustaining through member premiums and the pool will purchase stop-loss insurance policies through commercial companies to cover claims in excess of \$50,000 for any employee.

C. Workers' Compensation Plan

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

The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. 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 Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

**SENECA EAST LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 13 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 percent 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$89,664, \$86,766, and \$90,044, respectively; 47.91% percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2008, 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 the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**SENECA EAST LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 13 - PENSION PLANS - (Continued)

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007 and 2006 were \$456,191, \$455,512 and \$460,505, respectively; 83.13% has been contributed for fiscal year 2008 and 100% for the fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2008 were \$5,878 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2008, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$57,662, \$46,734 and \$49,056, respectively; 47.91 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$6,460, \$5,900 and \$7,167, respectively; 47.91 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**SENECA EAST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$35,092, \$35,039 and \$35,423, respectively; 83.13 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While 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 and disbursements.

The statement of revenue, expenditures, and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

**SENECA EAST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

	<u>General fund</u>
Budget basis	\$ 161,743
Net adjustment for revenue accruals	249,086
Net adjustment for expenditure accruals	(9,838)
Net adjustment for other sources/uses	(23,111)
Adjustment for encumbrances	<u>51,203</u>
GAAP basis	<u>\$ 429,083</u>

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

NOTE 17 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2008, the reserve activity was as follows:

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside balance as of June 30, 2007	\$ 21,134	\$ (11,706,881)
Current year set-aside requirement	154,310	154,310
Current year offsets	-	(960,193)
Qualifying disbursements	<u>(211,163)</u>	<u>-</u>
Total	<u>\$ (35,719)</u>	<u>\$ (12,512,764)</u>
Balance carried forward to FY 2009	<u>\$ (35,719)</u>	<u>\$ (11,706,881)</u>

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 17 - STATUTORY RESERVES - (Continued)

The District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the textbooks/instructional materials and capital acquisition reserve. The extra amounts spent for textbooks/instructional materials may be used to reduce the set-aside requirement for future years. However, only negative balances from debt proceeds can be carried forward in the capital acquisition set-aside.

NOTE 18 - CONTRACTUAL COMMITMENTS

As of June 30, 2008, the District had the following contractual commitments outstanding related to the Construction Project described in Note 11.A. A summary of the primary contractual commitments follows:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Paid Through June 30, 2008</u>	<u>Remaining Contract Amount</u>
Alvada Construction	\$ 1,987,084	\$ 1,965,754	\$ 21,330
Business Technologies	405,187	392,800	12,387
C & T Design Equipment	442,380	375,809	66,571
Clouse Electric	106,760	100,999	5,761
Continental Office	167,411	166,344	1,067
Data Cabling Systems	261,916	248,645	13,271
Fanning/Howey Associates	1,587,256	1,524,296	62,960
Janotta & Herner	737,033	636,016	101,017
M.J. Brown Company, Inc.	70,000	65,664	4,336
Stone Creek Interior Systems	993,297	979,624	13,673
Total	<u>\$ 6,758,324</u>	<u>\$ 6,455,951</u>	<u>\$ 302,373</u>

NOTE 19 - RELATED PARTY TRANSACTIONS

Mr. Jim Limbird was appointed a Board Member of the District during fiscal year 2008. Prior to becoming a Board Member, Mr. Limbird worked for Janotta & Herner, an employee-owned company that the District hired for athletic projects at the District. Although Mr. Limbird was not a Board Member when the contract was awarded, there were several change orders granted during fiscal year 2008 board meetings. Mr. Limbird was excluded from the voting of these change orders. During fiscal year 2008 the District paid Janotta & Herner \$696,524.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Seneca East Local School District
Seneca County
13343 East U.S. 224
Attica, Ohio 44807

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Seneca East Local School District, Seneca County (District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 18, 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 Controls 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 an opinion 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.

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.

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 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the District in a separate letter dated December 18, 2008.

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

Charles E. Harris & Associates, Inc.

December 18, 2008

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY
JUNE 30, 2008**

SCHEDULE OF PRIOR AUDIT FINDINGS

The prior audit report, for the year ending June 30, 2007, reported no material citations or recommendations.



Mary Taylor, CPA
Auditor of State

SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 5, 2009