

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

*BASIC FINANCIAL STATEMENTS  
(AUDITED)  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2006*

**SHIRLEY F. ONEY, TREASURER**





Mary Taylor, CPA  
Auditor of State

Board of Education  
South Central Local School District  
3305 Greenwich Angling Road  
Greenwich, Ohio 44837

We have reviewed the *Independent Auditor's Report* of the South Central Local School District, Huron County, prepared by Julian and Grube, Inc., for the audit period July 1, 2005 through June 30, 2006. 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 South Central Local School District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

March 2, 2007

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**SOUTH CENTRAL LOCAL SCHOOL DISTRICT**  
**HURON COUNTY, OHIO**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Board of Education  
South Central Local School District  
3305 Greenwich Angling Road  
Greenwich, Ohio 44837

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the South Central Local School District, Huron County, Ohio, as of June 30, 2006, and the respective changes in financial position and the respective budgetary comparison for the general fund and the Title VI-B special revenue fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3B the District had a restatement to net assets due to the recording of accreted interest and an adjustment to the capital appreciation bonds and restatement to capital assets due to a change in capitalization threshold.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report  
South Central Local School District  
Page Two

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

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
December 19, 2006

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The discussion and analysis of the South Central 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, 2006. 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 2006 are as follows:

- In total, net assets of governmental activities increased \$257,196 which represents a 3.08% increase from 2005.
- General revenues accounted for \$7,580,575 in revenue or 85.37% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,299,567 or 14.63% of total revenues of \$8,880,142.
- The District had \$8,622,946 in expenses related to governmental activities; only \$1,299,567 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 \$7,580,575 were adequate to provide for these programs.
- The District has two major governmental funds, the general fund and Title VI-B fund. The general fund had \$7,553,630 in revenues and \$7,137,560 in expenditures and other financing uses. During fiscal 2006, the general fund's fund balance increased \$416,070 from \$3,012,677 to \$3,428,747.
- The Title VI-B fund had \$113,012 in revenues and \$150,059 in expenditures. During fiscal 2006, the Title VI-B fund deficit increased \$37,047 from \$87,061 to \$124,108.

**Using the Basic Financial Statements (BFS)**

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.



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**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 2006?" 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, operation and maintenance, pupil transportation, extracurricular activities, food service operations, and interest and fiscal charges. The statement of net assets and statement of activities can be found on pages 13 and 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 major governmental funds are the general fund and Title VI-B 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 15-20.

***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. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 21 and 22. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

***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 23-51 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 June 30, 2005 net assets have been restated as described in Note 3.B and Note 10.A. to the basic financial statements. The table below provides a summary of the District's net assets for 2006 and 2005.

	Governmental Activities 2006	Restated Governmental Activities 2005
<b><u>Assets</u></b>		
Current and other assets	\$ 6,192,334	\$ 5,611,153
Capital assets, net	<u>6,480,175</u>	<u>6,808,344</u>
Total assets	<u>12,672,509</u>	<u>12,419,497</u>
<b><u>Liabilities</u></b>		
Current liabilities	2,012,887	1,978,034
Long-term liabilities	<u>2,040,421</u>	<u>2,079,458</u>
Total liabilities	<u>4,053,308</u>	<u>4,057,492</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	5,275,176	5,503,345
Restricted	985,853	1,107,329
Unrestricted	<u>2,358,172</u>	<u>1,751,331</u>
Total net assets	<u>\$ 8,619,201</u>	<u>\$ 8,362,005</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$8,619,201. At year-end, unrestricted net assets were \$2,358,172.

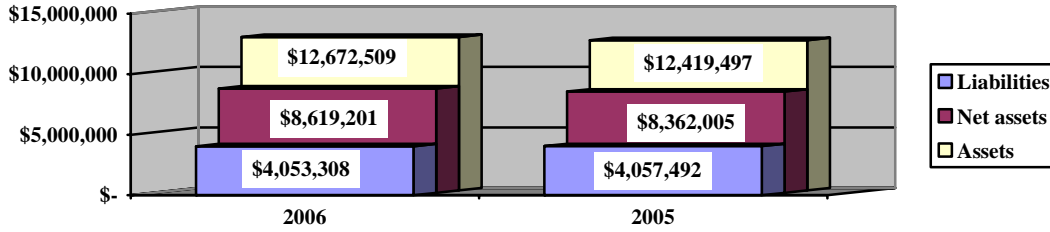
At year-end, capital assets represented 51.14% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006 were \$5,275,176. These capital assets are used 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, \$985,853, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,358,172 may be used to meet the District's ongoing obligations to the students and creditors.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Governmental Activities**



The table below shows the change in net assets for fiscal year 2006 compared to fiscal year 2005.

	<b>Change in Net Assets</b>	
	Governmental Activities 2006	Governmental Activities 2005
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 654,157	\$ 569,940
Operating grants and contributions	636,066	621,977
Capital grants and contributions	9,344	37,234
General revenues:		
Property taxes	1,418,823	1,927,206
School district income taxes	1,202,546	-
Grants and entitlements	4,737,133	4,244,055
Investment earnings	173,830	80,385
Other	48,243	58,220
<b>Total revenues</b>	<b>8,880,142</b>	<b>7,539,017</b>

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Change in Net Assets**

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	3,925,880	3,303,847
Special	431,190	406,110
Vocational	148,002	149,957
Other	589,410	251,997
Support services:		
Pupil	131,345	113,468
Instructional staff	175,554	208,738
Board of education	20,181	31,527
Administration	643,067	895,838
Fiscal	343,615	326,169
Operations and maintenance	780,902	953,762
Pupil transportation	674,103	437,603
Central	2,729	5,067
Operations of non-instructional services:		
Food service operations	389,478	355,661
Other non-instructional services	10,801	-
Extracurricular activities	254,726	268,766
Interest and fiscal charges	<u>101,963</u>	<u>64,020</u>
Total expenses	<u>8,622,946</u>	<u>7,772,530</u>
Change in net assets	257,196	(233,513)
Net assets at beginning of year (restated)	<u>8,362,005</u>	<u>8,595,518</u>
Net assets at end of year	<u>\$ 8,619,201</u>	<u>\$ 8,362,005</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$257,196. Total governmental expenses of \$8,622,946 were offset by program revenues of \$1,299,567 and general revenues of \$7,580,575. Program revenues supported 15.07% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements. These three revenue sources represent 82.86% of total governmental revenue.

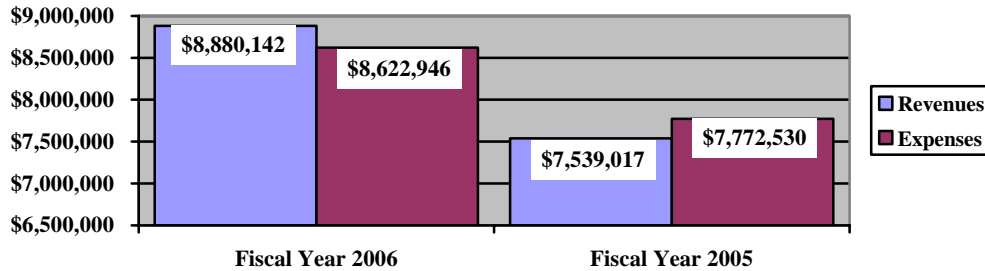
The District's financial condition has improved significantly in recent years, primarily due to increased financial support from the state. State support has increased by 5% over the last two years. Unfortunately, due to enrollment declines these increases are not projected for the future. Future increases in state funding are projected to be more inflationary rather than the low increases seen over the past several years.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

**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 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
<b>Program expenses</b>				
Instruction:				
Regular	\$ 3,925,880	\$ 3,344,650	\$ 3,303,847	\$ 2,766,493
Special	431,190	325,563	406,110	249,488
Vocational	148,002	137,980	149,957	149,957
Other	589,410	516,910	251,997	251,997
Support services:				
Pupil	131,345	124,230	113,468	108,468
Instructional staff	175,554	168,954	208,738	205,202
Board of education	20,181	20,181	31,527	31,527
Administration	643,067	602,862	895,838	875,788
Fiscal	343,615	343,270	326,169	326,169
Operations and maintenance	780,902	755,707	953,762	916,528
Pupil transportation	674,103	673,427	437,603	437,603
Central	2,729	2,729	5,067	5,067
Operations of non-instructional services:				
Food service operations	389,478	36,770	355,661	15,147
Other non-instructional services	10,801	(699)	-	-
Extracurricular activities	254,726	168,882	268,766	139,925
Interest and fiscal charges	101,963	101,963	64,020	64,020
<b>Total expenses</b>	<u>\$ 8,622,946</u>	<u>\$ 7,323,379</u>	<u>\$ 7,772,530</u>	<u>\$ 6,543,379</u>

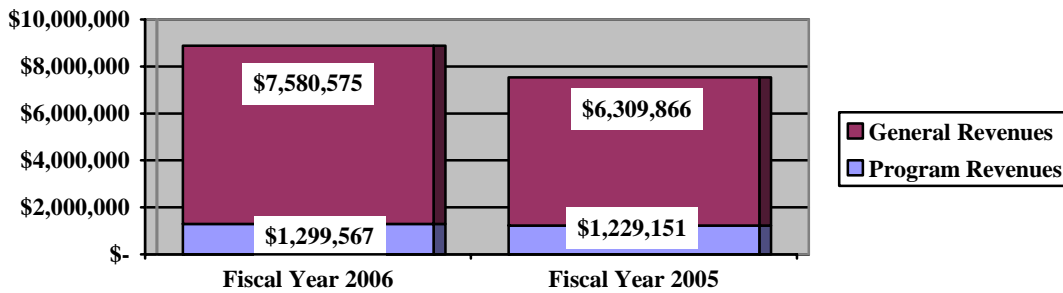
**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The dependence upon tax and other general revenues for governmental activities is apparent, 84.90% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.93%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$3,831,097, which is greater than last year's fund balance of \$3,626,657. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance (Deficit) <u>June 30, 2006</u>	Fund Balance (Deficit) <u>June 30, 2005</u>	Increase <u>(Decrease)</u>
General	\$ 3,428,747	\$ 3,012,677	\$ 416,070
Title VI-B	(124,108)	(87,061)	(37,047)
Other Governmental	<u>526,458</u>	<u>701,041</u>	<u>(174,583)</u>
Total	<u>\$ 3,831,097</u>	<u>\$ 3,626,657</u>	<u>\$ 204,440</u>

**General Fund**

The District's general fund balance increased \$416,070. The increase in fund balance can be attributed to increasing revenues outpacing increasing expenditures from 2005 to 2006. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 2,355,235	\$ 2,216,960	6.24 %
Tuition and fees	286,941	264,292	8.57 %
Earnings on investments	156,652	72,417	116.32 %
Intergovernmental	4,713,420	4,209,454	11.97 %
Other revenues	<u>41,382</u>	<u>39,255</u>	5.42 %
Total	<u>\$ 7,553,630</u>	<u>\$ 6,802,378</u>	11.04 %
<b><u>Expenditures</u></b>			
Instruction	\$ 4,419,220	\$ 3,652,609	20.99 %
Support services	2,545,288	2,576,467	(1.21) %
Extracurricular activities	171,726	184,530	(6.94) %
Capital outlay	<u>-</u>	<u>28,907</u>	(100.00) %
Total	<u>\$ 7,136,234</u>	<u>\$ 6,442,513</u>	10.77 %

***Title VI-B Fund***

The Title VI-B fund had \$113,012 in revenues and \$150,059 in expenditures. During fiscal 2006, the Title VI-B fund deficit increased \$37,047 from \$87,061 to \$124,108.

***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 2006, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$7,597,002, which is greater than the original budgeted revenues estimate of \$6,723,528. Actual revenues and other financing sources for fiscal 2006 was \$7,618,709. This represents a \$21,707 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$9,586,078 were increased to \$10,384,425 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$7,530,118, which was \$2,854,307 less than the final budget appropriations. The decreases in appropriations were caused by the District's worst case scenario budgeting method in the original budget.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2006, the District had \$6,480,175 invested in land improvements, buildings and improvements, furniture and equipment, and vehicles. The 2005 capital asset balances have been restated due to a reappraisal and a change in the capitalization threshold. See Note 3.B. for detail. This entire amount is reported in governmental activities.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The following table shows fiscal 2006 balances compared to 2005 balances:

<b>Capital Assets at June 30 (Net of Depreciation)</b>		
<u>Governmental Activities</u>		
	<u>2006</u>	<u>Restated 2005</u>
Land improvements	\$ 107,989	\$ 118,302
Building and improvements	5,883,070	6,042,337
Furniture and equipment	131,196	156,431
Vehicles	<u>357,920</u>	<u>491,274</u>
Total	<u>\$ 6,480,175</u>	<u>\$ 6,808,344</u>

The overall decrease in capital assets is due to depreciation expense of \$333,668 exceeding capital outlays of \$5,499 for fiscal 2006. See Note 9 for additional detail on capital assets.

***Debt Administration***

At June 30, 2006, the District had \$1,659,283 in bonds outstanding. Of this total, \$110,000 is due within one year and \$1,549,283 is due within greater than one year. The 2005 bonds payable obligation has been restated to properly reflect accreted interest on the capital appreciation bonds. See Note 10.A. for detail. The following table summarizes the bonds outstanding:

<b>Outstanding Debt, at Year End</b>		
	<u>Governmental Activities 2006</u>	<u>Restated Governmental Activities 2005</u>
Classroom facilities improvement bonds:		
Current interest	\$ 1,015,000	\$ 1,115,000
Capital appreciation	189,999	189,999
Accreted interest	<u>454,284</u>	<u>416,348</u>
Total	<u>\$ 1,659,283</u>	<u>\$ 1,721,347</u>

At June 30, 2006, the District's overall legal debt margin was \$4,848,702 with an unvoted debt margin of \$64,041. See Note 10 for details of the District's long-term obligations.

**Current Financial Related Activity**

**Example #1**

The District has been able to use a very conservative financial approach. The District operates at the 20 mill floor and has an inside millage rate of 5.1. The District does benefit from a 1% income tax that was passed in 1992. There have been no requests by the District to its voters since 1992. The District has no outstanding debt.



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The Board and administration closely monitor expenditures to stay in line with the five-year financial forecast. Cuts to operating budgets and cuts in staffing throughout the District have been employed during the past four years to avoid the need to seek additional money from the community. Rising health care insurance costs, fuel costs and teachers' salary increases and inconsistencies in the state legislature's funding for schools have made the "balancing act" a difficult one.

The Board and the administration have continued to monitor the state funding issue for schools. Of particular concern this year is the proposed Core Curriculum and the financial impact this would have on the District.

The District has experienced very little enrollment growth over the past five years. What growth has occurred has largely been offset by the loss of home school students. Another factor of student enrollment that has affected school funding is an increase in the number of students that are attending the vocational school.

The Ohio School Facility Commission currently places the District at 226 on their equity list. The District has been told by the OSFC that our turn in the rotation may come as soon as one year from now. A difficult juggling act of decision making exists regarding how much money to pour into old buildings that may soon be replaced.

The District continues to closely monitor income amounts with the knowledge that growth will be experienced in property tax collections with the 2005 re-evaluation. If the economy improves it is hoped that the income tax will surpass the current growth rate of  $\frac{1}{4}$  of 1% per year. This revenue growth will have to be factored with the inevitability of rising operating costs in the future. The five-year forecast anticipates that the District will be able to stay in the black in the immediate future with careful financial budgeting. The goal of the District remains to provide the best possible education for the dollars available.

**Example #2**

The District relies on property taxes, entitlements and grants. Tax revenues have increased slightly, state revenues are steady and grants are decreasing. Expenditures are increasing at double the rate of revenue increases. As this trend continues, carryover funds are depleted in the 3rd year of the five-year forecast.

The District has been successful in renewing operating and emergency levies. As the valuation increases, tax on the property owner increases as well. It will become increasingly more difficult to continue the passage of these levies and may be even more difficult when the district will be required to ask for additional funds for the operation of the schools. The majority of the tax revenue is derived from real estate and farming. The district is mainly rural and has a very small industrial base, however with reductions of tangible personal property the small amount derived from industry will be gone soon.

The facilities are overcrowded and have not been updated significantly to meet the enrollment needs and additional course offerings necessary to be academically proficient. The voters have rejected a plan for a new 7-12 facility to be partially paid by the Ohio School Facilities twice. The District is no longer eligible to receive funds from OSF so the Board has asked the voters to approve a bond issue to upgrade and add-to the current facility. This issue is for the total cost of the project and was rejected twice by the voters of the district. This issue will again be on the ballot at the 2006 general election.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's 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. Shirley Oney, Treasurer of South Central Local School District at 3305 Greenwich Angling Road, Greenwich, Ohio 44837.

**BASIC  
FINANCIAL STATEMENTS**

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2006

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 4,105,379
Receivables:	
Taxes . . . . .	1,848,167
Accounts . . . . .	5,242
Intergovernmental . . . . .	207,565
Accrued interest . . . . .	2,186
Prepayments . . . . .	16,876
Materials and supplies inventory . . . . .	6,919
Capital assets:	
Depreciable capital assets, net . . . . .	6,480,175
Total assets. . . . .	12,672,509
<b>Liabilities:</b>	
Accounts payable. . . . .	107,892
Accrued wages and benefits . . . . .	467,544
Pension obligation payable. . . . .	163,319
Intergovernmental payable . . . . .	49,054
Deferred revenue . . . . .	1,220,341
Accrued interest payable . . . . .	4,737
Long-term liabilities:	
Due within one year. . . . .	245,042
Due in more than one year . . . . .	1,795,379
Total liabilities . . . . .	4,053,308
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	5,275,176
Restricted for:	
Capital projects . . . . .	31,443
Debt service. . . . .	285,133
Classroom facilities maintenance . . . . .	25,155
State funded programs . . . . .	107,020
Federally funded programs . . . . .	22,523
Student activities . . . . .	33,218
Other purposes . . . . .	481,361
Unrestricted. . . . .	2,358,172
Total net assets . . . . .	\$ 8,619,201

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENT

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 3,925,880	\$ 330,434	\$ 250,796	\$ -	\$ (3,344,650)
Special . . . . .	431,190	-	105,627	-	(325,563)
Vocational . . . . .	148,002	3,775	6,247	-	(137,980)
Other . . . . .	589,410	-	72,500	-	(516,910)
Support services:					
Pupil . . . . .	131,345	-	7,115	-	(124,230)
Instructional staff . . . . .	175,554	-	6,600	-	(168,954)
Board of education . . . . .	20,181	-	-	-	(20,181)
Administration . . . . .	643,067	36,930	3,275	-	(602,862)
Fiscal . . . . .	343,615	-	345	-	(343,270)
Operations and maintenance . . . . .	780,902	2,374	13,477	9,344	(755,707)
Pupil transportation . . . . .	674,103	-	676	-	(673,427)
Central . . . . .	2,729	-	-	-	(2,729)
Operation of non-instructional services:					
Food service operations . . . . .	389,478	198,472	154,236	-	(36,770)
Other non-instructional services . . . . .	10,801	-	11,500	-	699
Extracurricular activities . . . . .	254,726	82,172	3,672	-	(168,882)
Interest and fiscal charges . . . . .	101,963	-	-	-	(101,963)
<b>Total governmental activities . . . . .</b>	<b>\$ 8,622,946</b>	<b>\$ 654,157</b>	<b>\$ 636,066</b>	<b>\$ 9,344</b>	<b>(7,323,379)</b>
<b>General Revenues:</b>					
Property taxes levied for:					
General purposes . . . . .					1,237,158
Debt service . . . . .					156,159
Classroom maintenance . . . . .					25,506
School district income taxes . . . . .					1,202,546
Grants and entitlements not restricted to specific programs . . . . .					4,737,133
Investment earnings . . . . .					173,830
Miscellaneous . . . . .					48,243
<b>Total general revenues . . . . .</b>					<b>7,580,575</b>
Change in net assets . . . . .					257,196
<b>Net assets at beginning of year (restated) . . . . .</b>					<b>8,362,005</b>
<b>Net assets at end of year . . . . .</b>					<b>\$ 8,619,201</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<u>General</u>	<u>Title VI-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 2,995,120	\$ 11,445	\$ 617,453	\$ 3,624,018
Receivables:				
Taxes . . . . .	1,646,992	-	201,175	1,848,167
Accounts . . . . .	5,035	-	207	5,242
Intergovernmental . . . . .	-	128,788	78,777	207,565
Accrued interest . . . . .	2,186	-	-	2,186
Interfund loans . . . . .	176,281	-	-	176,281
Prepayments . . . . .	16,762	-	114	16,876
Materials and supplies inventory . . . . .	-	-	6,919	6,919
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	481,361	-	-	481,361
Total assets . . . . .	<u>\$ 5,323,737</u>	<u>\$ 140,233</u>	<u>\$ 904,645</u>	<u>\$ 6,368,615</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 98,744	\$ 86	\$ 9,062	\$ 107,892
Accrued wages and benefits . . . . .	419,045	15,836	32,663	467,544
Compensated absences payable . . . . .	36,010	-	23,138	59,148
Pension obligation payable. . . . .	143,589	4,610	15,120	163,319
Intergovernmental payable. . . . .	48,015	317	722	49,054
Interfund loans payable. . . . .	-	114,704	61,577	176,281
Deferred revenue. . . . .	1,149,587	128,788	235,905	1,514,280
Total liabilities . . . . .	<u>1,894,990</u>	<u>264,341</u>	<u>378,187</u>	<u>2,537,518</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	238,911	11,359	46,933	297,203
Reserved for materials and supplies inventory. . . . .	-	-	6,919	6,919
Reserved for prepayments . . . . .	16,762	-	114	16,876
Reserved for property tax unavailable for appropriation. . . . .	165,566	-	25,435	191,001
Reserved for debt service . . . . .	-	-	268,230	268,230
Reserved for budget stabilization . . . . .	168,961	-	-	168,961
Reserved for textbooks . . . . .	6,610	-	-	6,610
Reserved for capital maintenance. . . . .	305,790	-	-	305,790
Unreserved, undesignated (deficit), reported in:				
General fund . . . . .	2,526,147	-	-	2,526,147
Special revenue funds . . . . .	-	(135,467)	152,577	17,110
Capital projects funds . . . . .	-	-	26,250	26,250
Total fund balances (deficit) . . . . .	<u>3,428,747</u>	<u>(124,108)</u>	<u>526,458</u>	<u>3,831,097</u>
Total liabilities and fund balances . . . . .	<u>\$ 5,323,737</u>	<u>\$ 140,233</u>	<u>\$ 904,645</u>	<u>\$ 6,368,615</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006

<b>Total governmental fund balances</b>		\$ 3,831,097
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		6,480,175
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 103,121	
Intergovernmental revenue	190,818	
Total		293,939
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(4,737)
Long-term liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	321,990	
General obligation bonds payable	1,659,283	
Total		(1,981,273)
<b>Net assets of governmental activities</b>		<b>\$ 8,619,201</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Title VI-B</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 2,355,235	\$ -	\$ 169,475	\$ 2,524,710
Tuition. . . . .	286,941	-	-	286,941
Charges for services. . . . .	-	-	198,472	198,472
Earnings on investments. . . . .	156,652	-	17,178	173,830
Extracurricular. . . . .	-	-	139,043	139,043
Classroom materials and fees . . . . .	29,701	-	-	29,701
Other local revenues. . . . .	11,681	-	49,037	60,718
Intergovernmental - State. . . . .	4,713,420	-	77,860	4,791,280
Intergovernmental - Federal . . . . .	-	113,012	274,958	387,970
Total revenue . . . . .	<u>7,553,630</u>	<u>113,012</u>	<u>926,023</u>	<u>8,592,665</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	3,322,084	53,002	355,153	3,730,239
Special. . . . .	425,346	12,167	1,823	439,336
Vocational. . . . .	152,879	5,311	602	158,792
Other. . . . .	518,911	70,499	-	589,410
Support services:				
Pupil. . . . .	124,879	-	6,466	131,345
Instructional staff . . . . .	187,359	20	6,578	193,957
Board of education . . . . .	20,181	-	-	20,181
Administration. . . . .	614,745	1,391	48,428	664,564
Fiscal . . . . .	340,906	-	4,642	345,548
Operations and maintenance. . . . .	734,024	7,649	38,245	779,918
Pupil transportation . . . . .	521,657	20	942	522,619
Central. . . . .	1,537	-	26	1,563
Operation of non-instructional services:				
Food service operations . . . . .	-	-	387,579	387,579
Other non-instructional services . . . . .	-	-	10,801	10,801
Extracurricular activities. . . . .	171,726	-	81,357	253,083
Debt service:				
Principal retirement . . . . .	-	-	100,000	100,000
Interest and fiscal charges . . . . .	-	-	59,290	59,290
Total expenditures . . . . .	<u>7,136,234</u>	<u>150,059</u>	<u>1,101,932</u>	<u>8,388,225</u>
Excess of revenues over (under) expenditures.	<u>417,396</u>	<u>(37,047)</u>	<u>(175,909)</u>	<u>204,440</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	-	-	1,326	1,326
Transfers (out). . . . .	<u>(1,326)</u>	<u>-</u>	<u>-</u>	<u>(1,326)</u>
Total other financing sources (uses) . . . . .	<u>(1,326)</u>	<u>-</u>	<u>1,326</u>	<u>-</u>
Net change in fund balances . . . . .	416,070	(37,047)	(174,583)	204,440
<b>Fund balances (deficit) at beginning of year .</b>	<u>3,012,677</u>	<u>(87,061)</u>	<u>701,041</u>	<u>3,626,657</u>
<b>Fund balances (deficit) at end of year. . . . .</b>	<u>\$ 3,428,747</u>	<u>\$ (124,108)</u>	<u>\$ 526,458</u>	<u>\$ 3,831,097</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON 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, 2006

<b>Net change in fund balances - total governmental funds</b>	\$	204,440
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.		
Capital asset additions	\$ 5,499	
Current year depreciation	(333,668)	
Total		(328,169)
 Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	96,659	
Intergovernmental revenue	190,818	
Total		287,477
 Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		100,000
 Governmental funds report expenditures for interest when it is due. On the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.		
		(42,673)
 Some expenses reported on 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.		
		36,121
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>257,196</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON 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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 1,981,124	\$ 2,167,672	\$ 2,167,672	\$ -
Tuition. . . . .	261,153	285,745	285,745	-
Earnings on investments. . . . .	142,268	155,664	155,664	-
Classroom materials and fees . . . . .	27,168	29,726	29,726	-
Other local revenues . . . . .	4,027	5,655	5,655	-
Intergovernmental - State . . . . .	4,307,788	4,713,420	4,713,420	-
Total revenue . . . . .	<u>6,723,528</u>	<u>7,357,882</u>	<u>7,357,882</u>	<u>-</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	4,218,319	4,340,807	3,454,157	886,650
Special. . . . .	461,798	582,812	426,070	156,742
Vocational. . . . .	318,636	321,197	141,981	179,216
Other. . . . .	313,864	526,885	523,761	3,124
Support services:				
Pupil. . . . .	144,396	196,093	131,473	64,620
Instructional staff . . . . .	230,149	247,346	184,231	63,115
Board of education . . . . .	64,498	69,556	23,469	46,087
Administration. . . . .	872,909	891,669	608,948	282,721
Fiscal . . . . .	334,152	361,016	283,946	77,070
Operations and maintenance. . . . .	1,611,422	1,700,758	817,176	883,582
Pupil transportation . . . . .	739,305	705,250	584,125	121,125
Central. . . . .	12,700	9,175	1,475	7,700
Extracurricular activities. . . . .	207,970	230,166	171,699	58,467
Facilities acquisition and construction. . . . .	42,844	23,963	-	23,963
Total expenditures . . . . .	<u>9,572,962</u>	<u>10,206,693</u>	<u>7,352,511</u>	<u>2,854,182</u>
Excess of revenues over (under) expenditures. . . . .	<u>(2,849,434)</u>	<u>(2,848,811)</u>	<u>5,371</u>	<u>2,854,182</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure. . . . .	-	2,449	2,449	-
Transfers (out) . . . . .	-	(1,326)	(1,326)	-
Advances in. . . . .	-	236,671	258,378	21,707
Advances (out) . . . . .	(13,116)	(176,406)	(176,281)	125
Total other financing sources (uses) . . . . .	<u>(13,116)</u>	<u>61,388</u>	<u>83,220</u>	<u>21,832</u>
Net change in fund balance . . . . .	(2,862,550)	(2,787,423)	88,591	2,876,014
<b>Fund balance at beginning of year. . . . .</b>	2,894,687	2,894,687	2,894,687	-
<b>Prior year encumbrances appropriated . . . . .</b>	196,144	196,144	196,144	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 228,281</u>	<u>\$ 303,408</u>	<u>\$ 3,179,422</u>	<u>\$ 2,876,014</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
TITLE VI-B FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Intergovernmental - Federal . . . . .	\$ 128,183	\$ 131,305	\$ 117,967	\$ (13,338)
Total revenue . . . . .	<u>128,183</u>	<u>131,305</u>	<u>117,967</u>	<u>(13,338)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	145,474	68,750	68,750	-
Special . . . . .	130,140	117,874	117,828	46
Vocational . . . . .	7,112	6,512	6,512	-
Other . . . . .	-	70,499	70,499	-
Support services:				
Instructional staff . . . . .	-	20	20	-
Administration . . . . .	-	1,391	1,391	-
Operations and maintenance . . . . .	7,649	7,649	7,649	-
Pupil transportation . . . . .	-	20	20	-
Total expenditures . . . . .	<u>290,375</u>	<u>272,715</u>	<u>272,669</u>	<u>46</u>
Excess of revenues under expenditures . . . . .	<u>(162,192)</u>	<u>(141,410)</u>	<u>(154,702)</u>	<u>(13,292)</u>
<b>Other financing sources (uses):</b>				
Advances in . . . . .	124,639	101,367	119,658	18,291
Advances (out) . . . . .	-	-	(43,606)	(43,606)
Total other financing sources (uses) . . . . .	<u>124,639</u>	<u>101,367</u>	<u>76,052</u>	<u>(25,315)</u>
Net change in fund balance . . . . .	(37,553)	(40,043)	(78,650)	(38,607)
<b>Fund balance at beginning of year . . . . .</b>	5,739	5,739	5,739	-
<b>Prior year encumbrances appropriated . . . . .</b>	72,911	72,911	72,911	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 41,097</u>	<u>\$ 38,607</u>	<u>\$ -</u>	<u>\$ (38,607)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 6,806	\$ 107,345
Receivables:		
Intergovernmental . . . . .	-	32,122
Total assets. . . . .	6,806	\$ 139,467
<b>Liabilities:</b>		
Accounts payable. . . . .	-	\$ 1,074
Intergovernmental payable . . . . .	-	28,332
Due to students . . . . .	-	110,061
Total liabilities . . . . .	-	\$ 139,467
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	6,806	
Total net assets . . . . .	\$ 6,806	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 268
Total additions. . . . .	268
Change in net assets . . . . .	268
<b>Net assets at beginning of year. . . . .</b>	<b>6,538</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 6,806</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The South Central 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 and is responsible for the provision of public education to residents of the District. The District provides educational services as authorized by state statute and/or federal guidelines.

The District is located in rural Huron County, and encompasses the communities of Greenwich and North Fairfield. The District is the 501<sup>st</sup> largest in the State of Ohio among 613 school districts in terms of enrollment. It is staffed by 43 classified employees and 67 certified employees who provide services to 965 students and other community members. The District currently operates an elementary/middle school and a high school.

**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 service, 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 organizations' government 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). The following organizations are described due to their relationship to the District:

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

*JOINTLY GOVERNED ORGANIZATION*

Northern Ohio Educational Computer Association (NOECA)

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

*INSURANCE PURCHASING POOLS*

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Program (the "Program") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (Association) is a public entity risk pool comprised of 14 districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the board. Financial information can be obtained by contacting the program administrator at the Huron-Erie School Employees Insurance Association, located at 2900 Columbus Avenue, Sandusky, Ohio 44870.

**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:

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.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Title VI-B Fund - The purpose of the Title VI-B fund is to account for financial assistance provided by state and local educational agencies to meet the special needs of disabled children.

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 fiduciary funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. 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 funds 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.

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.



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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. Agency funds do not report a measurement focus as they do 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 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, interest, tuition, grants, student fees and rentals.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received 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. Allocation 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 2006 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Huron County Budget Commission for tax rate determination.
3. Prior to March 15, 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 2006.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund, function and object must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

5. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each function and fund. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

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, 2006, however, none of these amendments were significant. 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 fiscal year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the legal level of budgetary control.

**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.

During fiscal year 2006, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal 2006. 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 share price which is the price the investment could be sold for on June 30, 2006.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board of Education. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$156,652, which includes \$18,053 assigned from other funds.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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, inventories are presented at the lower of cost or market 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.

**H. Capital Assets**

Capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related 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 purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Interest incurred during the construction of capital assets is also capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. During fiscal year 2006, the District increased its capitalization threshold from \$500 to \$5,000.

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 useful lives of the respective assets, which range between 5 and 50 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.

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2006, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**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, compensated absences, and contractually required pension contributions 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, budget stabilization, textbooks, capital maintenance 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.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

**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 adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources first 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.

**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.

**P. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 17.

**Q. 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.

**R. 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. Neither type of transaction occurred during fiscal year 2006.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 3 - ACCOUNTABILITY & COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

**B. Prior Period Adjustments**

Beginning net assets of the governmental activities have been restated due to a reappraisal of the District's capital assets and to reflect the increase in the District's capitalization threshold from \$500 to \$5,000 (see Note 9.A.). In addition, a restatement is required to properly record accreted interest on the capital appreciation bonds issued as part of the series 1996 general obligations bonds and to properly stated the June 30, 2005 balance of the capital appreciation bonds which were previously understated (see Note 10.A.). These restatements did not have an effect on fund balances of the District as previously reported at June 30, 2005. Governmental activities net assets have been restated as follows:

	Governmental Activities
Net assets June 30, 2005	\$ 8,819,378
Adjustment to record accreted interest	(416,348)
Adjustment for capital appreciation bonds	(11)
Adjustment for capital assets	<u>(41,014)</u>
Restated net assets July 1, 2005	<u>\$ 8,362,005</u>

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 3 - ACCOUNTABILITY & COMPLIANCE - (Continued)**

**C. Deficit Fund Balances**

Fund balances at June 30, 2006 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Fund</u>	
Title VI-B	\$ 124,108
<u>Nonmajor Funds</u>	
EMIS	9
DPIA	25
Title I	48,754
Title VI	5,342
Reducing Class Size	21,073

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. 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 are the result of adjustments for accrued liabilities.

**D. Compliance**

- i. It was noted during the audit that the District had expenditures exceeding appropriations in the following funds contrary to Ohio Revised Code Section 5705.41(B):

<u>Fund Type/Fund</u>	<u>Excess</u>
<u>Special Revenue Funds</u>	
Drug Free School Grant	\$ 6,990
Improving Teacher Quality	61,212



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 3 - ACCOUNTABILITY & COMPLIANCE - (Continued)**

- ii. It was noted during the audit that at June 30, 2006, the total appropriations exceeded the total estimated resources in the following funds contrary to Ohio Revised Code Section 5705.39:

<u>Fund Type/Fund</u>	<u>Amount</u>
<u>Special Revenue Funds</u>	
Interactive Video Distance Learning	\$ 91
Miscellaneous State Grants	19
Title VI-B Funds	987
Title V Innovative Education Programs	1,045
Drug-Free School Grant	2,450
Improving Teacher Quality	46,067

**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 moneys 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.

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

Interim monies to 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;

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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;

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (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.

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. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$(28,515). A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft due to the "zero-balance" nature of the District's bank accounts. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006 the District's entire bank balance of \$94,060 was covered by Federal Deposit Insurance Corporation.

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**B. Investments**

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> <u>6 months or less</u>
STAR Ohio	<u>\$ 4,248,045</u>	<u>\$ 4,248,045</u>

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*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:* Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

*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, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 4,248,045	100.00%

**C. 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, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ (28,515)
Investments	4,248,045
Total	<u>\$ 4,219,530</u>
<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 4,105,379
Private-purpose trust fund	6,806
Agency funds	107,345
Total	<u>\$ 4,219,530</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

A. Interfund balances at June 30, 2006 as reported on the fund statements consist of the following individual interfund loans receivable and payable.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 61,577
General Fund	Title VI-B Fund	<u>114,704</u>
	Total	<u>\$176,281</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

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- B.** Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 1,326

**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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

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

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of January 1, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for property including inventory for 2006 is 18.75%. This will be reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009.

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 2006-2010, 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 Huron 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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date tax bills are sent.

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**NOTE 6 - PROPERTY TAXES - (Continued)**

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

The amount available as an advance at June 30, 2006 was \$165,566 in the general fund, \$21,746 in the debt service fund and \$3,689 in the classroom facilities maintenance fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2005 was \$309,842 in the general fund, \$40,902 in the debt service fund, and \$6,961 in the classroom facilities maintenance 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 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real Property - Commercial/Industrial	\$ 3,892,270	5.93	\$ 3,960,560	6.19
Real Property - Residential/Agricultural	52,931,680	80.69	54,456,550	85.04
Personal Property - General	2,796,470	4.26	1,758,958	2.75
Personal Property - Public Utilities	<u>5,985,630</u>	<u>9.12</u>	<u>3,865,200</u>	<u>6.02</u>
Total Assessed Value	<u>\$ 65,606,050</u>	<u>100.00</u>	<u>\$ 64,041,268</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:	\$ 37.75		\$ 37.75	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2006 consisted of taxes, accounts, intergovernmental grants and entitlements and accrued interest. 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	\$ 1,848,167
Accounts	5,242
Intergovernmental	207,565
Accrued interest	<u>2,186</u>
Total	<u>\$ 2,063,160</u>

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 8 - INCOME TAXES**

The District levies a voted income tax of 1.25 percent on the income of residents and on estates for general operations of the District. The income tax became effective on January 1, 1991 and is a continuing tax. Employers of residents are required to withhold income tax on employee compensation and then remit that income tax to the state, and taxpayers are required to file an annual return. The state makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund and amounted to \$1,202,546 for fiscal year 2006. Taxes receivable reported in the basic financial statements includes \$319,709 of income tax receivable.

**NOTE 9 - CAPITAL ASSETS**

A. Capital asset balances for the governmental activities have been restated due to a change in the District's capitalization threshold (see Note 2.H. for detail) and to correct for errors and omissions in the amounts reported in the previous year. The restatement had the following effect on the capital asset balances as previously reported:

	Balance		Restated
	<u>06/30/05</u>	<u>Adjustments</u>	<u>06/30/05</u>
<b>Governmental Activities</b>			
<i>Capital assets, being depreciated:</i>			
Land improvements	\$ 291,753	\$ (3,168)	\$ 288,585
Buildings and improvements	7,971,320	(7,994)	7,963,326
Furniture and equipment	2,948,482	(2,626,217)	322,265
Vehicles	<u>800,189</u>	<u>286,768</u>	<u>1,086,957</u>
Total capital assets, being depreciated:	<u>12,011,744</u>	<u>(2,350,611)</u>	<u>9,661,133</u>
<i>Less: accumulated depreciation</i>	<u>(5,162,386)</u>	<u>2,309,597</u>	<u>(2,852,789)</u>
Governmental activities capital assets, net	<u>\$ 6,849,358</u>	<u>\$ (41,014)</u>	<u>\$ 6,808,344</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 9 - CAPITAL ASSETS - (Continued)**

**B.** Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Restated Balance <u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/06</u>
<b>Governmental Activities</b>				
<i>Capital assets, being depreciated:</i>				
Land improvements	\$ 288,585	\$ -	\$ -	\$ 288,585
Buildings and improvements	7,963,326	-	-	7,963,326
Furniture and equipment	322,265	5,499	-	327,764
Vehicles	<u>1,086,957</u>	<u>-</u>	<u>-</u>	<u>1,086,957</u>
Total capital assets, being depreciated:	<u>9,661,133</u>	<u>5,499</u>	<u>-</u>	<u>9,666,632</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(170,283)	(10,313)	-	(180,596)
Buildings and improvements	(1,920,989)	(159,267)	-	(2,080,256)
Furniture and equipment	(165,834)	(30,734)	-	(196,568)
Vehicles	<u>(595,683)</u>	<u>(133,354)</u>	<u>-</u>	<u>(729,037)</u>
Total accumulated depreciation	<u>(2,852,789)</u>	<u>(333,668)</u>	<u>-</u>	<u>(3,186,457)</u>
Governmental activities capital assets, net	<u>\$ 6,808,344</u>	<u>\$ (328,169)</u>	<u>\$ -</u>	<u>\$ 6,480,175</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 178,340
Special	2,602
Vocational	1,262

Support Services:

Instructional staff	1,815
Administration	6,627
Operations and maintenance	2,032
Pupil transportation	133,354
Central	1,166
Extracurricular activities	1,643
Food service operations	<u>4,827</u>
Total depreciation expense	<u>\$ 333,668</u>

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**NOTE 10 - LONG-TERM OBLIGATIONS**

- A. The District has presented a restatement of the June 30, 2005 governmental-activities long-term obligation in order to record accreted interest on the capital appreciation bonds issued as part of the series 1996 general obligations bonds and to properly state the June 30, 2005 balance of the capital appreciation bonds which were understated by \$11. This restatement increased the long-term liabilities by \$416,359 from \$1,663,099 to \$2,079,458. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Restated				
	Balance			Balance	Amounts
	Outstanding			Outstanding	Due in
	<u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/06</u>	<u>One Year</u>
<b>Governmental Activities:</b>					
Series 1996 classroom facilities improvement bonds:					
Current interest bonds	\$ 1,115,000	\$ -	\$ (100,000)	\$ 1,015,000	\$ -
Capital appreciation bonds	189,999	-	-	189,999	42,360
Accreted interest on CABs	416,348	37,936	-	454,284	67,640
Compensated absences	<u>358,111</u>	<u>124,968</u>	<u>(101,941)</u>	<u>381,138</u>	<u>135,042</u>
Total governmental activities long-term obligations	<u>\$ 2,079,458</u>	<u>\$ 162,904</u>	<u>\$ (201,941)</u>	<u>\$ 2,040,421</u>	<u>\$ 245,042</u>

**Series 1996 Classroom Facilities Improvement General Obligation Bonds**

The Series 1996 classroom facilities improvement general obligation bond issue is comprised of both current interest bonds, par value \$1,795,000, and capital appreciation bonds, par value \$560,000. Interest rates on the current interest bonds range from 3.60% to 5.60%. The capital appreciation bonds mature on each December 1 in years 2006 through 2010 (effective interests ranging from 8.752% to 9.514%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2006 was \$189,999. Total accreted interest on the capital appreciation bonds of \$454,284 has been included in the statement of net assets at June 30, 2006.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2017.



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 10 - LONG-TERM OBLIGATIONS – (Continued)**

**B.** The following is a summary of the District’s future annual debt service requirements to maturity for the Series 1996 classroom facilities improvement bonds:

Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ -	\$ 56,840	\$ 56,840	\$ 42,360	\$ 67,640	\$ 110,000
2008	-	56,840	56,840	39,788	70,212	110,000
2009	-	56,840	56,840	37,298	72,702	110,000
2010	-	56,840	56,840	36,484	78,516	115,000
2011	-	56,840	56,840	34,069	80,931	115,000
2012-2016	675,000	195,300	870,300	-	-	-
2017-2018	<u>340,000</u>	<u>19,320</u>	<u>359,320</u>	-	-	-
Total	<u>\$ 1,015,000</u>	<u>\$ 498,820</u>	<u>\$ 1,513,820</u>	<u>\$ 189,999</u>	<u>\$ 370,001</u>	<u>\$ 560,000</u>

**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 effects of these debt limitations at June 30, 2006 are a voted debt margin of \$4,848,702 (including available funds of \$289,976) and an unvoted debt margin of \$64,041.

**NOTE 11 - COMPENSATED ABSENCES**

The criteria for determining vested vacation and sick leave components are derived from Board policy, negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per year, depending upon the length of service. School support personnel accumulate vacation based upon the length of service as follows:

<u>Length of Service</u>	<u>Vacation Leave</u>
After 11 Months	5 Days
13 to 84 Months	10 Days
7-15 Years	15 Days
15-20 Years	20 Days
20-25 Years	25 Days

Vacation Pay: A support staff employee may accrue vacation leave over a period of two years. The employee may be paid for the unused portion of the vacation annually. Upon separation from employment the employee may be compensated for unused vacation accrued during the two years prior to their separation.

Sick Leave: Each employee receives a minimum of 5 days of sick leave per year. Up to 15 days of sick leave can be earned per year based upon length of service up to a maximum of 240 days. An employee may be compensated for unused sick leave based upon a set percentage which gives consideration for length of service.

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**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, injuries to employees and natural disasters.

The District maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90% coinsured.

During fiscal year 2006, the District purchased general liability insurance which carried a \$1 million per occurrence/\$3 million general aggregate limit with an additional \$3 million umbrella coverage. Fleet and property/casualty insurance are purchased through commercial carriers and traditionally funded. Settled claims resulting from these risks have not exceeded commercial coverage in any of the prior three fiscal years. Also, coverages have not been materially reduced from fiscal year 2005.

**B. Health Benefits**

The District joined together with other area school districts to form the Huron-Erie School Employees Insurance Association, a public entity risk management and employee health benefits program for 14 member school districts. The District pays a monthly premium to the pool for health, life and dental insurance, including prescription coverage. The agreement for formation of the pool provides 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 \$200,000 for any employee.

In the event of withdrawal, the District shall assume and be responsible for payment of all claims of its eligible employees, families and dependents from the effective date of withdrawal, regardless of when such claims were incurred, processed, or presented to the Association, insurance provider, insurance consultant, or any other appropriate or authorized person or representative; provided further, any such claims, which are paid after the effective date of withdrawal by the Association insurance provider or insurance consultant, or charged to such parties, shall be reimbursed in full by any withdrawing member upon demand of the Association.

**C. Ohio School Board Association Group Workers' Compensation Rating Program**

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

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 or by calling (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$95,691, \$94,239, \$82,920; 43.18 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$54,375 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

**B. State Teachers Retirement System**

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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

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**NOTE 13 - PENSION PLANS - (Continued)**

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

For the fiscal year ended June 30, 2006, 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. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$438,078, \$416,868 and \$405,992; 83.77 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$71,088 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2006 were \$11,095 made by the plan members. The District made no contributions to the DC and Combined Plans for the fiscal year 2006.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

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

STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$33,698 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS Ohio were \$254.780 million and STRS Ohio had 115,395 eligible benefit recipients.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 14 - POSTEMPLOYMENT BENEFITS – (Continued)**

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$45,034 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

**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).

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**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:

**Net Change in Fund Balance**

	<u>General Fund</u>	<u>Title VI-B</u>
Budget basis	\$ 88,591	\$ (78,650)
Net adjustment for revenue accruals	195,748	(4,955)
Net adjustment for expenditure accruals	(80,782)	111,165
Net adjustment for other sources/uses	(84,546)	(76,052)
Adjustment for encumbrances	<u>297,059</u>	<u>11,445</u>
GAAP basis	<u>\$ 416,070</u>	<u>\$ (37,047)</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.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**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, 2006, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Maintenance</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2005	\$ 100,531	\$ 299,123	\$ 168,961
Current year set-aside requirement	135,824	135,824	-
Qualifying disbursements	<u>(229,745)</u>	<u>(129,157)</u>	<u>-</u>
Total	<u>\$ 6,610</u>	<u>\$ 305,790</u>	<u>\$ 168,961</u>
Cash balance carried forward to FY 2007	<u>\$ 6,610</u>	<u>\$ 305,790</u>	<u>\$ 168,961</u>

A schedule of the governmental fund restricted assets at June 30, 2006 follows:

Amount restricted for textbooks	\$ 6,610
Amount restricted for capital maintenance	305,790
Amount restricted for budget stabilization	<u>168,961</u>
Total restricted assets	<u>\$ 481,361</u>

## **SUPPLEMENTAL DATA**



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(F) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(F) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
<b>U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:</b>						
<b>Nutrition Cluster:</b>						
(A) (B) Food Donation	10.550	N/A	\$ -	\$ 23,896	\$ -	\$ 23,896
(A) (C) School Breakfast Program	10.553	047738-05PU-2005	1,837	-	1,837	-
(A) (C) School Breakfast Program	10.553	047738-05PU-2006	13,929	-	13,929	-
(A) (C) National School Lunch Program	10.555	047738-LLP4-2005	14,254	-	14,254	-
(A) (C) National School Lunch Program	10.555	047738-LLP4-2006	95,775	-	95,775	-
<b>Total U.S. Department of Agriculture and Nutrition Cluster</b>			<u>125,795</u>	<u>23,896</u>	<u>125,795</u>	<u>23,896</u>
<b>U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION</b>						
(D) Title I Grants to Local Educational Agencies	84.010	047738-C1S1-2005	(1,112)		27,020	
Title I Grants to Local Educational Agencies	84.010	047738-C1S1-2006	79,431		97,851	
<b>Total Title I Grants to Local Educational Agencies</b>			<u>78,319</u>		<u>124,871</u>	
Special Education_Grants to States	84.027	047738-6BSD-2005	32,777		42,323	
Special Education_Grants to States	84.027	047738-6BSD-2006	2,250		1,699	
(E) Special Education_Grants to States	84.027	047738-6BSF-2005	(10,446)		30,436	
Special Education_Grants to States	84.027	047738-6BSF-2006	93,386		181,810	
<b>Total Special Education_Grants to States</b>			<u>117,967</u>		<u>256,268</u>	
Safe and Drug-Free Schools and Communities_State Grants	84.186	047738-DRS1-2005	3,943		3,738	
Safe and Drug-Free Schools and Communities_State Grants	84.186	047738-DRS1-2006	-		2,199	
<b>Total Safe and Drug-Free Schools and Communities</b>			<u>3,943</u>		<u>5,937</u>	
State Grants for Innovative Programs	84.298	047738-C1S1-2005	1,754		5,844	
State Grants for Innovative Programs	84.298	047738-C1S1-2006	2,484		3,777	
<b>Total State Grants for Innovative Programs</b>			<u>4,238</u>		<u>9,621</u>	
Education Technology State Grants	84.318	044738-TJS1-2005	1,933		2,950	
Education Technology State Grants	84.318	044738-TJS1-2006	1,363		6,070	
<b>Total Education Technology State Grants</b>			<u>3,296</u>		<u>9,020</u>	
Improving Teacher Quality State Grants	84.367	044738-TRS1-2005	33,167		1,105	
Improving Teacher Quality State Grants	84.367	044738-TRS1-2006	25,695		41,725	
<b>Total Improving Teacher Quality State Grants</b>			<u>58,862</u>		<u>42,830</u>	
<b>Total U.S. Department of Education</b>			<u>266,625</u>		<u>448,547</u>	
<b>U.S. DEPARTMENT OF HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF JOB AND FAMILY SERVICES</b>						
(G) Temporary Assistance for Needy Families	93.558	N/A	157,344		157,344	
<b>Total U.S. Department of Human Services</b>			<u>157,344</u>		<u>157,344</u>	
<b>Total Federal Financial Assistance</b>			<u>\$ 549,764</u>	<u>\$ 23,896</u>	<u>\$ 731,686</u>	<u>\$ 23,896</u>

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.  
(B) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.  
(C) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.  
(D) Amount of \$1,112 transferred to the next grant year based on Ohio Department of Education administrative action.  
(E) Amount of \$10,446 transferred to the next grant year based on Ohio Department of Education administrative action.  
(F) This schedule was prepared on the cash basis of accounting.  
(G) This money was passed through Huron County.



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

Board of Education  
South Central Local School District  
3305 Greenwich Angling Road  
Greenwich, Ohio 44837

We have audited the financial statements of the governmental activities, each major fund, and the remaining aggregate fund information of the South Central Local School District, as of and for the fiscal year ended June 30, 2006, which collectively comprise the South Central Local School District's basic financial statements, and have issued our report thereon dated December 19, 2006. As disclosed in Note 3B the District had a restatement to net assets due to the recording of accreted interest and an adjustment to the capital appreciation bonds and restatement to capital assets due to a change in capitalization threshold. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the South Central Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters that we have reported to the management of the District in a separate letter dated December 19, 2006.

Board of Education  
South Central Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Central Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* that have been described in the accompanying schedule of findings as items 2006-SCLSD-001 and 2006-SCLSD-002. However, we noted certain matters that we reported to management of the District in a separate letter dated December 19, 2006.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
December 19, 2006



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to Its  
Major Federal Program and on Internal Control Over  
Compliance in Accordance With OMB Circular A-133**

Board of Education  
South Central Local School District  
3305 Greenwich Angling Road  
Greenwich, Ohio 44837

Compliance

We have audited the compliance of the South Central Local School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the fiscal year ended June 30, 2006. As disclosed in Note 3B the District had a restatement to net assets due to the recording of accreted interest and an adjustment to the capital appreciation bonds and restatement to capital assets due to a change in capitalization threshold. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the South Central Local School District's management. Our responsibility is to express an opinion on the South Central Local School District's compliance based on our audit.

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

Board of Education  
South Central Local School District

In our opinion, the South Central Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2006.

Internal Control Over Compliance

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

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

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



Julian & Grube, Inc.  
December 19, 2006

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>	
Finding Number	2006-SCLSD-001

Ohio Revised Code Section 5705.39 in part requires that the total appropriation from each fund should not exceed total estimated resources.

It was noted during the audit that at June 30, 2006, the total appropriations exceeded the total estimated resources in the following funds:

<u>Fund Type/Fund</u>	<u>Amount</u>
<u>Special Revenue Funds</u>	
Interactive Video Distance Learning	\$ 91
Miscellaneous State Grants	19
Title VI-B Funds	987
Title V Innovative Education Programs	1,045
Drug-Free School Grant	2,450
Improving Teacher Quality	46,067

With appropriations exceeding estimated resources, the District is appropriating monies that are not in the treasury or in the process of collection that have been certified with the County Auditor. Thus, over appropriating may cause expenditures to increase and cause a deficit fund balance.

We recommend that the District comply with the Ohio Revised Code by keeping more accurate appropriations versus estimated resources. If it is determined that estimated resources will be greater than initially anticipated, the District should amend its official estimate in order to provide for any additional appropriations; however, appropriations should not exceed estimated resources.

Client response: The District is attempting to monitor its budget more closely and to submit additional amendments for estimated resources or reduce its appropriations as necessary.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>	
Finding Number	2006-SCLSD-002

Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.

It was noted during the audit that the District had expenditures exceeding appropriations in the following funds:

<u>Fund Type/Fund</u>	<u>Excess</u>
<u>Special Revenue Funds</u>	
Drug Free School Grant	\$ 6,990
Improving Teacher Quality	61,212

With expenditures exceeding appropriations, the District is expending monies that have not been appropriated and approved by the Board of Education. This may result in unnecessary purchases or overspending which may lead to a fund deficit.

We recommend that the District comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget prior to year end. This may be achieved by monitoring the budget more closely on a continual basis.

Client response: The District is attempting to monitor its budget more closely and to increase its appropriations as needed.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
--

None





Mary Taylor, CPA  
Auditor of State

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 15, 2007**