

Sebring Local School District

Mahoning County, Ohio

Regular Audit

July 1, 2005 Through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

**BALESTRA, HARR & SCHERER, CPAs, Inc.**

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Mary Taylor, CPA  
Auditor of State

Board of Trustees  
Sebring Local School District  
510 North 14<sup>th</sup> Street  
Sebring, Ohio 44672

We have reviewed the *Independent Auditor's Report* of the Sebring Local School District, Mahoning County, prepared by Balestra, Harr & Scherer, CPAs, 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 Sebring Local School District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

May 2, 2008

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***Sebring Local School District***  
*Mahoning County, Ohio*

*Table of Contents*

Independent Auditor’s Report .....	1
Management’s Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	13
Statement of Activities .....	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budget Basis) – General Fund.....	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Governmental Activities – Internal Service Fund.....	20
Statement of Cash Flows – Governmental Activities – Internal Service Fund.....	21
Statement of Fiduciary Net Assets – Fiduciary Funds .....	22
Notes to the Basic Financial Statements .....	23
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	49

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Ohio Society of Certified Public Accountants

**Independent Auditor's Report**

Members of the Board  
Sebring Local School District  
510 N. 14<sup>th</sup> Street  
Sebring, OH 44672

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

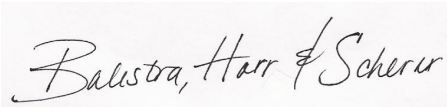
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 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 School District, as of June 30, 2006, and the respective changes in financial position and the respective budgetary comparison for the general fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2008 on our consideration of the School 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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of 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.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 3, the District has implemented Governmental Accounting Standards Board (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*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.  
January 31, 2008



**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

The discussion and analysis of the Sebring 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 decreased \$881,387 which represents a 6.65% decrease from 2005.
- General revenues accounted for \$5,658,856 in revenue or 86.97% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$847,917 or 13.03% of total revenues of \$6,506,773.
- The District had \$7,388,160 in expenses related to governmental activities; \$847,917 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 \$5,658,856 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$5,917,839 in revenues and other financing sources, and \$5,532,366 in expenditures. During fiscal year 2006, the general fund's fund balance increased \$385,473 from a deficit of \$346,881 to a balance of \$38,592.
- The debt service fund had \$192,853 in revenues and \$146,574 in expenditures. During fiscal year 2006, the debt service fund's fund balance increased \$46,279 from \$180,257 to \$226,536.

**Using these Basic Financial Statements**

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

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

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING 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 of plant, pupil transportation, extracurricular activities, and food service operations.

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

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

***Fund Financial Statements***

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

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

***Proprietary Funds***

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical and dental self-insurance. The basic proprietary fund financial statements can be found on pages 20-21 of this report.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

***Reporting the District's Fiduciary Responsibilities***

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 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.

***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 23-48 of this report.

**The District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2006 and 2005.

	<b>Net Assets</b>	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 2,919,036	\$ 3,281,403
Capital assets	<u>13,333,708</u>	<u>13,934,091</u>
Total assets	<u>16,252,744</u>	<u>17,215,494</u>
<b><u>Liabilities</u></b>		
Current liabilities	2,172,530	2,215,493
Long-term liabilities	<u>1,710,093</u>	<u>1,748,493</u>
Total liabilities	<u>3,882,623</u>	<u>3,963,986</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	11,858,708	12,404,091
Restricted	616,103	678,303
Unrestricted	<u>(104,690)</u>	<u>169,114</u>
Total net assets	<u>\$ 12,370,121</u>	<u>\$ 13,251,508</u>

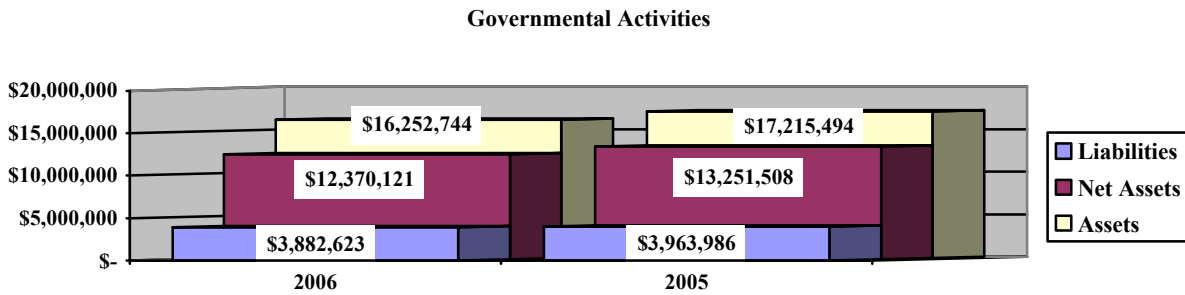
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$12,370,121. Of this total \$616,103 is restricted in use.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

At year-end, capital assets represented 82.04% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, library books and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$11,858,708. 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, \$616,103, represents resources that are subject to external restriction on how they may be used. The remaining is a deficit of unrestricted net assets of \$104,690.



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

	Governmental Activities 2006	Governmental Activities 2005
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 230,781	\$ 240,189
Operating grants and contributions	608,176	595,460
Capital grants and contributions	8,960	-
General revenues:		
Property taxes	1,429,952	1,738,787
Grants and entitlements	4,071,579	4,033,885
Investment earnings	48,965	30,388
Other	108,360	38,854
<b>Total revenues</b>	<b><u>6,506,773</u></b>	<b><u>6,677,563</u></b>

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

**Change in Net Assets**

	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2005</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 3,226,299	\$ 3,005,478
Special	1,000,281	966,396
Other	220,680	216,602
Support services:		
Pupil	160,083	192,599
Instructional staff	226,864	270,792
Board of education	10,706	14,175
Administration	747,436	726,360
Fiscal	254,854	278,386
Operations and maintenance	775,436	695,608
Pupil transportation	156,449	116,345
Central	703	2,099
Operations of non-instructional services	9,800	-
Food service operations	285,400	292,019
Extracurricular activities	224,723	219,546
Interest and fiscal charges	<u>88,446</u>	<u>91,127</u>
Total expenses	<u>7,388,160</u>	<u>7,087,532</u>
Change in net assets	(881,387)	(409,969)
Net assets beginning of year	<u>13,251,508</u>	<u>13,661,477</u>
Net assets end of year	<u>\$ 12,370,121</u>	<u>\$ 13,251,508</u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$881,387. Total governmental expenses of \$7,388,160 were offset by program revenues of \$847,917 and general revenues of \$5,658,856. Program revenues supported 11.48% of the total governmental expenses.

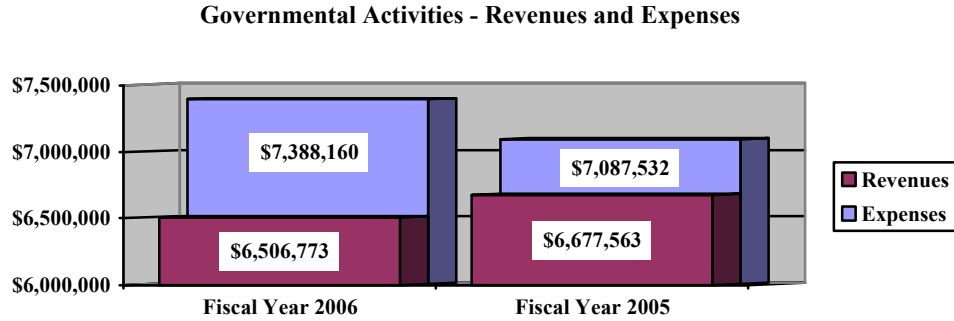
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 84.55% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,447,260 or 60.19% of total governmental expenses for fiscal 2006.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING 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 year 2006 and 2005.



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.

	<b>Governmental Activities</b>			
	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	\$ 3,226,299	\$ 3,117,243	\$ 3,005,478	\$ 2,903,338
Special	1,000,281	636,519	966,396	617,442
Other	220,680	220,680	216,602	216,602
Support services:				
Pupil	160,083	155,686	192,599	176,946
Instructional staff	226,864	226,495	270,792	270,098
Board of education	10,706	10,706	14,175	14,175
Administration	747,436	742,202	726,360	721,885
Fiscal	254,854	254,854	278,386	277,647
Operations and maintenance	775,436	775,436	695,608	685,475
Pupil transportation	156,449	146,625	116,345	116,345
Central	703	703	2,099	2,099
Operations of non-instructional services	9,800	9,800	-	-
Food service operations	285,400	17,382	292,019	46,299
Extracurricular activities	224,723	137,466	219,546	112,405
Interest and fiscal charges	88,446	88,446	91,127	91,127
<b>Total expenses</b>	<u>\$ 7,388,160</u>	<u>\$ 6,540,243</u>	<u>\$ 7,087,532</u>	<u>\$ 6,251,883</u>

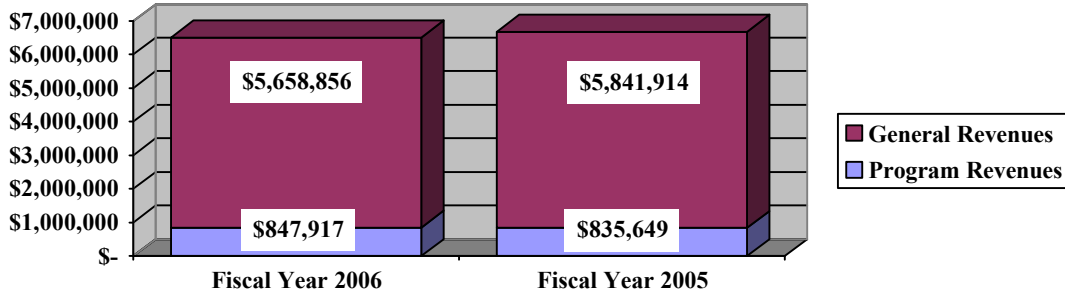
The dependence upon tax and other general revenues for governmental activities is apparent, 89.37% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 88.52%. The District's taxpayers, as a whole, are by far the primary support for District's students.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING 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 for fiscal year 2006 and 2005.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$564,767, which is higher than last year's total of \$237,458. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance <u>June 30, 2006</u>	Fund Balance (Deficit) <u>June 30, 2005</u>	Increase (Decrease)	Percentage Change
General	\$ 38,592	\$ (346,881)	\$ 385,473	111.13 %
Debt Service	226,536	180,257	46,279	25.67 %
Other Governmental	<u>299,639</u>	<u>404,082</u>	<u>(104,443)</u>	(25.85) %
Total	<u>\$ 564,767</u>	<u>\$ 237,458</u>	<u>\$ 327,309</u>	137.84 %

**General Fund**

The District's general fund balance increased \$385,473. The increase in fund balance can be attributed to transfers in from the internal service fund. Expenditures exceed revenues for fiscal year 2006 by \$121,244. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING 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>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 1,266,682	\$ 1,425,301	\$ (158,619)	(11.13) %
Earnings on investments	48,965	30,388	18,577	61.13 %
Intergovernmental	4,040,172	4,001,591	38,581	0.96 %
Other revenues	<u>55,303</u>	<u>26,021</u>	<u>29,282</u>	112.53 %
 Total	 <u>\$ 5,411,122</u>	 <u>\$ 5,483,301</u>	 <u>\$ (72,179)</u>	 (1.32) %
<b><u>Expenditures</u></b>				
Instruction	\$ 3,350,867	\$ 3,279,030	\$ 71,837	2.19 %
Support services	2,041,987	2,095,805	(53,818)	(2.57) %
Non-instructional services	9,800	-	9,800	100.00 %
Extracurricular activities	<u>129,712</u>	<u>127,007</u>	<u>2,705</u>	2.13 %
 Total	 <u>\$ 5,532,366</u>	 <u>\$ 5,501,842</u>	 <u>\$ 30,524</u>	 0.55 %

***Debt Service Fund***

The debt service fund had \$192,853 in revenues and \$146,574 in expenditures. During fiscal year 2006, the debt service fund's fund balance increased \$46,279 from \$180,257 to \$226,536.

***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 several times. For the general fund, original budgeted revenues and other financing sources were \$5,484,340 and final budgeted revenues and other financing sources were \$5,404,861. Actual revenues and other financing sources for fiscal 2006 was \$5,918,726. This represents a \$513,865 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$5,513,052 were increased to \$5,629,039 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$5,572,723, which was \$56,316 less than the final budget appropriations.



**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2006, the District had \$13,333,708 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and library books. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

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

	Governmental Activities	
	2006	2005
Land	\$ 219,600	\$ 219,600
Land improvements	651,538	704,010
Building and improvements	12,066,433	12,535,136
Furniture and equipment	338,704	362,385
Library books	-	9,565
Vehicles	57,433	103,395
Total	<u>\$ 13,333,708</u>	<u>\$ 13,934,091</u>

The overall decrease in capital assets of \$600,383 is due to depreciation expense of \$645,373 and disposals of \$37,426 (net of accumulated depreciation) exceeding capital outlays of \$82,416 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

***Debt Administration***

At June 30, 2006, the District had \$1,475,000 in general obligation bonds outstanding. Of this total, \$60,000 is due within one year and \$1,415,000 is due within greater than one year. The following table summarizes the bonds outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities	Governmental Activities
	2006	2005
General obligation bonds	<u>\$ 1,475,000</u>	<u>\$ 1,530,000</u>
Total	<u>\$ 1,475,000</u>	<u>\$ 1,530,000</u>

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

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

**Current Financial Related Activities**

The District receives approximately 70% of its revenue from the State of Ohio and is therefore at the state's mercy regarding funding. State revenues have kept pace with inflation to date, but the future of state revenue increases is uncertain, to say the least. With state imposed reductions in personal property tax revenue and the failure to resolve the funding issues imposed by the Supreme Court regarding DeRolph (In Ohio we have redefined the word "Supreme"), the financial picture moves from uncertain to bleak.

Local revenue overall is not increasing as anticipated due mainly to the following:

- Little Tykes, one of our largest companies, has closed its Sebring operation.
- Personal Property Tax collections are declining.
- Investment earnings have leveled.
- All new construction is abated for seven to fifteen years.

The District has placed an income tax levy on the ballot on three occasions in the past eighteen months. All have failed. An income tax issue is on the November 2006 ballot. Although this will be our 7<sup>th</sup> attempt to raise revenue, passage is still uncertain.

The District has worked to reduce expenditures as follows:

- Over the past four years, eight teachers have retired or resigned and only two have been replaced.
- Non-teaching staff count has been reduced.
- Wages are frozen.
- We have joined a medical consortium with Portage County Schools in an effort to stabilize our escalating health care costs.
- We have reduced one Administrative position.

These measures have reduced expenditures by approximately \$550,000 annually. Our current five year forecast shows that the District has a deficit balance for FY2007. The deficit continues to grow through the forecast period.

**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: Mr. Harry A. Hill, Sebring Local School District, 510 North 14<sup>th</sup> Street, Sebring, Ohio 44672-1400.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2006

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . .	\$ 1,188,800
Cash with fiscal agent . . . . .	
Receivables:	
Property taxes . . . . .	1,652,557
Accounts . . . . .	865
Intergovernmental . . . . .	50,147
Prepayments . . . . .	16,839
Materials and supplies inventory . . . . .	9,828
Capital assets:	
Land . . . . .	219,600
Depreciable capital assets, net . . . . .	13,114,108
Total capital assets, net . . . . .	13,333,708
 Total assets . . . . .	 16,252,744
 <b>Liabilities:</b>	
Accounts payable . . . . .	29,910
Accrued wages and benefits . . . . .	484,674
Intergovernmental payable . . . . .	34,034
Pension obligation payable . . . . .	145,383
Deferred revenue . . . . .	1,473,402
Accrued interest payable . . . . .	5,127
Long-term liabilities:	
Due within one year . . . . .	104,224
Due in more than one year . . . . .	1,605,869
 Total liabilities . . . . .	 3,882,623
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt . . . . .	11,858,708
Restricted for:	
Capital projects . . . . .	227,335
Debt service . . . . .	241,675
Classroom facilities maintenance . . . . .	18,185
State funded programs . . . . .	3,422
Federally funded programs . . . . .	935
Student activities . . . . .	92,352
Other purposes . . . . .	32,199
Unrestricted (deficit) . . . . .	(104,690)
 Total net assets . . . . .	 \$ 12,370,121

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 3,226,299	\$ 12,113	\$ 87,983	\$ 8,960	\$ (3,117,243)
Special . . . . .	1,000,281	-	363,762	-	(636,519)
Other. . . . .	220,680	-	-	-	(220,680)
Support services:					
Pupil. . . . .	160,083	-	4,397	-	(155,686)
Instructional staff . . . . .	226,864	-	369	-	(226,495)
Board of education . . . . .	10,706	-	-	-	(10,706)
Administration. . . . .	747,436	234	5,000	-	(742,202)
Fiscal. . . . .	254,854	-	-	-	(254,854)
Operations and maintenance . . . . .	775,436	-	-	-	(775,436)
Pupil transportation. . . . .	156,449	3,824	6,000	-	(146,625)
Central . . . . .	703	-	-	-	(703)
Operation of non-instructional services . . . . .					
	9,800	-	-	-	(9,800)
Food service operations . . . . .	285,400	127,353	140,665	-	(17,382)
Extracurricular activities. . . . .	224,723	87,257	-	-	(137,466)
Interest and fiscal charges . . . . .	88,446	-	-	-	(88,446)
<b>Total governmental activities . . . . .</b>	<b>\$ 7,388,160</b>	<b>\$ 230,781</b>	<b>\$ 608,176</b>	<b>\$ 8,960</b>	<b>(6,540,243)</b>
<b>General Revenues:</b>					
Property taxes levied for:					
					1,163,930
					162,658
					77,452
					25,912
Grants and entitlements not restricted to specific programs:					
					4,062,286
					9,293
					48,965
					108,360
					<u>5,658,856</u>
					(881,387)
					<u>13,251,508</u>
					<u>\$ 12,370,121</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<b>General</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 561,696	\$ 226,536	\$ 368,369	\$ 1,156,601
Receivables:				
Taxes . . . . .	1,348,349	189,027	115,181	1,652,557
Accounts . . . . .	535	-	330	865
Due from other governments . . . . .	-	-	50,147	50,147
Due from other funds . . . . .	3,359	-	-	3,359
Materials and supplies inventory . . . . .	7,291	-	2,537	9,828
Prepayments . . . . .	16,738	-	101	16,839
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	32,199	-	-	32,199
Total assets . . . . .	<u>\$ 1,970,167</u>	<u>\$ 415,563</u>	<u>\$ 536,665</u>	<u>\$ 2,922,395</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 12,693	\$ -	\$ 17,217	\$ 29,910
Accrued wages and benefits . . . . .	419,674	-	65,000	484,674
Compensated absences payable . . . . .	-	-	7,711	7,711
Due to other governments . . . . .	28,900	-	5,134	34,034
Pension obligation payable . . . . .	121,959	-	23,424	145,383
Due to other funds . . . . .	-	-	3,359	3,359
Deferred revenue . . . . .	1,348,349	189,027	115,181	1,652,557
Total liabilities . . . . .	<u>1,931,575</u>	<u>189,027</u>	<u>237,026</u>	<u>2,357,628</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	10,834	-	6,612	17,446
Reserved for prepayments . . . . .	16,738	-	101	16,839
Reserved for materials and supplies inventory . . . . .	7,291	-	2,537	9,828
Reserved for debt service . . . . .	-	226,536	-	226,536
Reserved for budget stabilization . . . . .	24,007	-	-	24,007
Reserved for school bus purchases . . . . .	8,192	-	-	8,192
Unreserved, undesignated (deficit), reported in:				
General fund . . . . .	(28,470)	-	-	(28,470)
Special revenue funds . . . . .	-	-	76,043	76,043
Capital projects funds . . . . .	-	-	214,346	214,346
Total fund balances (deficit) . . . . .	<u>38,592</u>	<u>226,536</u>	<u>299,639</u>	<u>564,767</u>
Total liabilities and fund balances . . . . .	<u>\$ 1,970,167</u>	<u>\$ 415,563</u>	<u>\$ 536,665</u>	<u>\$ 2,922,395</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

<b>Total governmental fund balances</b>	\$ 564,767
<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.	13,333,708
Other long-term assets (taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.	179,155
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(5,127)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
General obligation bonds	1,475,000
Compensated absences	<u>227,382</u>
Total	<u>(1,702,382)</u>
<b>Net assets of governmental activities</b>	<u><u>\$ 12,370,121</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING 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>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 1,266,682	\$ 172,871	\$ 111,258	\$ 1,550,811
Tuition . . . . .	7,642	-	-	7,642
Charges for services . . . . .	-	-	127,353	127,353
Earnings on investments . . . . .	48,965	-	-	48,965
Extracurricular . . . . .	-	-	87,257	87,257
Classroom materials and fees . . . . .	3,999	-	234	4,233
Other local revenues . . . . .	43,662	-	68,994	112,656
Intergovernmental - intermediate . . . . .	-	-	4,397	4,397
Intergovernmental - state . . . . .	4,040,172	19,982	108,368	4,168,522
Intergovernmental - federal . . . . .	-	-	515,796	515,796
Total revenues . . . . .	<u>5,411,122</u>	<u>192,853</u>	<u>1,023,657</u>	<u>6,627,632</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	2,474,831	-	210,868	2,685,699
Special . . . . .	655,356	-	365,822	1,021,178
Other . . . . .	220,680	-	-	220,680
Support Services:				
Pupil . . . . .	153,054	-	4,298	157,352
Instructional staff . . . . .	207,757	-	1,814	209,571
Board of education . . . . .	10,706	-	-	10,706
Administration . . . . .	671,189	-	29,347	700,536
Fiscal . . . . .	250,504	2,937	1,863	255,304
Operations and maintenance . . . . .	643,520	-	100,554	744,074
Pupil transportation . . . . .	104,554	-	814	105,368
Central . . . . .	703	-	-	703
Operation of non-instructional services . . . . .	9,800	-	-	9,800
Food service operations . . . . .	-	-	282,882	282,882
Extracurricular activities . . . . .	129,712	-	99,223	228,935
Facilities acquisition and construction . . . . .	-	-	30,615	30,615
Debt service:				
Principal retirement . . . . .	-	55,000	-	55,000
Interest and fiscal charges . . . . .	-	88,637	-	88,637
Total expenditures . . . . .	<u>5,532,366</u>	<u>146,574</u>	<u>1,128,100</u>	<u>6,807,040</u>
Excess of revenues over (under) expenditures . . . . .	<u>(121,244)</u>	<u>46,279</u>	<u>(104,443)</u>	<u>(179,408)</u>
<b>Other financing sources:</b>				
Transfers in . . . . .	<u>506,717</u>	<u>-</u>	<u>-</u>	<u>506,717</u>
Total other financing sources . . . . .	<u>506,717</u>	<u>-</u>	<u>-</u>	<u>506,717</u>
Net change in fund balances . . . . .	385,473	46,279	(104,443)	327,309
<b>Fund balances (deficit) at beginning of year . . . . .</b>	<u>(346,881)</u>	<u>180,257</u>	<u>404,082</u>	<u>237,458</u>
<b>Fund balances (deficit) at end of year . . . . .</b>	<u>\$ 38,592</u>	<u>\$ 226,536</u>	<u>\$ 299,639</u>	<u>\$ 564,767</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING 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

**Net change in fund balances - total governmental funds** \$ 327,309

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

Governmental funds report capital outlays as expenditures.

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

Capital asset additions	\$ 82,416	
Current year depreciation	<u>(645,373)</u>	
Total		(562,957)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (37,426)

Revenues in the statement of activities (taxes) that do not provide current financial resources are not reported as revenues in the funds. (120,859)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 55,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 191

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (22,689)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (519,956)

**Change in net assets of governmental activities** \$ (881,387)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING 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 . . . . .	\$ 1,240,520	\$ 1,222,542	\$ 1,266,682	\$ 44,140
Tuition . . . . .	3,247	3,200	7,642	4,442
Earnings on investments . . . . .	42,043	41,434	48,965	7,531
Classroom materials and fees . . . . .	4,668	4,600	4,063	(537)
Other local revenue . . . . .	28,260	27,850	36,046	8,196
Intergovernmental - state . . . . .	3,962,661	3,905,235	4,040,171	134,936
Total revenues . . . . .	<u>5,281,399</u>	<u>5,204,861</u>	<u>5,403,569</u>	<u>198,708</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	2,420,794	2,471,724	2,489,966	(18,242)
Special . . . . .	648,413	662,055	659,151	2,904
Other . . . . .	217,426	222,000	220,680	1,320
Support services:				
Pupils . . . . .	159,130	162,478	159,642	2,836
Instructional staff . . . . .	207,921	212,295	205,424	6,871
Board of education . . . . .	10,969	11,200	9,341	1,859
Administration . . . . .	671,258	685,380	666,620	18,760
Fiscal . . . . .	258,687	264,129	256,586	7,543
Operations and maintenance . . . . .	653,032	666,771	658,564	8,207
Pupil transportation . . . . .	111,284	113,625	108,400	5,225
Central . . . . .	1,714	1,750	703	1,047
Extracurricular activities . . . . .	152,424	155,632	137,646	17,986
Total expenditures . . . . .	<u>5,513,052</u>	<u>5,629,039</u>	<u>5,572,723</u>	<u>56,316</u>
Deficiency of revenues under expenditures . . . . .	<u>(231,653)</u>	<u>(424,178)</u>	<u>(169,154)</u>	<u>255,024</u>
<b>Other financing sources :</b>				
Transfers in . . . . .	-	-	506,717	506,717
Refund of prior year's expenditures . . . . .	-	-	8,440	8,440
Sale of notes . . . . .	202,941	200,000	-	(200,000)
Total other financing sources . . . . .	<u>202,941</u>	<u>200,000</u>	<u>515,157</u>	<u>315,157</u>
Net change in fund balance . . . . .	(28,712)	(224,178)	346,003	570,181
<b>Fund balance at beginning of year . . . . .</b>	178,887	178,887	178,887	-
<b>Prior year encumbrances appropriated . . . . .</b>	49,039	49,039	49,039	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 199,214</u>	<u>\$ 3,748</u>	<u>\$ 573,929</u>	<u>\$ 570,181</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u><b>Governmental Activities - Internal Service Fund</b></u>
<b>Operating expenses:</b>	
Claims. . . . .	13,239
Total operating expenses . . . . .	<u>13,239</u>
Operating loss before transfers . . . . .	(13,239)
Transfers out. . . . .	<u>(506,717)</u>
Change in Net Assets. . . . .	(519,956)
<b>Net assets at beginning of year . . . . .</b>	<u>519,956</u>
<b>Net assets at end of year . . . . .</b>	<u><u>\$ -</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services . . . . .	\$           107
Cash payments for claims . . . . .	<u>(45,468)</u>
Net cash used in operating activities. . . . .	<u>(45,361)</u>
 Cash flows from noncapital financing activities:	
Transfers out . . . . .	<u>(506,717)</u>
Net cash used in noncapital financing activities . . . . .	<u>(506,717)</u>
Net decrease in cash and cash equivalents . . . . .	(552,078)
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<u>552,078</u>
<b>Cash and cash equivalents at end of year. . . . .</b>	<u><u>\$           -</u></u>
 <b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss . . . . .	\$       (13,239)
 Changes in assets and liabilities:	
Decrease in accounts receivable . . . . .	107
Decrease in claims payable . . . . .	<u>(32,229)</u>
Net cash used in operating activities . . . . .	<u><u>\$       (45,361)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2006

	<b>Agency</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 22,654
Receivables:	
Accounts . . . . .	1,000
Total assets . . . . .	\$ 23,654
<b>Liabilities:</b>	
Accounts payable . . . . .	\$ 5,076
Due to students . . . . .	18,578
Total liabilities . . . . .	\$ 23,654

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

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

The Sebring Local School District (the "District") is organized under Section 2 and 3, Article VI of the Constitution of the State of Ohio to provide educational services to the students and other community members of the District. Under such laws there is no authority for a District to have a charter or adopt local laws. The legislative power of the District is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms by the citizens of the District.

The District is the 555<sup>th</sup> largest in the State of Ohio among the 615 public school districts in the state in terms of enrollment. The District is staffed by 37 non-certificated and 57 certificated personnel to provide services to approximately 743 students and other community members.

**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 and to its proprietary fund 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 comprised 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, preschool 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' governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organizations 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:

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING 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 ORGANIZATIONS*

Area Cooperative Computerized Educational Service System (ACCESS)

ACCESS, a Council of Governments (the "COG"), is a computer network which provides data services to twenty three school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports the COG based upon a per pupil charge. The District paid \$12,684 to the COG during fiscal year 2006. The COG is governed by an assembly consisting of superintendents or other designees of the member school districts. The assembly exercises total control over the operation of the COG including budgeting, appropriating, contracting and designating management. All of the COG revenues are generated from charges for services and State funding.

Financial information can be obtained from the treasurer for the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 DeBartolo Place, Suite 105, Youngstown, Ohio 44512-7019.

Mahoning County Career & Technical Center

The Mahoning County Career & Technical Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from the participating school districts' elected boards, which possess its own budgeting and taxing authority. To obtain financial information, write to the Treasurer of the Career & Technical Center, at 7300 North Palmyra Road, Canfield, Ohio 44406.

*PUBLIC ENTITY RISK POOLS*

Ohio School Boards Association Workers' Compensation Group Rating Plan

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 Plan (Plan) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

Portage Area School Consortium

The Portage Area School Consortium (the "Consortium") is a regional council of governments established pursuant to Chapter 167 of the Ohio Revised Code, consisting of various school districts in Columbiana, Portage and Mahoning counties. The Consortium is a stand-alone entity, comprised of two stand-alone pools; the Portage Area School Consortium Property and Casualty Pool and the Portage Area School Consortium Health and Welfare Insurance Pool. These pools were established by the Consortium on August 5, 1988 to provide property and casualty risk management services and risk sharing to its members. The pools were established as local government risk pools under Section 1744.081 of the Ohio Revised Code and are not subject to federal tax filing requirements.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

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

**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.

*Debt Service Fund* - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and note principal, interest and related costs.

The other governmental funds of the District account for (a) financial resources to be used for the acquisition, construction or improvement of capital facilities; (b) for grants and other resources whose use is restricted to a particular purpose; and (c) food service operations.

*PROPRIETARY FUND*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

*Internal Service Fund* - The internal service fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides health benefits to employees.

*FIDUCIARY FUNDS*

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

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

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

**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. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.



**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

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

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, 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.

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.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

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

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 budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund level for all funds. Any budgetary modifications at the legal level of budgetary control may only be made by resolution of the Board of Education.

Tax Budget:

The Mahoning County Budget Commission does not require the submission of a tax budget, so the District does not prepare one.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' 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 the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budget amounts reflect the amounts in the first Amended Certificate issued during the fiscal year. The amounts reported as the final budget amounts reflect the amounts in the final Amended Certificate issued during the fiscal year.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

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

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, all supplemental appropriations were legally enacted.

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

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**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 repurchase agreements and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Repurchase agreements are reported at cost. 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 earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$48,965, which includes \$41,762 assigned from other District funds.

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

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

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

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

**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.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

**H. Capital Assets**

General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Districts capitalization threshold is \$1,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	5 - 10 years
Library books	5 years

**I. 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.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING 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 the balance sheet date 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 age 57 or over with 2 or more years of service or employees age 52 or over with 22 or more years of service or employees with 27 or more 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 additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

**J. 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.

**K. 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, prepayments, materials and supplies inventory, debt service, school bus purchases, and budget stabilization.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

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

**L. Operating Revenues and Expenses**

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

**M. Net Assets**

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

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of December 31, 2006, net assets restricted by enabling legislation were \$616,103 in the statement of net assets.

**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**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for budget stabilization and school bus purchases. See Note 16 for details.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

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

**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 and after nonoperating revenues/expenses in proprietary fund. 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 2006.

**NOTE 3 – ACCOUNTIBILITY AND COMPLIANCE**

**A. Changes 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.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

**NOTE 3 – ACCOUNTIBILITY AND COMPLIANCE - (Continued)**

**B. Deficit Fund Balances**

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

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service	\$ 29,168
Managed Information Systems	56
Poverty Aid	9,370
Drug Free School Grant	62
Title VI-B	3,856

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 result from adjustments for accrued liabilities.

**C. Noncompliance**

The District had negative cash fund balances in the following funds indicating that revenue from other sources were used to pay obligations of these funds contrary to Ohio Revised Code Section 5705.10. For GAAP purposes, these amounts have been reported as fund liabilities in the respective funds.

<u>Fund</u>	<u>Amount</u>
<u>Nonmajor Governmental Fund</u>	
Improving Teacher Quality	\$ 269
Miscellaneous Federal Grants	3,090

**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.



**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

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

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;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
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.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

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

**A. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$596,028. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2006, \$522,084 of the District’s bank balance of \$722,365 was exposed to custodial risk as discussed below, while \$200,281 was covered by Federal Deposit Insurance Corporation.

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

**B. Investments**

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

<u>Investment type</u>	<u>Investment Maturities</u>	
	<u>Fair Value</u>	<u>6 months or less</u>
STAR Ohio	\$ 429,005	\$ 429,005
Repurchase agreement	<u>186,421</u>	<u>186,421</u>
Total	<u>\$ 615,426</u>	<u>\$ 615,426</u>

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

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District limits its investments to STAR Ohio and repurchase agreements. Investments in STAR were rated AAAM by Standard and Poor’s.

*Custodial Credit Risk –* Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District’s securities are either insured and registered in the name of the District or at least registered in the name of the District, other than the District’s repurchase agreements which are exposed to custodial credit risk in that they are uninsured unregistered and held by the counterparty’s trust department or agent but not in the District’s name.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

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

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 429,005	69.71
Repurchase agreement	186,421	30.29
Total	\$ 615,426	100.00

**C. Reconciliation of Cash and Investment 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	\$ 596,028
Investments	615,426
Total	\$ 1,211,454
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,188,800
Agency fund	22,654
Total	\$ 1,211,454

**NOTE 5 - INTERFUNDS**

Due to/from other funds at year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

<u>Due To:</u>	<u>Due From:</u>	<u>Amount</u>
General Fund	Non-major Governmental funds	\$ 3,359

The purpose of the due from/to other funds is to cover a negative cash balance at June 30. The amount will be repaid within one year.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

**NOTE 5 – INTERFUNDS – (Continued)**

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

Transfers from Internal Service fund to:

General Fund	\$ 506,717
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Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that the statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds are eliminated on the statement of activities.

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 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 December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Mahoning 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. There were no advances available to the District at fiscal year-end.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

**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.

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		2006 First	
	Half Collections		Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real property	\$ 35,664,350	78.39	\$ 45,310,750	88.19
Public utility personal property	1,879,600	4.13	1,919,750	3.74
Tangible personal property	<u>7,952,595</u>	<u>17.48</u>	<u>4,147,125</u>	<u>8.07</u>
Total assessed valuation	<u>\$ 45,496,545</u>	<u>100.00</u>	<u>\$ 51,377,625</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$ 53.80		\$ 53.80	
Permanent Improvement	3.00		3.00	
Debt Service	4.60		4.60	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees) and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of Federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental Activities:**

Taxes	\$ 1,652,557
Accounts	865
Intergovernmental	<u>50,147</u>
Total	<u>\$ 1,703,569</u>

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

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

**NOTE 8 - CAPITAL ASSETS**

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

<b>Governmental Activities:</b>	<u>Balance 06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 219,600	\$ -	\$ -	\$ 219,600
Total capital assets, not being depreciated	<u>219,600</u>	<u>-</u>	<u>-</u>	<u>219,600</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,106,880	-	-	1,106,880
Building and improvements	16,268,102	14,602	-	16,282,704
Furniture and equipment	873,370	62,990	(65,099)	871,261
Library books	168,009	-	-	168,009
Vehicles	<u>279,129</u>	<u>4,824</u>	<u>(53,466)</u>	<u>230,487</u>
Total capital assets, being depreciated	<u>18,695,490</u>	<u>82,416</u>	<u>(118,565)</u>	<u>18,659,341</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(402,870)	(52,472)	-	(455,342)
Building and improvements	(3,732,966)	(483,305)	-	(4,216,271)
Furniture and equipment	(510,985)	(86,671)	65,099	(532,557)
Library books	(158,444)	(9,565)	-	(168,009)
Vehicles	<u>(175,734)</u>	<u>(13,360)</u>	<u>16,040</u>	<u>(173,054)</u>
Total accumulated depreciation	<u>(4,980,999)</u>	<u>(645,373)</u>	<u>81,139</u>	<u>(5,545,233)</u>
Governmental activities capital assets, net	<u>\$ 13,934,091</u>	<u>\$ (562,957)</u>	<u>\$ (37,426)</u>	<u>\$ 13,333,708</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 563,824
Special	157
<u>Support Services:</u>	
Pupil	376
Instructional Staff	32,829
Administration	10,980
Fiscal	378
Operations and Maintenance	1,998
Pupil Transportation	13,119
Extracurricular Activities	11,483
Food Service Operations	<u>10,229</u>
Total depreciation expense	<u>\$ 645,373</u>

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

**NOTE 9 - LONG-TERM OBLIGATIONS**

A. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	<u>Balance</u> <u>06/30/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06/30/06</u>	<u>Due in</u> <u>One Year</u>
<b>Governmental Activities:</b>					
<u>General Obligation Bonds:</u>					
1999 issue current interest bonds	\$ 1,530,000	\$ -	\$ (55,000)	\$ 1,475,000	\$ 60,000
Total general obligation bonds payable	<u>1,530,000</u>	<u>-</u>	<u>(55,000)</u>	<u>1,475,000</u>	<u>60,000</u>
<u>Other Long-Term Obligations:</u>					
Compensated absences	218,493	50,515	(33,915)	235,093	44,224
Total other long-term obligations	<u>218,493</u>	<u>50,515</u>	<u>(33,915)</u>	<u>235,093</u>	<u>44,224</u>
Total governmental activities	<u>\$ 1,748,493</u>	<u>\$ 50,515</u>	<u>\$ (88,915)</u>	<u>\$ 1,710,093</u>	<u>\$ 104,224</u>

*General Obligation Bonds:* The District issued general obligation bonds in 1999 to provide funds for the acquisition and construction of facilities and equipment. These bonds are general obligations of the District for which the full faith and credit of the District are pledged for repayment. The general obligation bonds were issued in September 1999, mature on December 1, 2021, and bear an interest rate of 5.00%. The bonds are being retired from the debt service fund.

*Compensated Absences Payable:* Compensated absences will be paid from the fund from which the employee is paid.

B. Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2006, are as follows:

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 60,000	85,763	145,763
2008	60,000	82,763	142,763
2009	65,000	79,638	144,638
2010	70,000	76,175	146,175
2011	70,000	72,238	142,238
2012 - 2016	425,000	289,709	714,709
2017 - 2021	585,000	136,434	721,434
2022	140,000	4,288	144,288
Total	<u>\$ 1,475,000</u>	<u>\$ 827,006</u>	<u>\$ 2,302,006</u>

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

**NOTE 9 - LONG-TERM OBLIGATIONS – (Continued)**

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 0.1% of the property valuation of the District and that energy conservation indebtedness shall not exceed 0.9% of the total assessed valuation of the District.

The effects of these debt limitations at June 30, 2006 are a voted legal debt margin of \$3,375,522 (including available funds of \$226,536) and an unvoted legal debt margin of \$51,378.

**NOTE 10 - COMPENSATED ABSENCES**

The criteria for determining vacation and sick leave components derives from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon the length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 275 days for certified personnel and 180 for classified personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 57 days for certified employees, and one-third of accrued, but unused sick leave credit up to a maximum of 60 days for classified employees.

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. Coverages are as follows:

Buildings and Contents - replacement cost (\$1,000 deductible)	\$ 20,250,000
Inland Marine Coverage - (\$100 deductible)	62,500
Musical Instruments	30,000
Computer	268,000
General Liability:	
Per Occurrence	1,000,000
Aggregate	3,000,000
Fleet Insurance:	
Uninsured motorists	1,000,000
Comprehensive (\$500 deductible)	1,000,000
Collision (\$1,000 deductible)	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.



**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

**NOTE 11 - RISK MANAGEMENT - (Continued)**

**B. Employee Group Health, Disability and Life Insurance**

Effective July 1, 2005 the District began participating in the Portage County School Consortium (the "Consortium"), which is a cooperative entity among 14 educational-service providers formed in 1981 to facilitate effective risk management and to share the cost of providing various insurance coverage's and employee benefits. In previous years, the District was self-insured. The Health and Welfare Trust is organized under the provisions of Section 501(c) (9) of the Internal Revenue Code. Its purpose is to facilitate the management of risks associated with providing employee benefits coverage such as health insurance, disability insurance and life insurance. A third party administrator is retained by the consortium to facilitate the operation of the Health and Welfare Trust. The District pays all insurance premiums directly to the consortium. The insurance agreement with the Consortium also provides that the Consortium will reinsure through commercial companies for claims over \$150,000 per employee. Although the District does not participate in the day-to-day management of the Consortium, one of its administrators serves as a trustee of the Consortium's governing board, as provided in the Consortium's enabling authority. Although the District recognizes that it retains a contingent liability to provide insurance coverage should the assets of the Consortium become depleted, it is the opinion of management that the assets of the Consortium are sufficient to meet its claims.

**C. Workers' Compensation Plan**

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

The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The worker's compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the Plan.

**NOTE 12 - 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.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

**NOTE 12 - PENSION PLANS – (Continued)**

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, 11.70 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 \$83,292, \$79,452, and \$63,365; 37.90 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$51,727 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.

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.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

**NOTE 12 - PENSION PLANS – (Continued)**

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. 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 STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$358,928, \$381,928, and \$374,770, respectively; 82.26% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$63,660 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 2006 were \$7,615 made by the District and \$10,669 made by plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS have an option to choose Social Security or the SERS/STRS. 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 13 - POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), 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 retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. 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 Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$27,610 for fiscal year 2006.

STRS 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 were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. 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.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

**NOTE 13 - POSTEMPLOYMENT BENEFITS – (Continued)**

After the allocation for basic benefits, the remainder of the employer's 14 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 2.30 percent of covered payroll, a decrease of 1.13 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 \$31,202 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 62,000 participants currently receiving health care benefits.

**NOTE 14 - 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).

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

**NOTE 14 - 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:

<b>Net Change in Fund Balance</b>	
	<u>General Fund</u>
Budget basis	\$ 346,003
Net adjustment for revenue accruals	7,553
Net adjustment for expenditure accruals	17,032
Net adjustment for other sources/uses	(8,440)
Adjustment for encumbrances	<u>23,325</u>
GAAP basis	<u>\$ 385,473</u>

**NOTE 15 - 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 not currently a party to any legal proceedings.

**SEBRING LOCAL SCHOOL DISTRICT  
MAHONING COUNTY, OHIO**

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

**NOTE 16 - 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 Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2005	\$ -	\$ -	\$ 24,007
Current year set-aside requirement	106,843	106,843	-
Qualifying disbursements	<u>(190,096)</u>	<u>(230,035)</u>	<u>-</u>
Total	<u>\$ (83,253)</u>	<u>\$ (123,192)</u>	<u>\$ 24,007</u>
Balance carried forward to FY 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,007</u>

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbooks and capital acquisition reserves. These extra amounts may not be used to reduce the set-aside requirements of future years. GAAP prohibits showing negative reserves on the financial statements; therefore, negative amounts are not presented on the financial statements.

In addition to the above, the District has received in monies from the State of Ohio that are restricted for school bus purchases. At June 30, 2006, the balance of these funds was \$8,192.

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

Amount restricted for budget stabilization	\$ 24,007
Amount restricted for school bus purchase	<u>8,192</u>
Total restricted assets	<u>\$ 32,199</u>

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**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***

Members of the Board  
Sebring Local School District  
510 N 14<sup>th</sup> Street  
Sebring, Ohio 44672

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sebring Local School District (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents, and have issued our report thereon dated January 31, 2008 in which we indicated the School District implemented GASB Statements No. 42, 46 and 47. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting 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 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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Members of the Board

Sebring Local School District

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*

Page 2

This report is intended solely for the information and use of the audit committee, management and members of the Board 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 "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

January 31, 2008





**Mary Taylor, CPA**  
Auditor of State

**SEBRING LOCAL SCHOOL DISTRICT**

**MAHONING COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 15, 2008**