

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

***BASIC FINANCIAL STATEMENTS
(Audited)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2007***

SHIRLEY F. ONEY, TREASURER



Mary Taylor, CPA
Auditor of State

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

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 11, 2008

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

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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Julian & Grube, Inc.
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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of South Central Local School District, Huron County, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise South Central Local School District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of South Central Local 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate remaining fund information of South Central Local School District, Huron County, Ohio, as of June 30, 2007, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2007, on our consideration of South Central Local School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Julian & Grube, Inc.
December 12, 2007

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The management's discussion and analysis of the South Central Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the 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 2007 are as follows:

- In total, net assets of governmental activities increased \$355,034 which represents a 4.03% increase from 2006.
- General revenues accounted for \$7,186,068 in revenue or 81.84% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,594,372 or 18.16% of total revenues of \$8,780,440.
- The District had \$8,425,406 in expenses related to governmental activities; only \$1,594,372 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$7,186,068 were adequate to provide for these programs.
- The District's only major governmental fund was the general fund. The general fund had \$7,623,016 in revenues and \$7,043,200 in expenditures. During fiscal 2007, the general fund's fund balance increased \$579,816 from \$3,428,747 to \$4,008,563.

Using the Basic Financial Statements (BFS)

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

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

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 2007?" 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance, pupil transportation, extracurricular activities, food service operations, and interest and fiscal charges. The statement of net assets and statement of activities can be found on pages 13 and 14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major fund. 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 fund is the general 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.

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-45 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. The July 1, 2006 net assets have been restated as described in Note 3.B and Note 10.A. to the basic financial statements. The table below provides a summary of the District's net assets for 2007 and 2006.

	Net Assets	
	Governmental Activities 2007	(Restated) Governmental Activities 2006
<u>Assets</u>		
Current and other assets	\$ 6,726,149	\$ 6,192,334
Capital assets, net	<u>6,211,925</u>	<u>6,480,175</u>
Total assets	<u>12,938,074</u>	<u>12,672,509</u>
<u>Liabilities</u>		
Current liabilities	1,935,092	2,012,887
Long-term liabilities	<u>1,838,748</u>	<u>1,850,422</u>
Total liabilities	<u>3,773,840</u>	<u>3,863,309</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	5,049,286	5,275,176
Restricted	1,089,624	985,853
Unrestricted	<u>3,025,324</u>	<u>2,548,171</u>
Total net assets	<u>\$ 9,164,234</u>	<u>\$ 8,809,200</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$9,164,234. At year-end, unrestricted net assets were \$3,025,324.

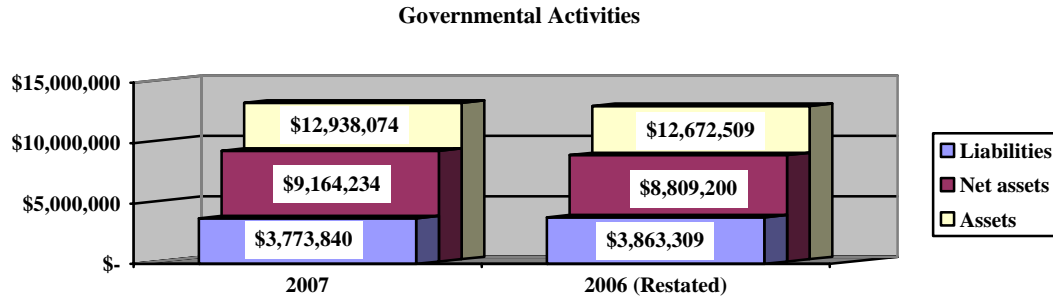
At year-end, capital assets represented 48.01% of total assets. Capital assets include land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007 were \$5,049,286. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,089,624, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$3,024,324 may be used to meet the District's ongoing obligations to the students and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below illustrates the governmental activities assets, liabilities and net assets at June 30, 2007 and 2006:



The table below shows the change in net assets for fiscal year 2007 compared to fiscal year 2006.

	Change in Net Assets	
	Governmental Activities 2007	Governmental Activities 2006
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 610,048	\$ 654,157
Operating grants and contributions	975,275	636,066
Capital grants and contributions	9,049	9,344
General revenues:		
Property taxes	1,488,468	1,418,823
School district income taxes	965,734	1,202,546
Grants and entitlements	4,480,083	4,737,133
Investment earnings	241,990	173,830
Other	9,793	48,243
Total revenues	8,780,440	8,880,142

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Change in Net Assets

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	3,862,102	3,925,880
Special	460,988	431,190
Vocational	147,092	148,002
Other	518,615	589,410
Support services:		
Pupil	121,581	131,345
Instructional staff	143,432	175,554
Board of education	45,350	20,181
Administration	867,151	643,067
Fiscal	270,096	343,615
Operations and maintenance	667,007	780,902
Pupil transportation	593,515	674,103
Central	1,208	2,729
Operations of non-instructional services:		
Food service operations	365,823	389,478
Other non-instructional services	3,000	10,801
Extracurricular activities	265,325	254,726
Interest and fiscal charges	<u>93,121</u>	<u>101,963</u>
Total expenses	<u>8,425,406</u>	<u>8,622,946</u>
Change in net assets	355,034	257,196
Net assets at beginning of year (restated)	<u>8,809,200</u>	<u>8,552,004</u>
Net assets at end of year	<u>\$ 9,164,234</u>	<u>\$ 8,809,200</u>

Governmental Activities

Net assets of the District's governmental activities increased \$355,034. Total governmental expenses of \$8,425,406 were offset by program revenues of \$1,594,372 and general revenues of \$7,186,068. Program revenues supported 18.92% of the total governmental expenses.

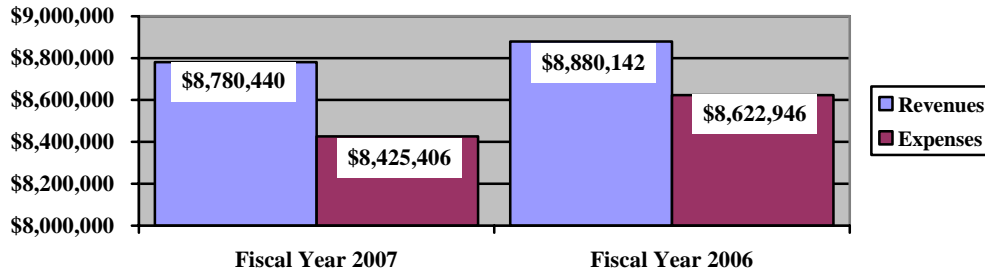
The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements. These three revenue sources represent 78.97% of total governmental revenue.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2007 and 2006.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Program expenses				
Instruction:				
Regular	\$ 3,862,102	\$ 3,272,408	\$ 3,925,880	\$ 3,344,650
Special	460,988	30,251	431,190	325,563
Vocational	147,092	105,800	148,002	137,980
Other	518,615	512,326	589,410	516,910
Support services:				
Pupil	121,581	116,923	131,345	124,230
Instructional staff	143,432	135,129	175,554	168,954
Board of education	45,350	45,350	20,181	20,181
Administration	867,151	860,451	643,067	602,862
Fiscal	270,096	270,096	343,615	343,270
Operations and maintenance	667,007	664,822	780,902	755,707
Pupil transportation	593,515	554,894	674,103	673,427
Central	1,208	1,208	2,729	2,729
Operations of non-instructional services:				
Food service operations	365,823	14,749	389,478	36,770
Other non-instructional services	3,000	773	10,801	(699)
Extracurricular activities	265,325	152,733	254,726	168,882
Interest and fiscal charges	93,121	93,121	101,963	101,963
Total expenses	<u>\$ 8,425,406</u>	<u>\$ 6,831,034</u>	<u>\$ 8,622,946</u>	<u>\$ 7,323,379</u>

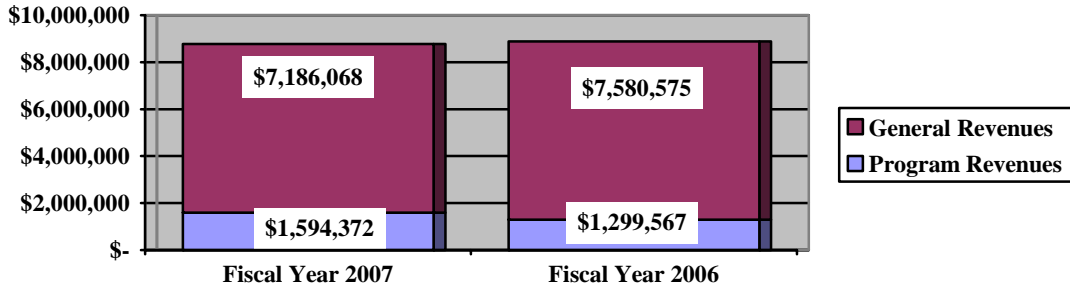
The dependence upon tax and other general revenues for governmental activities is apparent, 78.59% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.08%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The graph below presents the District's governmental activities revenue for fiscal years 2007 and 2006.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$4,607,578, which is greater than last year's fund balance of \$3,831,097. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance <u>June 30, 2007</u>	Fund Balance <u>June 30, 2006</u>	<u>Increase</u>
General	\$ 4,008,563	\$ 3,428,747	\$ 579,816
Other Governmental	<u>599,015</u>	<u>402,350</u>	<u>196,665</u>
Total	<u>\$ 4,607,578</u>	<u>\$ 3,831,097</u>	<u>\$ 776,481</u>

General Fund

The District's general fund balance increased \$579,816. The increase in fund balance can be attributed to increasing revenues outpacing increasing expenditures from 2006 to 2007.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 2,310,406	\$ 2,355,235	(1.90) %
Tuition	267,143	286,941	(6.90) %
Earnings on investments	223,775	156,652	42.85 %
Intergovernmental	4,791,290	4,713,420	1.65 %
Other revenues	<u>30,402</u>	<u>41,382</u>	(26.53) %
Total	<u>\$ 7,623,016</u>	<u>\$ 7,553,630</u>	0.92 %
<u>Expenditures</u>			
Instruction	\$ 4,322,563	\$ 4,419,220	(2.19) %
Support services	2,527,644	2,545,288	(0.69) %
Extracurricular activities	<u>192,993</u>	<u>171,726</u>	12.38 %
Total	<u>\$ 7,043,200</u>	<u>\$ 7,136,234</u>	(1.30) %

Earnings on investments increased as a result of maturing investments and increasing interest rates during the year. Tuition revenue decreased due to reduced open enrollment revenue. Extracurricular activities expenditures increased as a result of higher costs related to extracurricular activities in the District. All other revenues and expenditures remained comparable to prior years.

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 2007, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$7,655,065, which is greater than the original budgeted revenues estimate of \$7,348,482. Actual revenues and other financing sources for fiscal 2007 was equal to final budgeted revenues and other financing sources.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$10,458,150 were increased to \$10,546,541 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$7,603,122, which was \$2,943,419 less than the final budget appropriations. The decreases in appropriations were caused by the District's worst case scenario budgeting method in the original and final budgets.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$6,211,925 invested in land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The following table shows fiscal 2007 balances compared to 2006 balances:

Capital Assets at June 30 (Net of Depreciation)		
<u>Governmental Activities</u>		
	<u>2007</u>	<u>2006</u>
Land improvements	\$ 97,676	\$ 107,989
Building and improvements	5,723,804	5,883,070
Furniture and equipment	114,390	131,196
Vehicles	<u>276,055</u>	<u>357,920</u>
Total	<u>\$ 6,211,925</u>	<u>\$ 6,480,175</u>

The overall decrease in capital assets is due to depreciation expense of \$332,189 exceeding capital outlays of \$78,640 and disposals (net of accumulated depreciation) of \$14,701 for fiscal 2007. See Note 9 for additional detail on capital assets.

Debt Administration

At June 30, 2007, the District had \$1,395,565 in bonds outstanding. Of this total, \$110,000 is due within one year and \$1,285,565 is due in greater than one year. The July 1, 2006 bonds payable obligation has been restated to properly reflect accreted interest on the capital appreciation bonds. See Note 10.A. for detail. The following table summarizes the bonds outstanding:

	Governmental Activities <u>2007</u>	(Restated) Governmental Activities <u>2006</u>
Classroom facilities improvement bonds:		
Current interest	\$ 1,015,000	\$ 1,015,000
Capital appreciation	147,639	189,999
Accreted interest	<u>232,926</u>	<u>264,285</u>
Total	<u>\$ 1,395,565</u>	<u>\$ 1,469,284</u>

At June 30, 2007, the District's overall legal debt margin was \$4,706,648 with an unvoted debt margin of \$64,484. See Note 10 for details of the District's long-term obligations.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Current Financial Related Activity

The District has been able to use a very conservative financial approach. The District operates at the 20 mill floor and has an inside millage rate of 4.5. The District does benefit from a 1.25% income tax that was passed in 1992. There have been no requests by the District to its voters since 1992.

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

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

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

The Ohio School Facility Commission currently places the District at 69 on their equity list. A difficult juggling act of decision making exists regarding how much money to pour into old buildings that may soon be replaced.

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

The District relies on property taxes, entitlements and grants. Tax revenues have increased slightly, State revenues are steady and grants are decreasing. Expenditures are increasing at double the rate of revenue increases. As this trend continues, carryover funds will be depleted as of fiscal year 2012.

The majority of the tax revenue is derived from real estate and farming. The District is mainly rural and has a very small industrial base; however with reductions of tangible personal property the small amount derived from industry will be gone soon.

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

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Shirley Oney, Treasurer of South Central Local School District at 3305 Greenwich Angling Road, Greenwich, Ohio 44837.

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 4,493,364
Receivables:	
Taxes	1,923,194
Accounts	692
Intergovernmental	246,905
Accrued interest	2,445
Prepayments	20,564
Materials and supplies inventory	38,985
Capital assets:	
Depreciable capital assets, net	6,211,925
Total assets.	12,938,074
Liabilities:	
Accounts payable.	81,386
Accrued wages and benefits	432,567
Pension obligation payable.	162,531
Intergovernmental payable	16,365
Accrued interest payable	4,737
Unearned revenue.	1,237,506
Long-term liabilities:	
Due within one year.	170,445
Due in more than one year	1,668,303
Total liabilities	3,773,840
Net Assets:	
Invested in capital assets, net of related debt.	5,049,286
Restricted for:	
Capital projects	29,079
Debt service.	302,136
Classroom facilities maintenance	39,967
State funded programs	78,132
Federally funded programs	88,120
Student activities	39,842
Public school support	20,755
Other purposes	491,593
Unrestricted.	3,025,324
Total net assets	\$ 9,164,234

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions			Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 3,862,102	\$ 297,998	\$ 291,696	\$ -	\$ (3,272,408)
Special	460,988	-	430,737	-	(30,251)
Vocational	147,092	-	41,292	-	(105,800)
Other	518,615	35	6,254	-	(512,326)
Support services:					
Pupil	121,581	-	4,658	-	(116,923)
Instructional staff	143,432	468	7,835	-	(135,129)
Board of education	45,350	-	-	-	(45,350)
Administration	867,151	-	6,700	-	(860,451)
Fiscal	270,096	-	-	-	(270,096)
Operations and maintenance	667,007	-	2,185	-	(664,822)
Pupil transportation	593,515	-	29,572	9,049	(554,894)
Central	1,208	-	-	-	(1,208)
Operation of non-instructional services:					
Food service operations	365,823	201,921	149,153	-	(14,749)
Other non-instructional services	3,000	13	2,214	-	(773)
Extracurricular activities	265,325	109,613	2,979	-	(152,733)
Interest and fiscal charges	93,121	-	-	-	(93,121)
Total governmental activities	<u>\$ 8,425,406</u>	<u>\$ 610,048</u>	<u>\$ 975,275</u>	<u>\$ 9,049</u>	<u>(6,831,034)</u>
General Revenues:					
Property taxes levied for:					
General purposes					1,321,746
Debt service					140,394
Classroom maintenance					26,328
School district income taxes					965,734
Grants and entitlements not restricted to specific programs					4,480,083
Investment earnings					241,990
Miscellaneous					9,793
Total general revenues					<u>7,186,068</u>
Change in net assets					355,034
Net assets at beginning of year (restated)					<u>8,809,200</u>
Net assets at end of year					<u>\$ 9,164,234</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 3,355,118	\$ 646,653	\$ 4,001,771
Receivables:			
Taxes.	1,728,320	194,874	1,923,194
Accounts	683	9	692
Intergovernmental	-	246,905	246,905
Accrued interest	2,445	-	2,445
Interfund loans	31,396	-	31,396
Advances to other funds	142,053	-	142,053
Prepayments	20,402	162	20,564
Materials and supplies inventory	31,000	7,985	38,985
Restricted assets:			
Equity in pooled cash and cash equivalents	<u>491,593</u>	<u>-</u>	<u>491,593</u>
Total assets	<u>\$ 5,803,010</u>	<u>\$ 1,096,588</u>	<u>\$ 6,899,598</u>
Liabilities:			
Accounts payable	\$ 76,032	\$ 5,354	\$ 81,386
Accrued wages and benefits	386,032	46,535	432,567
Compensated absences payable	44,382	-	44,382
Pension obligation payable.	144,378	18,153	162,531
Intergovernmental payable	15,297	1,068	16,365
Loans from other funds	-	31,396	31,396
Advance from other funds	-	142,053	142,053
Deferred revenue.	67,126	76,708	143,834
Unearned revenue.	<u>1,061,200</u>	<u>176,306</u>	<u>1,237,506</u>
Total liabilities	<u>1,794,447</u>	<u>497,573</u>	<u>2,292,020</u>
Fund Balances:			
Reserved for encumbrances	302,225	60,141	362,366
Reserved for materials and supplies inventory.	31,000	7,985	38,985
Reserved for prepayments	20,402	162	20,564
Reserved for property tax unavailable for appropriation.	200,823	6,563	207,386
Reserved for debt service	-	295,818	295,818
Reserved for advances	142,053	-	142,053
Reserved for BWC refunds	168,961	-	168,961
Reserved for school bus purchases	14,906	-	14,906
Reserved for capital maintenance.	307,726	-	307,726
Unreserved:			
Designated for budget stabilization	395,226	-	395,226
Unreserved, undesignated, reported in:			
General fund	2,425,241	-	2,425,241
Special revenue funds	-	201,161	201,161
Capital projects funds	<u>-</u>	<u>27,185</u>	<u>27,185</u>
Total fund balances	<u>4,008,563</u>	<u>599,015</u>	<u>4,607,578</u>
Total liabilities and fund balances	<u>\$ 5,803,010</u>	<u>\$ 1,096,588</u>	<u>\$ 6,899,598</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Total governmental fund balances		\$	4,607,578
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			6,211,925
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	76,554	
Intergovernmental revenue		67,280	
Total			143,834
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.			(4,737)
Long-term liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		398,801	
General obligation bonds payable		1,395,565	
Total			(1,794,366)
Net assets of governmental activities		\$	9,164,234

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 2,310,406	\$ 170,363	\$ 2,480,769
Tuition.	267,143	-	267,143
Charges for services.	-	201,921	201,921
Earnings on investments.	223,775	24,247	248,022
Extracurricular.	-	110,083	110,083
Classroom materials and fees	30,402	31	30,433
Other local revenues.	10,244	19,361	29,605
Intergovernmental - State.	4,781,046	72,612	4,853,658
Intergovernmental - Federal	-	708,911	708,911
Total revenues	<u>7,623,016</u>	<u>1,307,529</u>	<u>8,930,545</u>
Expenditures:			
Current:			
Instruction:			
Regular	3,383,043	247,270	3,630,313
Special.	284,308	172,593	456,901
Vocational.	145,047	783	145,830
Other.	510,165	8,450	518,615
Support services:			
Pupil.	116,683	4,898	121,581
Instructional staff	150,143	7,467	157,610
Board of education	45,350	-	45,350
Administration.	791,976	43,021	834,997
Fiscal	243,012	4,051	247,063
Operations and maintenance.	654,964	20,897	675,861
Pupil transportation	525,474	-	525,474
Central.	42	-	42
Operation of non-instructional services:			
Food service operations	-	360,905	360,905
Other non-instructional services	-	3,000	3,000
Extracurricular activities.	192,993	70,689	263,682
Debt service:			
Principal retirement	-	110,000	110,000
Interest and fiscal charges	-	56,840	56,840
Total expenditures	<u>7,043,200</u>	<u>1,110,864</u>	<u>8,154,064</u>
Net change in fund balances	579,816	196,665	776,481
Fund balances at beginning of year	<u>3,428,747</u>	<u>402,350</u>	<u>3,831,097</u>
Fund balances at end of year.	<u>\$ 4,008,563</u>	<u>\$ 599,015</u>	<u>\$ 4,607,578</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds	\$	776,481
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.</p>		
Capital asset additions	\$ 78,640	
Current year depreciation	(332,189)	
Total	(253,549)	(253,549)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.</p>		
		(14,701)
<p>Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Taxes	(26,567)	
Intergovernmental revenue	(123,538)	
Total	(150,105)	(150,105)
<p>Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.</p>		
		110,000
<p>Governmental funds report expenditures for interest when it is due. On the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.</p>		
		(36,281)
<p>Some expenses reported on the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		(76,811)
Change in net assets of governmental activities	\$	355,034

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 2,157,554	\$ 2,207,817	\$ 2,207,817	\$ -
Tuition	262,181	268,289	268,289	-
Earnings on investments	218,340	223,426	223,426	-
Classroom materials and fees	29,267	29,949	29,949	-
Other local revenues	8,939	9,147	9,147	-
Intergovernmental - State	4,672,201	4,781,046	4,781,046	-
Total revenues	<u>7,348,482</u>	<u>7,519,674</u>	<u>7,519,674</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,678,000	4,450,255	3,621,427	828,828
Special	524,192	535,633	287,224	248,409
Vocational	340,484	351,883	174,286	177,597
Other	570,831	709,227	514,136	195,091
Support services:				
Pupil	151,659	139,332	114,383	24,949
Instructional staff	211,437	192,016	161,800	30,216
Board of education	39,200	58,041	47,360	10,681
Administration	734,627	890,756	796,032	94,724
Fiscal	349,702	346,112	271,876	74,236
Operations and maintenance	1,723,303	1,635,370	757,248	878,122
Pupil transportation	851,184	825,421	535,440	289,981
Central	7,800	7,712	104	7,608
Extracurricular activities	221,233	229,748	194,002	35,746
Facilities acquisition and construction	47,231	47,231	-	47,231
Total expenditures	<u>10,450,883</u>	<u>10,418,737</u>	<u>7,475,318</u>	<u>2,943,419</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,102,401)</u>	<u>(2,899,063)</u>	<u>44,356</u>	<u>2,943,419</u>
Other financing sources (uses):				
Refund of prior year expenditure	-	4,756	4,756	-
Advances in	-	130,635	130,635	-
Advances (out)	(7,267)	(127,804)	(127,804)	-
Total other financing sources (uses)	<u>(7,267)</u>	<u>7,587</u>	<u>7,587</u>	<u>-</u>
Net change in fund balance	(3,109,668)	(2,891,476)	51,943	2,943,419
Fund balance at beginning of year	3,179,422	3,179,422	3,179,422	-
Prior year encumbrances appropriated	297,059	297,059	297,059	-
Fund balance at end of year	<u>\$ 366,813</u>	<u>\$ 585,005</u>	<u>\$ 3,528,424</u>	<u>\$ 2,943,419</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 6,300	\$ 192,846
Receivables:		
Intergovernmental	-	5,681
	6,300	\$ 198,527
Total assets.		
Liabilities:		
Accounts payable.	-	\$ 16,409
Intergovernmental payable	-	38,561
Due to students	-	143,557
	-	\$ 198,527
Total liabilities		
Net Assets:		
Held in trust for scholarships	6,300	
Total net assets	\$ 6,300	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 342
Total additions.	342
Deductions:	
Scholarships awarded	848
Change in net assets	(506)
Net assets at beginning of year.	6,806
Net assets at end of year	\$ 6,300

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The South Central Local School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members and is responsible for the provision of public education to residents of the District. The District provides educational services as authorized by State statute and/or Federal guidelines.

The District is located in rural Huron County, and encompasses the communities of Greenwich and North Fairfield. The District is the 514th largest in the State of Ohio among 876 public and community schools in the State in terms of enrollment. It is staffed by 44 classified employees and 68 certified employees who provide services to 907 students and other community members. The District currently operates an elementary/middle school and a high school.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

JOINTLY GOVERNED ORGANIZATION

Northern Ohio Educational Computer Association (NOECA)

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

INSURANCE PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Rating Program

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

Huron-Erie School Employees Insurance Association

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from income taxes is recognized in the fiscal year in which the underlying exchange transaction occurred (see Note 8).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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

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

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2007 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Huron County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Certificate of Estimated Resources issued for fiscal year 2007.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, first two digit function, and first digit object level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund, first two digit function and first digit object must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the first digit object level within each first two digit function and fund. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2007. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at fiscal year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the legal level of budgetary control.

F. Cash and Investments

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

During fiscal year 2007, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal 2007. 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, 2007.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board of Education. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$223,775, which includes \$19,971 assigned from other funds.

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

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

G. Inventory

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

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

H. Capital Assets

Capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Interest incurred during the construction of capital assets is also capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. The District maintains a capitalization threshold of \$5,000.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the useful lives of the respective assets, which range between 5 and 50 years.

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivables/payables", receivables and payables resulting from long-term interfund loans are classified as "advances to/from other funds." These amounts are eliminated in the governmental activities column on the statement of net assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2007, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

L. Fund Balance Reserves and Designations

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

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. Net assets restricted for other purposes include monies restricted by State statute for capital acquisitions, school bus purchases and BWC refunds.

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

O. Estimates

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

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a capital acquisition, school bus purchases and BWC refunds. These reserves are required by State statute. A schedule of statutory reserves is presented in Note 17.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2007.

NOTE 3 - ACCOUNTABILITY & COMPLIANCE

A. Deficit Fund Balances

Fund balances at June 30, 2007 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Rotary	\$ 2,940
EMIS	8
DPIA	19
Title I	4,078
Reducing Class Size	904
SchoolNet	1,894

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

B. Prior Period Adjustment

Beginning net assets of the governmental activities have been restated in order to properly state the accreted interest on the capital appreciation bonds issued as part of the series 1996 general obligations bonds, as disclosed in Note 10.A. This restatement did not have an effect on fund balances of the District as previously reported at June 30, 2006. Governmental activities net assets have been restated as follows:

	<u>Governmental Activities</u>
Net assets June 30, 2006	\$ 8,619,201
Adjustment for capital appreciation bonds	<u>189,999</u>
Net assets July 1, 2006	<u><u>\$ 8,809,200</u></u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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.

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

A. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$27,599. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$58,892 of the District's bank balance of \$158,892 was exposed to custodial risk as discussed below, while \$100,000 was covered by the 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, 2007, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	<u>\$ 4,664,911</u>	<u>\$ 4,664,911</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: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 4,664,911</u>	<u>100.00%</u>

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 27,599
Investments	<u>4,664,911</u>
Total	<u>\$ 4,692,510</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 4,493,364
Private-purpose trust fund	6,300
Agency fund	<u>192,846</u>
Total	<u>\$ 4,692,510</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2007 as reported on the fund statements consist of the following individual interfund loans receivable and payable.

<u>Receivable Fund</u>	<u>Payable Fund</u>	
General Fund	Nonmajor Governmental Funds	<u>\$ 31,396</u>

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

- B.** Advances to/from other funds consisted of the following at June 30, 2007, as reported on the fund financial statements. The underlying advances were made in a prior year and have not been repaid as of June 30, 2007.

<u>Receivable Fund</u>	<u>Payable Fund</u>	
General Fund	Nonmajor Governmental Funds	<u>\$ 142,053</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, 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 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 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 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. For 2006, tangible personal property was assessed at 18.75% for property including inventory. This percentage was reduced to 12.5% for 2007, will be 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2007-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Huron, Richland and Crawford Counties. 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, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 6 - PROPERTY TAXES - (Continued)

The amount available as an advance at June 30, 2007 was \$200,823 in the general fund \$2,822 in the debt service fund and \$3,741 in the classroom facilities maintenance fund. This amount has been recorded as revenue. The amount that was available as an advance at June 30, 2006 was \$165,566 in the general fund, \$21,746 in the debt service fund, and \$3,689 in the classroom facilities maintenance fund.

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 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real Property - Commercial/Industrial	\$ 3,960,560	6.19	\$ 4,622,370	6.81
Real Property - Residential/Agricultural	54,259,670	84.73	58,252,580	85.80
Real Property - Public Utilities	196,880	0.31	202,450	0.30
Personal Property - General	1,758,958	2.75	1,130,582	1.67
Personal Property - Public Utilities	<u>3,865,200</u>	<u>6.02</u>	<u>3,688,260</u>	<u>5.42</u>
Total Assessed Value	<u>\$ 64,041,268</u>	<u>100.00</u>	<u>\$ 67,896,242</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:	\$ 37.75		\$ 37.55	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 consist of taxes, accounts, intergovernmental grants and entitlements and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 1,923,194
Accounts	692
Intergovernmental	246,905
Accrued interest	<u>2,445</u>
Total	<u>\$ 2,173,236</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - INCOME TAXES

The District levies a voted income tax of 1.25 percent on the income of residents and on estates for general operations of the District. The income tax became effective on January 1, 1991 and is a continuing tax. Employers of residents are required to withhold income tax on employee compensation and then remit that income tax to the state, and taxpayers are required to file an annual return. The state makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund and amounted to \$965,734 for fiscal year 2007. Taxes receivable reported in the basic financial statements includes \$381,151 of income tax receivable.

NOTE 9 - CAPITAL ASSETS

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

	Balance <u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/07</u>
Governmental Activities				
<i>Capital assets, being depreciated:</i>				
Land improvements	\$ 288,585	\$ -	\$ -	\$ 288,585
Buildings and improvements	7,963,326	-	-	7,963,326
Furniture and equipment	327,764	11,957	-	339,721
Vehicles	<u>1,086,957</u>	<u>66,683</u>	<u>(58,804)</u>	<u>1,094,836</u>
Total capital assets, being depreciated:	<u>9,666,632</u>	<u>78,640</u>	<u>(58,804)</u>	<u>9,686,468</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(180,596)	(10,313)	-	(190,909)
Buildings and improvements	(2,080,256)	(159,266)	-	(2,239,522)
Furniture and equipment	(196,568)	(28,763)	-	(225,331)
Vehicles	<u>(729,037)</u>	<u>(133,847)</u>	<u>44,103</u>	<u>(818,781)</u>
Total accumulated depreciation	<u>(3,186,457)</u>	<u>(332,189)</u>	<u>44,103</u>	<u>(3,474,543)</u>
Governmental activities capital assets, net	<u>\$ 6,480,175</u>	<u>\$ (253,549)</u>	<u>\$ (14,701)</u>	<u>\$ 6,211,925</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 176,684
Special	2,602
Vocational	1,262
<u>Support Services:</u>	
Instructional staff	1,100
Administration	6,627
Operations and maintenance	2,431
Pupil transportation	133,847
Central	1,166
Extracurricular activities	1,643
Food service operations	<u>4,827</u>
Total depreciation expense	<u>\$ 332,189</u>

NOTE 10 - LONG-TERM OBLIGATIONS

- A. The District has restated their governmental activities long-term obligations as of July 1, 2006, as described in Note 3.B. During the fiscal year 2007, the following activity occurred in governmental activities long-term obligations:

	<u>Restated Balance 07/01/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/07</u>	<u>Amounts Due in One Year</u>
Governmental Activities:					
Series 1996 classroom facilities improvement bonds:					
Current interest bonds	\$ 1,015,000	\$ -	\$ -	\$ 1,015,000	\$ -
Capital appreciation bonds	189,999	-	(42,360)	147,639	39,788
Accreted interest on CABs	264,285	36,281	(67,640)	232,926	70,212
Compensated absences	<u>381,138</u>	<u>141,170</u>	<u>(79,125)</u>	<u>443,183</u>	<u>60,445</u>
Total governmental activities long-term obligations	<u>\$ 1,850,422</u>	<u>\$ 177,451</u>	<u>\$ (189,125)</u>	<u>\$ 1,838,748</u>	<u>\$ 170,445</u>

Compensated Absences: Compensated absences will be paid from the fund from which the employees' salaries are paid, which consist of the general fund and the following nonmajor governmental funds: Food Service and Title VI-B.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Series 1996 Classroom Facilities Improvement General Obligation Bonds

The Series 1996 classroom facilities improvement general obligation bond issue is comprised of both current interest bonds, par value \$1,795,000, and capital appreciation bonds, par value \$560,000. Interest rates on the current interest bonds range from 3.60% to 5.60%. The capital appreciation bonds mature on each December 1 in years 2007 through 2010 (effective interests ranging from 8.752% to 9.514%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2007 was \$147,639. Total accreted interest on the capital appreciation bonds of \$232,926 has been included in the statement of net assets at June 30, 2007.

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

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

Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ -	\$ 56,840	\$ 56,840	\$ 39,788	\$ 70,212	\$ 110,000
2009	-	56,840	56,840	37,298	72,702	110,000
2010	-	56,840	56,840	36,484	78,516	115,000
2011	-	56,840	56,840	34,069	80,931	115,000
2012	115,000	53,620	168,620	-	-	-
2013 - 2017	725,000	156,100	881,100	-	-	-
2018	<u>175,000</u>	<u>4,900</u>	<u>179,900</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,015,000</u>	<u>\$ 441,980</u>	<u>\$ 1,456,980</u>	<u>\$ 147,639</u>	<u>\$ 302,361</u>	<u>\$ 450,000</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a voted debt margin of \$4,706,648 (including available funds of \$298,640) and an unvoted debt margin of \$64,484.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 11 - COMPENSATED ABSENCES

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

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

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

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

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters.

The District maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 100% coinsured.

During fiscal year 2007, the District purchased general liability insurance which carried a \$1 million per occurrence/\$3 million general aggregate limit with an additional \$3 million umbrella coverage. Fleet and property/casualty insurance are purchased through commercial carriers and traditionally funded. Settled claims resulting from these risks have not exceeded commercial coverage in any of the prior three fiscal years. Also, coverages have not been materially reduced from fiscal year 2006.

B. Health Benefits

The District joined together with other area school districts to form the Huron-Erie School Employees Insurance Association, a public entity risk management and employee health benefits program for 14 member school districts. The District pays a monthly premium to the pool for health, life, dental and vision insurance, including prescription coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums, and the pool will purchase stop-loss insurance policies through commercial companies to cover claims in excess of \$200,000 for any employee.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 12 - RISK MANAGEMENT - (Continued)

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

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

For fiscal year 2007, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. 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 2007, 2006, and 2005 were \$96,125, \$95,691, and \$94,239, 45.08 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$52,793 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 13 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

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, by visiting the STRS Ohio website at www.strsoh.org.

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

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for fund pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$434,290, \$438,078, and \$416,868; 83.12 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$73,309 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the Combined Plans for fiscal year 2007 were \$8,295 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$33,407 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

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

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$43,736 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 projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 51,943
Net adjustment for revenue accruals	103,342
Net adjustment for expenditure accruals	113,921
Net adjustment for other sources/uses	(7,587)
Adjustment for encumbrances	318,197
GAAP basis	\$ 579,816

NOTE 16 - CONTINGENCIES

A. Grants

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 16 - CONTINGENCIES - (Continued)

B. Litigation

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

NOTE 17 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Maintenance</u>	<u>BWC Refunds</u>
Set-aside balance as of June 30, 2006	\$ 6,610	\$ 305,790	\$ 168,961
Current year set-aside requirement	142,666	142,666	-
Qualifying disbursements	<u>(272,477)</u>	<u>(140,730)</u>	<u>-</u>
Total	<u>\$ (123,201)</u>	<u>\$ 307,726</u>	<u>\$ 168,961</u>
Balance carried forward to FY 2008	<u>\$ (123,201)</u>	<u>\$ 307,726</u>	<u>\$ 168,961</u>

The District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the textbook/instructional materials reserve, this extra amount may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to next fiscal year.

The District also had \$14,906 restricted for school bus purchases.

A schedule of the governmental fund restricted assets at June 30, 2007 follows:

Amount restricted for capital maintenance	\$ 307,726
Amount restricted for BWC refunds	168,961
Amount restricted for school bus purchases	<u>14,906</u>
Total restricted assets	<u>\$ 491,593</u>
Amount designated for budget stabilization	<u>\$ 395,226</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*

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

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of South Central Local School District, Huron County, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise South Central Local School District's basic financial statements and have issued our report thereon dated December 12, 2007. 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 South Central Local School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Central Local School District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of South Central Local School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects South Central Local School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of South Central Local School District's financial statements that is more than inconsequential will not be prevented or detected by South Central Local School District's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Education
South Central Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Central Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of South Central Local School District in a separate letter dated December 12, 2007.

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

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

Julian & Grube, Inc.
December 12, 2007

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

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

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2006-SCLSD-001	Ohio Revised Code Section 5705.39 in part requires that the total appropriation from each fund should not exceed total estimated resources.	Yes	N/A
2006-SCLSD-002	Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.	Yes	N/A



Mary Taylor, CPA
Auditor of State

SOUTH CENTRAL LOCAL SCHOOL DISTRICT

HURON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 24, 2008**