



**Auditor of State
Betty Montgomery**

**SEBRING LOCAL SCHOOL DISTRICT
MAHONING COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Sebring Local School District
Mahoning County
510 N. 14th Street
Sebring, OH 44672

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sebring Local School District, Mahoning County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Sebring Local School District, Mahoning County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussions and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

May 23, 2005

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The discussion and analysis of the Sebring Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. 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 2004 are as follows:

- In total, net assets of governmental activities decreased \$161,774 which represents a 1.17% decrease from 2003.
- General revenues accounted for \$6,397,862 in revenue or 89.24% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$771,738 or 10.76% of total revenues of \$7,169,600.
- The District had \$7,331,374 in expenses related to governmental activities; \$771,738 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 \$6,397,862 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$5,328,375 in revenues and \$5,673,061 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance decreased \$344,686 from \$94,539 to a deficit of \$250,147.
- The debt service fund had \$186,546 in revenues and \$215,429 in expenditures. During fiscal year 2004, the debt service fund's fund balance decreased \$28,883 from \$168,958 to \$140,075.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical and dental self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 23. 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 24-51 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2004.

	Net Assets
	Governmental Activities
	<u>2004</u>
<u>Assets</u>	
Current and other assets	\$ 3,387,859
Capital assets	<u>14,564,416</u>
Total assets	<u>17,952,275</u>
<u>Liabilities</u>	
Current liabilities	2,453,014
Long-term liabilities	<u>1,837,784</u>
Total liabilities	<u>4,290,798</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	12,979,416
Restricted	614,828
Unrestricted	<u>67,233</u>
Total net assets	<u>\$ 13,661,477</u>

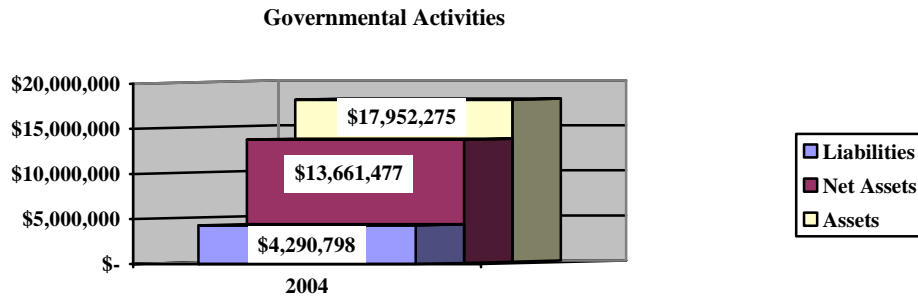
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$13,661,477. Of this total, \$67,233 is unrestricted in use.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

At year-end, capital assets represented 81.13% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$12,979,416. 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, \$614,828, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$67,233 may be used to meet the District's ongoing obligations to the students and creditors.



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2004
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 252,588
Operating grants and contributions	490,227
Capital grants and contributions	28,923
General revenues:	
Property taxes	1,624,076
Grants and entitlements	4,629,997
Investment earnings	16,945
Other	126,844
Total revenues	<u>7,169,600</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Change in Net Assets

	Governmental Activities <u>2004</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 3,277,027
Special	992,156
Vocational	1,620
Other	252,083
Support services:	
Pupil	193,230
Instructional staff	252,947
Board of education	9,756
Administration	694,189
Fiscal	261,667
Operations and maintenance	706,550
Pupil transportation	88,553
Central	555
Food service operations	285,857
Extracurricular activities	215,279
Interest and fiscal charges	<u>99,905</u>
Total expenses	<u>7,331,374</u>
Change in net assets	(161,774)
Net assets beginning of year (restated)	<u>13,823,251</u>
Net assets end of year	<u><u>\$ 13,661,477</u></u>

Governmental Activities

Net assets of the District's governmental activities decreased \$161,774. Total governmental expenses of \$7,331,374 were offset by program revenues of \$771,738 and general revenues of \$6,397,862. Program revenues supported 10.53% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 87.23% of total governmental revenue.

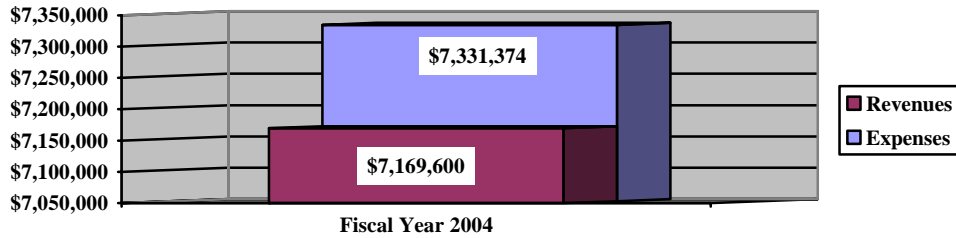
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,522,886 or 61.69% of total governmental expenses for fiscal 2004.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

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. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities

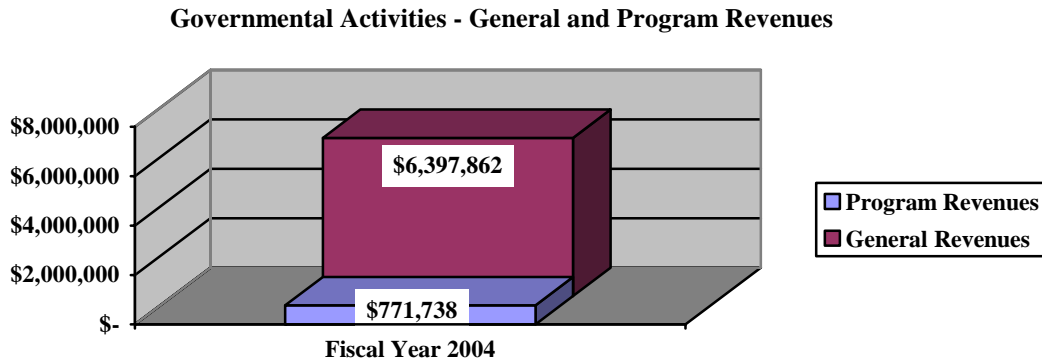
	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses		
Instruction:		
Regular	\$ 3,277,027	\$ 3,172,329
Special	992,156	732,865
Vocational	1,620	1,620
Other	252,083	252,083
Support services:		
Pupil	193,230	176,757
Instructional staff	252,947	238,841
Board of education	9,756	9,756
Administration	694,189	675,262
Fiscal	261,667	261,489
Operations and maintenance	706,550	688,377
Pupil transportation	88,553	87,917
Central	555	555
Food service operations	285,857	49,738
Extracurricular activities	215,279	112,142
Interest and fiscal charges	99,905	99,905
Total expenses	<u>\$ 7,331,374</u>	<u>\$ 6,559,636</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 91.95% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 89.47%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The graph below presents the District's governmental activities revenue for fiscal year 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$319,611, which is lower than last year's total of \$830,750. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance (Deficit) June 30, 2004	Fund Balance June 30, 2003	(Decrease)	Percentage Change
General	\$ (250,147)	\$ 94,539	\$ (344,686)	(364.60) %
Debt Service	140,075	168,958	(28,883)	(17.09) %
Other Governmental	<u>429,683</u>	<u>567,253</u>	<u>(137,570)</u>	(24.25) %
Total	<u>\$ 319,611</u>	<u>\$ 830,750</u>	<u>\$ (511,139)</u>	(61.53) %

General Fund

The District's general fund balance decreased \$344,686 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to several items related to increasing revenues still not catching up to increased expenditures. Expenditures exceed revenues for fiscal year 2004 by \$309,686. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 1,399,833	\$ 1,354,595	\$ 45,238	3.34 %
Earnings on investments	16,945	37,823	(20,878)	(55.20) %
Intergovernmental	3,888,513	3,642,471	246,042	6.75 %
Other revenues	<u>23,084</u>	<u>17,382</u>	<u>5,702</u>	32.80 %
 Total	 <u>\$ 5,328,375</u>	 <u>\$ 5,052,271</u>	 <u>\$ 276,104</u>	 5.46 %
<u>Expenditures</u>				
Instruction	\$ 3,523,452	\$ 3,226,930	\$ 296,522	9.19 %
Support services	1,990,155	2,011,624	(21,469)	(1.07) %
Extracurricular activities	<u>124,454</u>	<u>115,645</u>	<u>8,809</u>	7.62 %
 Total	 <u>\$ 5,638,061</u>	 <u>\$ 5,354,199</u>	 <u>\$ 283,862</u>	 5.30 %

Debt Service Fund

The debt service fund had \$186,546 in revenues and \$215,429 in expenditures. During fiscal year 2004, the debt service fund's fund balance decreased \$28,883 from \$168,958 to \$140,075.

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 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$5,032,161 and final budgeted revenues and other financing sources were \$5,291,873. Actual revenues and other financing sources for fiscal 2004 was \$5,392,382. This represents a \$100,509 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$5,728,262 were increased to \$5,839,710 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$5,702,359, which was \$137,351 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$14,564,416 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and library books. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

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

	Governmental Activities	
	2004	2003
Land	\$ 219,600	\$ 219,600
Land improvements	756,482	808,954
Building and improvements	13,015,957	12,749,585
Furniture and equipment	420,808	510,042
Library books	28,696	47,827
Vehicles	122,873	89,897
 Total	 \$ 14,564,416	 \$ 14,425,905

The overall increase in capital assets of \$138,511 is due to capital outlays of \$816,655 exceeding depreciation expense of \$678,144 in the fiscal year.

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

Debt Administration

At June 30, 2004, the District had \$1,585,000 in general obligation bonds outstanding. Of this total, \$55,000 is due within one year and \$1,530,000 is due within greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2004	2003
General obligation bonds	\$ 1,585,000	\$ 1,635,000
Tax anticipation notes	-	247,500
 Total	 \$ 1,585,000	 \$ 1,882,500

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Current Financial Related Activities

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

Local revenue is decreasing at a rate of 7% overall due mainly to the following:

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

The District has placed an emergency levy on the ballot on two occasions in the past eighteen months. Both have failed. We will be making a third attempt by November 2005.

The District has worked to reduce expenditures as follows:

- Over the past three years, eight teachers have retired or resigned and only one has been replaced.
- Non-teaching staff count has been reduced.
- Wages are frozen.

These measures have reduced expenditures by approximately \$600,000 annually. Our current five year forecast shows that the District should be solvent through 2007.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Mr. Harry A. Hill, Sebring Local School District, 510 North 14th Street, Sebring, Ohio 44672-1400.

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

STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,464,384
Receivables:	
Property taxes	1,816,262
Accounts	314
Intergovernmental	66,457
Prepayments.	28,591
Materials and supplies inventory	11,851
Capital assets:	
Land	219,600
Depreciable capital assets, net	14,344,816
Total capital assets, net.	<u>14,564,416</u>
 Total assets	 <u>17,952,275</u>
Liabilities:	
Accounts payable.	52,331
Accrued wages and benefits	553,915
Pension obligation payable.	139,868
Intergovernmental payable	50,281
Deferred revenue	1,536,340
Accrued interest payable	5,510
Claims payable	114,769
Long-term liabilities:	
Due within one year.	115,603
Due in more than one year	1,722,181
 Total liabilities	 <u>4,290,798</u>
Net Assets:	
Invested in capital assets, net of related debt.	12,979,416
Restricted for:	
Capital projects	318,899
Debt service.	160,388
Other purposes	135,541
Unrestricted	<u>67,233</u>
 Total net assets	 <u>\$ 13,661,477</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
Instruction:				
Regular	\$ 3,277,027	\$ 8,126	\$ 74,802	\$ 21,770
Special	992,156	-	259,291	-
Vocational	1,620	-	-	-
Other	252,083	-	-	-
Support services:				
Pupil	193,230	-	16,473	-
Instructional staff	252,947	-	14,106	-
Board of education	9,756	-	-	-
Administration	694,189	18,910	-	17
Fiscal	261,667	-	29	149
Operations and maintenance	706,550	3,608	8,214	6,351
Pupil transportation	88,553	-	-	636
Central	555	-	-	-
Food service operations	285,857	118,807	117,312	-
Extracurricular activities	215,279	103,137	-	-
Interest and fiscal charges	99,905	-	-	-
Total governmental activities	\$ 7,331,374	\$ 252,588	\$ 490,227	\$ 28,923

General Revenues:

Property taxes levied for:
General purposes
Debt service
Capital projects
Facilities maintenance
Grants and entitlements not restricted to specific programs:
Operating
Capital
Investment earnings
Miscellaneous
 Total general revenues
 Change in net assets
 Net assets beginning of year (restated) .
 Net assets end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense)
Revenue and
Changes in
Net Assets**

**Governmental
Activities**

\$ (3,172,329)
(732,865)
(1,620)
(252,083)

(176,757)
(238,841)
(9,756)
(675,262)
(261,489)
(688,377)
(87,917)
(555)
(49,738)
(112,142)
(99,905)

(6,559,636)

1,344,220
162,838
93,363
23,655

3,906,906
723,091
16,945
126,844

6,397,862

(161,774)

13,823,251

\$ 13,661,477

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 342,453	\$ 140,075	\$ 483,223	\$ 965,751
Receivables:				
Property taxes	1,509,794	177,490	128,978	1,816,262
Accounts	314	-	-	314
Intergovernmental	35,680	-	30,777	66,457
Materials and supplies inventory	7,850	-	4,001	11,851
Prepayments	26,850	-	1,741	28,591
Restricted assets:				
Equity in pooled cash and cash equivalents	27,770	-	-	27,770
Total assets	<u>\$ 1,950,711</u>	<u>\$ 317,565</u>	<u>\$ 648,720</u>	<u>\$ 2,916,996</u>
Liabilities:				
Accounts payable	\$ 37,943	\$ -	\$ 14,388	\$ 52,331
Accrued wages and benefits	495,205	-	58,710	553,915
Compensated absences payable	38,572	-	-	38,572
Pension obligation payable	74,254	-	11,770	86,024
Intergovernmental payable.	45,090	-	5,191	50,281
Deferred revenue.	1,509,794	177,490	128,978	1,816,262
Total liabilities	<u>2,200,858</u>	<u>177,490</u>	<u>219,037</u>	<u>2,597,385</u>
Fund Balances:				
Reserved for encumbrances	18,405	-	8,499	26,904
Reserved for prepayments	26,850	-	1,741	28,591
Reserved for materials and supplies inventory.	7,850	-	4,001	11,851
Reserved for debt service.	-	140,075	-	140,075
Reserved for budget stabilization	24,007	-	-	24,007
Reserved for school bus purchases.	3,763	-	-	3,763
Unreserved, undesignated (deficit), reported in:				
General fund.	(331,022)	-	-	(331,022)
Special revenue funds	-	-	112,589	112,589
Capital projects funds	-	-	302,853	302,853
Total fund balances (deficit)	<u>(250,147)</u>	<u>140,075</u>	<u>429,683</u>	<u>319,611</u>
Total liabilities and fund balances	<u>\$ 1,950,711</u>	<u>\$ 317,565</u>	<u>\$ 648,720</u>	<u>\$ 2,916,996</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$ 319,611
<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.		14,564,416
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	<u>\$ 279,922</u>	
Total		279,922
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		356,094
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	1,585,000	
Compensated absences	214,212	
Pension obligation payable	53,844	
Accrued interest payable	<u>5,510</u>	
Total		<u>(1,858,566)</u>
Net assets of governmental activities		<u><u>\$ 13,661,477</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 1,399,833	\$ 168,153	\$ 121,152	\$ 1,689,138
Tuition.	2,992	-	-	2,992
Charges for services	-	-	118,807	118,807
Earnings on investments.	16,945	-	-	16,945
Extracurricular.	-	-	122,047	122,047
Classroom materials and fees	5,134	-	-	5,134
Other local revenues.	14,958	-	115,494	130,452
Intergovernmental - state	3,886,410	18,393	839,873	4,744,676
Intergovernmental - federal.	2,103	-	485,303	487,406
Total revenues	<u>5,328,375</u>	<u>186,546</u>	<u>1,802,676</u>	<u>7,317,597</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,586,820	-	170,270	2,757,090
Special.	682,824	-	335,483	1,018,307
Vocational.	1,725	-	-	1,725
Other	252,083	-	-	252,083
Support Services:				
Pupil.	178,429	-	16,657	195,086
Instructional staff	188,419	-	15,341	203,760
Board of education	9,756	-	-	9,756
Administration.	648,405	-	29,357	677,762
Fiscal	252,360	2,877	2,063	257,300
Operations and maintenance.	599,200	-	95,258	694,458
Pupil transportation	113,031	-	7,314	120,345
Central.	555	-	-	555
Food service operations	-	-	272,820	272,820
Extracurricular activities.	124,454	-	80,458	204,912
Facilities acquisition and construction	-	-	764,225	764,225
Debt service:				
Principal retirement	-	111,500	186,000	297,500
Interest and fiscal charges	-	101,052	-	101,052
Total expenditures	<u>5,638,061</u>	<u>215,429</u>	<u>1,975,246</u>	<u>7,828,736</u>
Excess of revenues under expenditures	<u>(309,686)</u>	<u>(28,883)</u>	<u>(172,570)</u>	<u>(511,139)</u>
Other financing sources (uses):				
Transfers in.	-	-	315,612	315,612
Transfers out	(35,000)	-	(280,612)	(315,612)
Total other financing sources (uses).	<u>(35,000)</u>	<u>-</u>	<u>35,000</u>	<u>-</u>
Net change in fund balances	(344,686)	(28,883)	(137,570)	(511,139)
Fund balances at beginning of year.	<u>94,539</u>	<u>168,958</u>	<u>567,253</u>	<u>830,750</u>
Fund balances (deficit) at end of year	<u>\$ (250,147)</u>	<u>\$ 140,075</u>	<u>\$ 429,683</u>	<u>\$ 319,611</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$ (511,139)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$816,655) exceeded depreciation expense (\$678,144) in the current period.	138,511
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(147,997)
Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.	297,500
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	1,147
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	29,731
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.	<u>30,473</u>
Change in net assets of governmental activities	<u><u>\$ (161,774)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 1,306,322	\$ 1,373,742	\$ 1,399,833	\$ 26,091
Tuition	2,792	2,936	2,992	56
Earnings on investments	15,813	16,629	16,945	316
Classroom materials and fees	4,791	5,038	5,134	96
Other local revenue	5,595	5,884	5,996	112
Intergovernmental - state	3,593,494	3,778,956	3,850,730	71,774
Intergovernmental - federal	1,963	2,064	2,103	39
Total revenues	<u>4,930,770</u>	<u>5,185,249</u>	<u>5,283,733</u>	<u>98,484</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,527,256	2,576,427	2,515,826	60,601
Special	686,372	699,725	683,268	16,457
Vocational	5,340	5,444	5,316	128
Other	257,301	262,307	256,138	6,169
Support services:				
Pupils	176,223	179,651	175,426	4,225
Instructional staff	196,238	200,056	195,351	4,705
Board of education	8,781	8,952	8,741	211
Administration	665,965	678,922	662,954	15,968
Fiscal	252,841	257,760	251,698	6,062
Operations and maintenance	626,171	638,354	623,340	15,014
Pupil transportation	166,670	169,912	165,916	3,996
Central	1,173	1,196	1,168	28
Extracurricular activities	122,772	125,161	122,217	2,944
Total expenditures	<u>5,693,103</u>	<u>5,803,867</u>	<u>5,667,359</u>	<u>136,508</u>
Excess of revenues over (under) expenditures	<u>(762,333)</u>	<u>(618,618)</u>	<u>(383,626)</u>	<u>234,992</u>
Other financing sources (uses):				
Advances in	93,320	98,136	100,000	1,864
Transfers out	(35,159)	(35,843)	(35,000)	843
Refund of prior year's expenditures	8,071	8,488	8,649	161
Total other financing sources (uses)	<u>66,232</u>	<u>70,781</u>	<u>73,649</u>	<u>2,868</u>
Net change in fund balance	(696,101)	(547,837)	(309,977)	237,860
Fund balance at beginning				
of year (restated)	528,212	528,212	528,212	-
Prior year encumbrances appropriated	86,710	86,710	86,710	-
Fund balance (deficit) at end of year	<u>\$ (81,179)</u>	<u>\$ 67,085</u>	<u>\$ 304,945</u>	<u>\$ 237,860</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Current:	
Equity in pooled cash and cash equivalents	\$ 470,863
Total assets	<u>470,863</u>
Liabilities:	
Current:	
Claims payable.	<u>114,769</u>
Total liabilities	<u>114,769</u>
Net assets:	
Unrestricted	<u>356,094</u>
Total net assets.	<u><u>\$ 356,094</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Governmental Activities - Internal Service Fund</u>
Operating revenues:	
Charges for services	\$ 862,075
Other	<u>81</u>
Total operating revenues	<u>862,156</u>
Operating expenses:	
Purchased services	215,704
Claims	<u>615,979</u>
Total operating expenses	<u>831,683</u>
Operating income/change in net assets.	30,473
Net assets at beginning of year.	<u>325,621</u>
Net assets at end of year	<u><u>\$ 356,094</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 862,075
Cash received from other operations	81
Cash payments for purchased services	(215,704)
Cash payments for claims	<u>(536,972)</u>
Net cash provided by operating activities	<u>109,480</u>
Net increase in cash and cash equivalents	109,480
Cash and cash equivalents at beginning of year . .	<u>361,383</u>
Cash and cash equivalents at end of year.	<u><u>\$ 470,863</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 30,473
Changes in assets and liabilities:	
Increase in claims payable	<u>79,007</u>
Net cash provided by operating activities	<u><u>\$ 109,480</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 16,964
Total assets	<u>\$ 16,964</u>
Liabilities:	
Accounts payable	\$ 3,752
Due to students	<u>13,212</u>
Total liabilities	<u>\$ 16,964</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District is the 553rd largest in the State of Ohio among the 613 public school districts in the state in terms of enrollment. The District is staffed by 36 non-certificated and 60 certificated personnel to provide services to approximately 759 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

JOINTLY GOVERNED ORGANIZATIONS

Area Cooperative Computerized Educational Service System (ACCESS)

ACCESS, a Council of Governments (the "COG"), is a computer network which provides data services to twenty three school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports the COG based upon a per pupil charge. The District paid \$23,413 to the COG during fiscal year 2004. The COG is governed by an assembly consisting of superintendents or other designees of the member school districts. The assembly exercises total control over the operation of the COG including budgeting, appropriating, contracting and designating management. All of the COG revenues are generated from charges for services and State funding.

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

Mahoning County Career & Technical Center

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

PUBLIC ENTITY RISK POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

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

Mahoning County School Employees Insurance Consortium

The Mahoning County School Employees Insurance Consortium is a shared risk pool comprised of fourteen Mahoning County School Districts. The consortium is governed by an assembly which consists of one representative from each participating School Districts (usually the superintendent or designee). The assembly elects officers for one year terms to serve as the Board of Directors. The assembly exercises controls over the operations of the Consortium. All Consortium revenues are generated from charges for services and remitted to the fiscal agent Austintown Local School District. The fiscal agent will then remit the charges for services to Professional Risk Management (PRM), who acts in the capacity of a third-party administrator (TPA) for claims processing.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

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

PROPRIETARY FUND

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

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

FIDUCIARY FUNDS

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donation. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6).

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

E. Budgets

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

Tax Budget:

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 express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Mahoning County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budget amounts reflect the amounts in the first Amended Certificate issued during the fiscal year. The amounts reported as the final budget amounts reflect the amounts in the final Amended Certificate issued during the fiscal year.

Appropriations:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

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

Lapsing of Appropriations:

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

F. Cash and Investments

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

During fiscal year 2004, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). 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, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$16,495, which includes \$11,878 assigned from other District funds.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

G. Inventory

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

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2004, the District increased its capitalization threshold from \$500 to \$2,500. The change in capitalization policy was a result of differences in asset costs between the time that the previous policy was adopted and the current fiscal year and due to a perceived lack of future economic benefit to be derived from deferring the costs of smaller capital assets (see note 8). Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The District does not possess infrastructure.

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

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

I. Compensated Absences

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

**SEBRING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 57 or over with 2 or more years of service or employees age 52 or over with 22 or more years of service or employees with 27 or more years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, prepayments, materials and supplies inventory, debt service, school bus purchases, and budget stabilization.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

L. Operating Revenues and Expenses

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

M. Net Assets

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

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

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for budget stabilization and school bus purchases. See Note 18 for details.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

Q. Interfund Activity

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

**SEBRING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB No. 34 creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassifications and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. In addition, a prior period adjustment is required to properly remove notes payable used for capital acquisition from the permanent improvement fund and it was determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The fund reclassifications, prior period adjustment and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$ 89,815	\$ 168,958	\$ 321,749	\$ 580,522
Fund reclassifications	12,426	-	(1,996)	10,430
Implementation of GASB Interpretation No. 6	(7,702)	-	-	(7,702)
Adjustment for notes payable	<u>-</u>	<u>-</u>	<u>247,500</u>	<u>247,500</u>
Restated fund balance, June 30, 2003	<u>\$ 94,539</u>	<u>\$ 168,958</u>	<u>\$ 567,253</u>	<u>\$ 830,750</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	Total
Restated fund balance, June 30, 2003	\$ 830,750
GASB 34 adjustments:	
Long-term (deferred) assets	427,919
Capital assets	14,425,905
Accrued interest payable	(6,657)
Internal service fund	325,621
Long-term liabilities	(2,180,287)
Governmental activities net assets, June 30, 2003	\$ 13,823,251

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) - General Fund - The general fund unencumbered fund balance at the beginning of the year has been restated from \$515,786 to \$528,212 due to a fund reclassification to properly reflect its intended purpose in accordance with GASB Statement No. 34.

B. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

	Deficit
<u>Major Fund</u>	
General	\$ 250,147
<u>Nonmajor Funds</u>	
Food Service	2,492
Disadvantaged Pupil Impact Aid	585
Summer Intervention	156
Miscellaneous State Grants	30
IDEA - B	4,149
Drug Free Schools	9
Improving Teacher Quality	8,524

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of 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 the Board of Education has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or 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 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and

**SEBRING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reserve Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$1,030,452 and the bank balance was \$1,076,378.

1. \$100,000 was covered by federal depository insurance; and
2. \$976,378 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

	Reported Amount	Fair Value
Investments not subject to categorization:		
Investment in STAR Ohio	\$ 450,896	\$ 450,896
Total investments	\$ 450,896	\$ 450,896

**SEBRING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,481,348	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	<u>(450,896)</u>	<u>450,896</u>
GASB Statement No. 3	<u>\$ 1,030,452</u>	<u>\$ 450,896</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	\$ 35,000
Transfers from nonmajor governmental funds to:	
Nonmajor governmental funds	<u>280,612</u>
Total	<u>\$ 315,612</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers between governmental funds are eliminated on the government-wide financials.

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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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.

**SEBRING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Mahoning County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. There were no advances available to the District at fiscal year-end.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real property	\$ 35,006,240	77.85	\$ 35,283,400	76.95
Public utility personal property	1,905,780	4.24	1,887,310	4.12
Tangible personal property	<u>8,051,930</u>	<u>17.91</u>	<u>8,680,270</u>	<u>18.93</u>
Total assessed valuation	<u>\$ 44,963,950</u>	<u>100.00</u>	<u>\$ 45,850,980</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$	53.80	\$	53.80
Permanent Improvement		3.00		3.00
Debt Service		4.60		4.60

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of Federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 1,816,262
Intergovernmental	66,457
Accrued interest	<u>314</u>
Total	<u>\$ 1,883,033</u>

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

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to changes in the District's capital asset policy (See Note 2.H. for detail), a reappraisal of the District's capital assets, the removal of textbooks in accordance with the District's new capital asset policy, to correct the amounts previously reported as buildings and improvements, and the depreciation of capital assets in accordance with GASB Statement No. 34.

	Balance <u>06/30/03</u>	Adjustments	Restated Balance <u>07/01/03</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ 219,600	\$ -	\$ 219,600
Total capital assets, not being depreciated	<u>219,600</u>	<u>-</u>	<u>219,600</u>
Capital assets, being depreciated:			
Land improvements	888,694	218,186	1,106,880
Buildings and improvements	16,261,811	(751,092)	15,510,719
Furniture and equipment	1,990,767	(1,022,570)	968,197
Textbooks and library books	271,114	(103,105)	168,009
Vehicles	<u>331,674</u>	<u>(11,466)</u>	<u>320,208</u>
Total capital assets, being depreciated	<u>19,744,060</u>	<u>(1,670,047)</u>	<u>18,074,013</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(3,867,708)</u>	<u>(3,867,708)</u>
Governmental activities capital assets, net	<u>\$ 19,963,660</u>	<u>\$ (5,537,755)</u>	<u>\$ 14,425,905</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

Governmental Activities:	Restated Balance 07/01/03	<u>Additions</u>	<u>Deductions</u>	Balance 06/30/04
<i>Capital assets, not being depreciated:</i>				
Land	\$ 219,600	\$ -	\$ -	\$ 219,600
Total capital assets, not being depreciated	<u>219,600</u>	<u>-</u>	<u>-</u>	<u>219,600</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,106,880	-	-	1,106,880
Building and improvements	15,510,719	753,215	-	16,263,934
Furniture and equipment	968,197	9,974	(47,189)	930,982
Library books	168,009	-	-	168,009
Vehicles	<u>320,208</u>	<u>53,466</u>	<u>(42,000)</u>	<u>331,674</u>
Total capital assets, being depreciated	<u>18,074,013</u>	<u>816,655</u>	<u>(89,189)</u>	<u>18,801,479</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(297,926)	(52,472)	-	(350,398)
Building and improvements	(2,761,134)	(486,843)	-	(3,247,977)
Furniture and equipment	(458,155)	(99,208)	47,189	(510,174)
Library books	(120,182)	(19,131)	-	(139,313)
Vehicles	<u>(230,311)</u>	<u>(20,490)</u>	<u>42,000</u>	<u>(208,801)</u>
Total accumulated depreciation	<u>(3,867,708)</u>	<u>(678,144)</u>	<u>89,189</u>	<u>(4,456,663)</u>
Governmental activities capital assets, net	<u>\$ 14,425,905</u>	<u>\$ 138,511</u>	<u>\$ -</u>	<u>\$14,564,416</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 574,718
Special	320

Support Services:

Pupil	376
Instructional Staff	48,404
Administration	11,625
Fiscal	378
Operations and Maintenance	1,237
Pupil Transportation	20,490
Extracurricular Activities	10,367
Food Service Operations	<u>10,229</u>

Total depreciation expense \$ 678,144

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - LONG-TERM OBLIGATIONS

A. The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability increased \$15,708 from \$264,033 to \$279,111 due to the implementation of GASB Interpretation No. 6 and due to fund reclassifications described in Note 3.A. In addition, pension obligations of \$45,709 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. In addition, tax anticipation notes of \$247,500 used for capital acquisition are reported as a component of governmental activities long-term obligations. The effect on the total governmental activities long-term obligations at July 1, 2003 was an increase of \$216,869 from \$1,944,742 to \$2,161,611. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	<u>Restated Balance 06/30/03</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06/30/04</u>	<u>Amounts Due in One Year</u>
Governmental Activities:					
<u>General Obligation Bonds:</u>					
1999 issue current interest bonds	\$ 1,635,000	\$ -	\$ (50,000)	\$ 1,585,000	\$ 55,000
Total general obligation bonds payable	<u>1,635,000</u>	<u>-</u>	<u>(50,000)</u>	<u>1,585,000</u>	<u>55,000</u>
<u>Notes Payable:</u>					
Tax anticipation note	247,500	-	(247,500)	-	-
Total notes payable	<u>247,500</u>	<u>-</u>	<u>(247,500)</u>	<u>-</u>	<u>-</u>
<u>Other Long-Term Obligations:</u>					
Compensated absences	279,111	9,927	(36,254)	252,784	60,603
Total other long-term obligations	<u>279,111</u>	<u>9,927</u>	<u>(36,254)</u>	<u>252,784</u>	<u>60,603</u>
Total governmental activities	<u>\$ 2,161,611</u>	<u>\$ 9,927</u>	<u>\$ (333,754)</u>	<u>\$ 1,837,784</u>	<u>\$ 115,603</u>

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

Tax Anticipation Note: The District issued a tax anticipation note in April 2002 for the purpose of permanent repair, remodeling, equipping, improving, and building for school purposes. The tax anticipation note was retired in fiscal 2004 from the permanent improvement fund and debt service fund.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

B. Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2004, are as follows:

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 55,000	\$ 91,319	\$ 146,319
2006	55,000	88,638	143,638
2007	60,000	85,763	145,763
2008	60,000	82,763	142,763
2009	65,000	79,637	144,637
2010 - 2014	380,000	337,825	717,825
2015 - 2019	515,000	203,809	718,809
2020 - 2022	395,000	37,209	432,209
Total	\$1,585,000	\$ 1,006,963	\$ 2,591,963

C. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2004 are a voted legal debt margin of \$2,681,663 (including available funds of \$140,075) and an unvoted legal debt margin of \$45,851.

NOTE 10 - COMPENSATED ABSENCES

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

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 260 days for certified personnel and 180 for classified personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 57 days for certified employees, and one-third of accrued, but unused sick leave credit up to a maximum of 60 days for classified employees.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

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

Buildings and Contents - replacement cost (\$5,000 deductible)	\$ 13,363,064
Boiler & Machinery - (\$500 deductible)	4,000,000
Inland Marine Coverage - (\$100 deductible)	varies
General Liability:	
Per Occurrence	1,000,000
Aggregate	3,000,000
Fleet Insurance:	
Uninsured motorists	1,000,000
Comprehensive (\$500 deductible)	1,000,000
Collision (\$100 deductible)	1,000,000

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

B. Employee Group Health, Dental, Vision and Life Insurance

The District has elected to provide employee medical/surgical benefits through a self insurance program. The District maintains a self-insurance internal service fund to account for and finance its uninsured risks of loss in this program. This plan provides a medical/surgical plan with a \$200 family and \$100 single deductible. A third party administrator, Anthem Benefit Administrators, Incorporated, located in Columbus, Ohio, reviews all claims, which are then paid by the District. The District purchases stop-loss coverage of \$40,000 per employee and \$1,278,356 in the aggregate. The District pays into the self-insurance internal service fund \$810 family coverage or \$342 individual coverage per month for full-time employees and \$720 family coverage or \$304 individual coverage per month for part-time employees, which represents the entire premium required. The premium is paid by the fund that pays the salary for the employee and is based on historical cost information. Dental coverage is also provided on a self-insured basis through Anthem Benefit Administrators. Premiums for this coverage are \$28 monthly for family and single coverage for certified employees. Premiums for non-certified and part-time employees are \$49 monthly for family coverage and \$18.90 monthly for single coverage. The District is responsible for payment of all claim amounts in excess of the employee payment percentages established in the plan document.

The District also provides prescription drug insurance to its employees through a self-insured program. The plan pays 80% of the cost of prescriptions with the employee paying 20%. This plan utilizes a per prescription deductible of \$20 for generic and \$40 for brand names for long-term prescriptions. The third party administrator, Anthem Benefit Administrators of Columbus, Ohio, reviews the claims, which are then paid by the District. The premium for this coverage currently is included with medical monthly on a composite basis.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - RISK MANAGEMENT - (Continued)

The claims liability of \$114,769 reported in the fund at June 30, 2004, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2004	\$ 35,762	\$ 615,979	\$ (536,972)	\$ 114,769
2003	66,176	177,087	(207,501)	35,762

C. Workers' Compensation Plan

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

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 worker's compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the 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 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined 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 State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% 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 a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$97,592, \$93,830, and \$118,255, respectively; 40.03% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$58,524, represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 years 2004 and 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$403,598, \$398,763, and \$407,982, respectively; 85.47% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$58,624 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$3,555 made by the District and \$6,874 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$28,828 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$49,985 during the 2004 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

	<u>General Fund</u>
Budget basis	\$ (309,977)
Net adjustment for revenue accruals	44,642
Net adjustment for expenditure accruals	(35,980)
Net adjustment for other sources/uses	(108,649)
Adjustment for encumbrances	<u>65,278</u>
GAAP basis	<u>\$ (344,686)</u>

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is not currently a party to any legal proceedings.

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2003	\$ -	\$ -	\$ 24,007
Current year offsets	-	-	-
Current year set-aside requirement	101,405	101,405	-
Qualifying disbursements	<u>(102,963)</u>	<u>(180,707)</u>	<u>-</u>
Total	<u>\$ (1,558)</u>	<u>\$ (79,302)</u>	<u>\$ 24,007</u>
Balance carried forward to FY 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,007</u>

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

In addition to the above, the District has received in monies from the State of Ohio that are restricted for school bus purchases. At June 30, 2004, the balance of these funds was \$3,763.

A schedule of the governmental fund restricted assets at June 30, 2004 follows:

Amount restricted for budget stabilization	\$ 24,007
Amount restricted for school bus purchase	<u>3,763</u>
Total restricted assets	<u>\$ 27,770</u>

SEBRING LOCAL SCHOOL DISTRICT
MAHONING COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$11,892		\$11,892
School Breakfast Program		10.553	12,372		12,372	
National School Lunch Program		10.555	88,049		88,049	
Total U.S. Department of Agriculture - Nutrition Cluster			100,421	11,892	100,421	11,892
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)						
	6BSD-2003-P	84.027	30,632		39,040	
	6BSD-2004-P		32,753		29,982	
	6BSF-2003-P		9,764		7,377	
	6BSF-2004		101,015		97,768	
Total Special Education Cluster			174,164		174,167	
Education Technology State Grants	TJS1-2004	84.318	4,375		4,375	
Improving Teacher Quality State Grants	TRS1-2003	84.367	20,860		9,118	
	TRS1-2004		42,266		41,284	
			63,126		50,402	
Grants to Local Educational Agencies (ESEA Title I)	C1S1-2003	84.010	21,679		28,313	
	C1S1-2004		143,644		128,593	
			165,323		156,906	
Innovative Educational Program Strategies	C2S1-2004	84.298	3,966		3,966	
Drug-Free Schools Grant	DRS1-2004	84.186	5,580		5,580	
Total Department of Education			416,534		395,396	
U.S. DEPARTMENT OF THE INSTITUTE OF MUSUEM AND LIBRARY SERVICES						
<i>Passed Through State Library of Ohio:</i>						
State Library Program	2003	45.310			833	
	2004		8,813		8,813	
Total Department of the Institute of Musuem and Library Services			8,813		9,646	
Totals			\$525,768	\$11,892	\$505,463	\$11,892

The accompanying notes to this schedule are an integral part of this schedule.

**SEBRING LOCAL SCHOOL DISTRICT
MAHONING COUNTY
FISCAL YEAR ENDED JUNE 30, 2004**

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B—CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT
AUDITING STANDARDS**

Sebring Local School District
Mahoning County
510 N. 14th Street
Sebring, OH 44672

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Sebring Local School District, Mahoning County (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 23, 2005 wherein we noted the District implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board Statement No. 34. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and do not opine on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. In a separate letter to the District's management dated May 23, 2005, we reported other matters involving the internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the District's management dated May 23, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management, Board of Education, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 23, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Sebring Local School District
Mahoning County
510 N. 14th Street
Sebring, OH 44672

Compliance

We have audited the compliance of Sebring Local School District, Mahoning County (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 23, 2005

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

**SEBRING LOCAL SCHOOL DISTRICT
MAHONING COUNTY
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I (84.010)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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SEBRING LOCAL SCHOOL DISTRICT

MAHONING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 21, 2005**