

Sebring Local School District

Mahoning County

Single Audit

July 1, 2004 through June 30, 2005

Fiscal Year Audited Under GAGAS: 2005

BALESTRA, HARR & SCHERER, CPAs, INC.
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**Auditor of State
Betty Montgomery**

Board of Trustees
Sebring Local School District
510 North 14th Street
Sebring, Ohio 44672

We have reviewed the *Independent Auditor's Report* of the Sebring Local School District, Mahoning County, prepared by Balestra, Harr & Scherer, CPAs, Inc. for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

May 15, 2006

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Sebring Local School District
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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Sebring Local School District
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 the Sebring Local School District, Mahoning County, Ohio, (the District) as of and for the year ended June 30, 2005, 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparisons for the General Fund thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

As described in Note 3, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosure* and GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employees*.



Balestra, Harr & Scherer, CPAs, Inc.
March 2, 2006

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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, 2005. 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 2005 are as follows:

- In total, net assets of governmental activities decreased \$409,969 which represents a 3.00% decrease from 2004.
- General revenues accounted for \$5,841,914 in revenue or 87.49% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$835,649 or 12.51% of total revenues of \$6,677,563.
- The District had \$7,087,532 in expenses related to governmental activities; \$835,649 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$5,841,914 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 \$5,483,301 in revenues, and \$5,536,842 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund deficit balance increased \$53,541 from \$293,340 to \$346,881.
- The debt service fund had \$189,572 in revenues and \$149,390 in expenditures. During fiscal year 2005, the debt service fund's fund balance increased \$40,182 from \$140,075 to \$180,257.

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, 2005
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 2005?" 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, 2005
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 Assets and Liabilities 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 24-48 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2005 and 2004.

	Net Assets	
	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Assets</u>		
Current and other assets	\$ 3,281,403	\$ 3,387,859
Capital assets	<u>13,934,091</u>	<u>14,564,416</u>
Total assets	<u>17,215,494</u>	<u>17,952,275</u>
<u>Liabilities</u>		
Current liabilities	2,215,493	2,453,014
Long-term liabilities	<u>1,748,493</u>	<u>1,837,784</u>
Total liabilities	<u>3,963,986</u>	<u>4,290,798</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	12,404,091	12,979,416
Restricted	678,303	614,828
Unrestricted	<u>169,114</u>	<u>67,233</u>
Total net assets	<u>\$ 13,251,508</u>	<u>\$ 13,661,477</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$13,251,508. Of this total, \$169,114 is unrestricted in use.

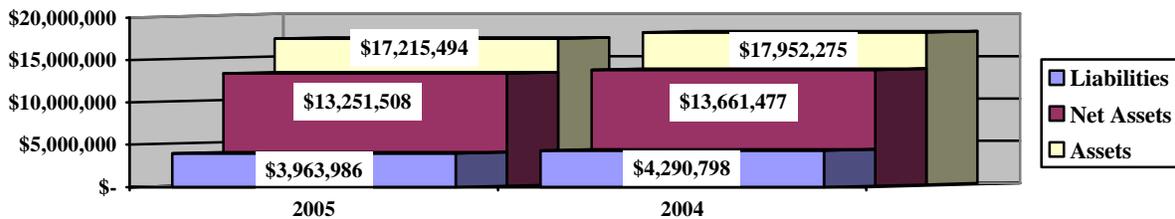
**SEBRING LOCAL SCHOOL DISTRICT
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

At year-end, capital assets represented 80.94% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, library books and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$12,404,091. 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, \$678,303, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$169,114 may be used to meet the District's ongoing obligations to the students and creditors.

Governmental Activities



The table below shows the change in net assets for fiscal year 2005 and 2004.

Change in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 240,189	\$ 252,588
Operating grants and contributions	595,460	490,227
Capital grants and contributions	-	28,923
General revenues:		
Property taxes	1,738,787	1,624,076
Grants and entitlements	4,033,885	4,629,997
Investment earnings	30,388	16,945
Other	38,854	126,844
Total revenues	6,677,563	7,169,600

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Change in Net Assets

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,005,478	\$ 3,277,027
Special	966,396	992,156
Vocational	-	1,620
Other	216,602	252,083
Support services:		
Pupil	192,599	193,230
Instructional staff	270,792	252,947
Board of education	14,175	9,756
Administration	726,360	694,189
Fiscal	278,386	261,667
Operations and maintenance	695,608	706,550
Pupil transportation	116,345	88,553
Central	2,099	555
Food service operations	292,019	285,857
Extracurricular activities	219,546	215,279
Interest and fiscal charges	<u>91,127</u>	<u>99,905</u>
Total expenses	<u>7,087,532</u>	<u>7,331,374</u>
Change in net assets	(409,969)	(161,774)
Net assets beginning of year	<u>13,661,477</u>	<u>13,823,251</u>
Net assets end of year	<u><u>\$ 13,251,508</u></u>	<u><u>\$ 13,661,477</u></u>

Governmental Activities

Net assets of the District's governmental activities decreased \$409,969. Total governmental expenses of \$7,087,532 were offset by program revenues of \$835,649 and general revenues of \$5,841,914. Program revenues supported 11.79% 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 86.45% of total governmental revenue.

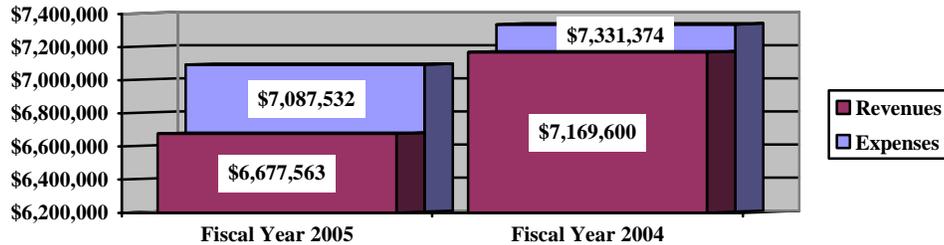
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,188,476 or 59.10% of total governmental expenses for fiscal 2005.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

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

Governmental Activities

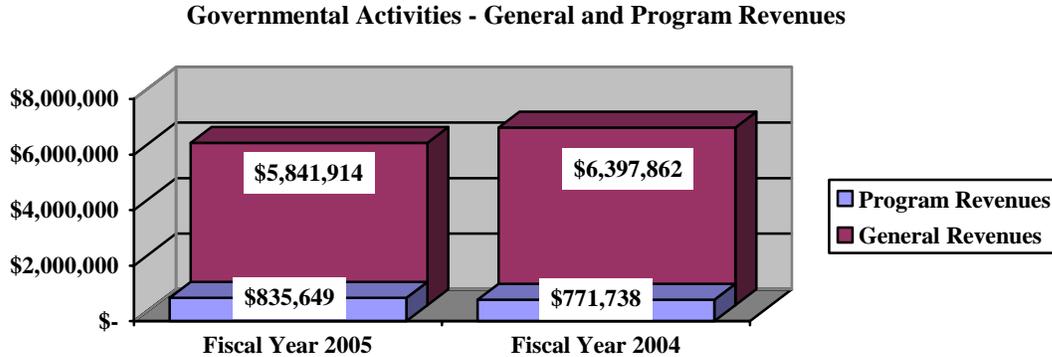
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 3,005,478	\$ 2,903,338	\$ 3,277,027	\$ 3,172,329
Special	966,396	617,442	992,156	732,865
Vocational	-	-	1,620	1,620
Other	216,602	216,602	252,083	252,083
Support services:				
Pupil	192,599	176,946	193,230	176,757
Instructional staff	270,792	270,098	252,947	238,841
Board of education	14,175	14,175	9,756	9,756
Administration	726,360	721,885	694,189	675,262
Fiscal	278,386	277,647	261,667	261,489
Operations and maintenance	695,608	685,475	706,550	688,377
Pupil transportation	116,345	116,345	88,553	87,917
Central	2,099	2,099	555	555
Food service operations	292,019	46,299	285,857	49,738
Extracurricular activities	219,546	112,405	215,279	112,142
Interest and fiscal charges	91,127	91,127	99,905	99,905
Total expenses	<u>\$ 7,087,532</u>	<u>\$ 6,251,883</u>	<u>\$ 7,331,374</u>	<u>\$ 6,559,636</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 89.23% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 88.21%. The District's taxpayers and the State, 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, 2005
UNAUDITED

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$237,458, which is lower than last year's total of \$265,767. The June 30, 2004 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, 2005 and 2004.

	Fund Balance (Deficit) June 30, 2005	Restated Fund Balance (Deficit) June 30, 2004	(Decrease)	Percentage Change
General	\$ (346,881)	\$ (293,340)	\$ (53,541)	(18.25) %
Debt Service	180,257	140,075	40,182	28.69 %
Other Governmental	404,082	419,032	(14,950)	(3.57) %
Total	<u>\$ 237,458</u>	<u>\$ 265,767</u>	<u>\$ (28,309)</u>	(10.65) %

General Fund

The District's general fund deficit balance increased \$53,541 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The increase in fund deficit balance can be attributed to several items related to increasing revenues still not catching up to decreased expenditures. Expenditures exceed revenues for fiscal year 2005 by \$18,541. 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, 2005
UNAUDITED

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 1,425,301	\$ 1,399,833	\$ 25,468	1.82 %
Earnings on investments	30,388	16,945	13,443	79.33 %
Intergovernmental	4,001,591	3,888,513	113,078	2.91 %
Other revenues	<u>26,021</u>	<u>23,084</u>	<u>2,937</u>	12.72 %
 Total	 <u>\$ 5,483,301</u>	 <u>\$ 5,328,375</u>	 <u>\$ 154,926</u>	 2.91 %
<u>Expenditures</u>				
Instruction	\$ 3,279,030	\$ 3,526,364	\$ (247,334)	(7.01) %
Support services	2,095,805	2,030,436	65,369	3.22 %
Extracurricular activities	<u>127,007</u>	<u>124,454</u>	<u>2,553</u>	2.05 %
 Total	 <u>\$ 5,501,842</u>	 <u>\$ 5,681,254</u>	 <u>\$ (179,412)</u>	 (3.16) %

Debt Service Fund

The debt service fund had \$189,572 in revenues and \$149,390 in expenditures. During fiscal year 2005, the debt service fund's fund balance increased \$40,182 from \$140,075 to \$180,257.

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 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$5,567,648 and final budgeted revenues and other financing sources were \$5,451,151. Actual revenues and other financing sources for fiscal 2005 was \$5,517,872. This represents a \$66,721 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$5,667,278 were increased to \$5,767,278 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$5,709,208, which was \$58,070 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, 2005
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Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$13,934,091 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 2005 balances compared to 2004:

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

	Governmental Activities	
	2005	2004
Land	\$ 219,600	\$ 219,600
Land improvements	704,010	756,482
Building and improvements	12,535,136	13,015,957
Furniture and equipment	362,385	420,808
Library books	9,565	28,696
Vehicles	103,395	122,873
 Total	 \$ 13,934,091	 \$ 14,564,416

The overall decrease in capital assets of \$630,325 is due to depreciation expense of \$658,923 and disposals of \$1,042 (net of accumulated depreciation) exceeding capital outlays of \$29,640 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, 2005, the District had \$1,530,000 in general obligation bonds outstanding. Of this total, \$55,000 is due within one year and \$1,475,000 is due in greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2005	2004
General obligation bonds	\$ 1,530,000	\$ 1,585,000
Total	\$ 1,530,000	\$ 1,585,000

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Current Financial Related Activities

The District receives approximately 62% 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, the financial picture moves from uncertain to bleak.

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

- Little Tykes, one of our largest companies, has closed its Sebring operation.
- Personal Property Tax collections are declining.
- Investment earnings have 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. An income tax issue is on the August 2005 ballot and will be on the November 2005 ballot if it does not pass in August. November 2005 will be our 4th attempt to raise revenue. Passage is uncertain to say the least.

The District has worked to reduce expenditures as follows:

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

These measures have reduced expenditures by approximately \$500,000 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.

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,444,394
Receivables:	
Property taxes	1,807,088
Accounts	2,922
Prepayments.	19,495
Materials and supplies inventory	7,504
Capital assets:	
Land	219,600
Depreciable capital assets, net	13,714,491
Total capital assets, net.	<u>13,934,091</u>
 Total assets	 <u>17,215,494</u>
Liabilities:	
Accounts payable.	46,052
Accrued wages and benefits	448,006
Pension obligation payable.	138,794
Intergovernmental payable	38,020
Deferred revenue	1,507,074
Accrued interest payable	5,318
Claims payable	32,229
Long-term liabilities:	
Due within one year.	102,715
Due in more than one year	1,645,778
 Total liabilities	 <u>3,963,986</u>
Net Assets:	
Invested in capital assets, net of related debt.	12,404,091
Restricted for:	
Capital projects	310,764
Debt service.	205,609
Classroom facilities maintenance	18,156
State funded programs.	2,590
Student activities.	110,446
Other purposes	30,738
Unrestricted	<u>169,114</u>
 Total net assets	 <u>\$ 13,251,508</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, 2005

	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 3,005,478	\$ 8,798	\$ 93,342	\$ (2,903,338)
Special	966,396	-	348,954	(617,442)
Other.	216,602	-	-	(216,602)
Support services:				
Pupil.	192,599	-	15,653	(176,946)
Instructional staff	270,792	-	694	(270,098)
Board of education	14,175	-	-	(14,175)
Administration.	726,360	-	4,475	(721,885)
Fiscal.	278,386	-	739	(277,647)
Operations and maintenance	695,608	3,429	6,704	(685,475)
Pupil transportation.	116,345	-	-	(116,345)
Central	2,099	-	-	(2,099)
Food service operations	292,019	120,821	124,899	(46,299)
Extracurricular activities.	219,546	107,141	-	(112,405)
Interest and fiscal charges	91,127	-	-	(91,127)
Total governmental activities	\$ 7,087,532	\$ 240,189	\$ 595,460	(6,251,883)

General Revenues:

Property taxes levied for:

General purposes	1,445,465
Debt service.	169,863
Capital projects	102,744
Facilities maintenance.	20,715
Grants and entitlements not restricted to specific programs:	
Operating	4,023,175
Capital.	10,710
Investment earnings	30,388
Miscellaneous	38,854
Total general revenues.	5,841,914
Change in net assets	(409,969)
Net assets beginning of year	13,661,477
Net assets end of year.	\$ 13,251,508

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 197,188	\$ 180,257	\$ 484,133	\$ 861,578
Receivables:				
Taxes	1,501,842	175,352	129,894	1,807,088
Accounts	1,423	-	1,392	2,815
Materials and supplies inventory	3,936	-	3,568	7,504
Prepayments	19,461	-	34	19,495
Restricted assets:				
Equity in pooled cash and cash equivalents	30,738	-	-	30,738
Total assets	<u>\$ 1,754,588</u>	<u>\$ 355,609</u>	<u>\$ 619,021</u>	<u>\$ 2,729,218</u>
Liabilities:				
Accounts payable	\$ 20,536	\$ -	\$ 25,516	\$ 46,052
Accrued wages and benefits	404,181	-	43,825	448,006
Compensated absences payable	13,800	-	-	13,800
Pension obligation payable	128,053	-	10,741	138,794
Intergovernmental payable.	33,057	-	4,963	38,020
Deferred revenue.	1,501,842	175,352	129,894	1,807,088
Total liabilities	<u>2,101,469</u>	<u>175,352</u>	<u>214,939</u>	<u>2,491,760</u>
Fund Balances:				
Reserved for encumbrances	38,343	-	41,376	79,719
Reserved for prepayments	19,461	-	34	19,495
Reserved for materials and supplies inventory.	3,936	-	3,568	7,504
Reserved for debt service.	-	180,257	-	180,257
Reserved for budget stabilization	24,007	-	-	24,007
Reserved for school bus purchases.	6,731	-	-	6,731
Unreserved, undesignated (deficit), reported in:				
General fund.	(439,359)	-	-	(439,359)
Special revenue funds	-	-	64,917	64,917
Capital projects funds	-	-	294,187	294,187
Total fund balances (deficit)	<u>(346,881)</u>	<u>180,257</u>	<u>404,082</u>	<u>237,458</u>
Total liabilities and fund balances	<u>\$ 1,754,588</u>	<u>\$ 355,609</u>	<u>\$ 619,021</u>	<u>\$ 2,729,218</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, 2005

Total governmental fund balances		\$ 237,458
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		13,934,091
Other long-term assets (taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.		300,014
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.		519,956
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(5,318)
Long-term liabilities, including bonds payable and compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	1,530,000	
Compensated absences	<u>204,693</u>	
Total		<u>(1,734,693)</u>
Net assets of governmental activities		<u><u>\$ 13,251,508</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, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 1,425,301	\$ 170,334	\$ 123,060	\$ 1,718,695
Tuition	3,336	-	-	3,336
Charges for services	-	-	120,821	120,821
Earnings on investments	30,388	-	-	30,388
Extracurricular	-	-	106,921	106,921
Classroom materials and fees	4,839	-	220	5,059
Other local revenues	17,846	-	25,060	42,906
Intergovernmental - state	4,001,591	19,238	98,656	4,119,485
Intergovernmental - federal	-	-	509,860	509,860
Total revenues	<u>5,483,301</u>	<u>189,572</u>	<u>984,598</u>	<u>6,657,471</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,450,486	-	121,950	2,572,436
Special	611,942	-	363,539	975,481
Other	216,602	-	-	216,602
Support Services:				
Pupil	184,032	-	15,631	199,663
Instructional staff	213,752	-	691	214,443
Board of education	14,175	-	-	14,175
Administration	693,268	-	45,845	739,113
Fiscal	270,954	3,071	4,579	278,604
Operations and maintenance	619,012	-	76,742	695,754
Pupil transportation	98,513	-	-	98,513
Central	2,099	-	-	2,099
Food service operations	-	-	286,599	286,599
Extracurricular activities	127,007	-	86,005	213,012
Facilities acquisition and construction	-	-	32,967	32,967
Debt service:				
Principal retirement	-	55,000	-	55,000
Interest and fiscal charges	-	91,319	-	91,319
Total expenditures	<u>5,501,842</u>	<u>149,390</u>	<u>1,034,548</u>	<u>6,685,780</u>
Excess of revenues over (under) expenditures	<u>(18,541)</u>	<u>40,182</u>	<u>(49,950)</u>	<u>(28,309)</u>
Other financing sources (uses):				
Transfers in	-	-	35,000	35,000
Transfers out	(35,000)	-	-	(35,000)
Total other financing sources (uses)	<u>(35,000)</u>	<u>-</u>	<u>35,000</u>	<u>-</u>
Net change in fund balances	(53,541)	40,182	(14,950)	(28,309)
Fund balances (deficit) at beginning of year (restated)	<u>(293,340)</u>	<u>140,075</u>	<u>419,032</u>	<u>265,767</u>
Fund balances (deficit) at end of year	<u>\$ (346,881)</u>	<u>\$ 180,257</u>	<u>\$ 404,082</u>	<u>\$ 237,458</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, 2005

Net change in fund balances - total governmental funds \$ (28,309)

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

Governmental funds report capital outlays as expenditures.

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

Capital asset additions	\$ 29,640	
Current year depreciation	<u>(658,923)</u>	
Total		(629,283)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (1,042)

Revenues in the statement of activities (taxes) that do not provide current financial resources are not reported as revenues in the funds. 20,092

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

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 192

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 9,519

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. 163,862

Change in net assets of governmental activities \$ (409,969)

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, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 1,440,987	\$ 1,410,836	\$ 1,425,301	\$ 14,465
Tuition	3,373	3,302	3,336	34
Earnings on investments	30,722	30,080	30,388	308
Classroom materials and fees	4,828	4,727	4,775	48
Other local revenue	6,037	5,910	5,971	61
Intergovernmental - state	4,081,701	3,996,296	4,037,271	40,975
Total revenues	<u>5,567,648</u>	<u>5,451,151</u>	<u>5,507,042</u>	<u>55,891</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,517,629	2,562,659	2,554,258	8,401
Special	619,182	630,283	629,668	615
Other	213,399	217,218	216,602	616
Support services:				
Pupil	184,642	187,952	187,755	197
Instructional staff	238,682	242,687	227,169	15,518
Board of education	14,219	14,457	14,462	(5)
Administration	667,552	679,532	679,569	(37)
Fiscal	265,451	270,214	270,144	70
Operations and maintenance	681,066	692,743	662,356	30,387
Pupil transportation	108,529	110,356	103,611	6,745
Central	2,674	2,711	2,099	612
Extracurricular activities	124,253	126,466	126,515	(49)
Total expenditures	<u>5,637,278</u>	<u>5,737,278</u>	<u>5,674,208</u>	<u>63,070</u>
Excess of revenues over (under) expenditures	<u>(69,630)</u>	<u>(286,127)</u>	<u>(167,166)</u>	<u>118,961</u>
Other financing sources (uses):				
Transfers out	(30,000)	(30,000)	(35,000)	(5,000)
Refund of prior year's expenditures	-	-	10,830	10,830
Total other financing sources (uses)	<u>(30,000)</u>	<u>(30,000)</u>	<u>(24,170)</u>	<u>5,830</u>
Net change in fund balance	(99,630)	(316,127)	(191,336)	124,791
Fund balance at beginning of year	304,945	304,945	304,945	-
Prior year encumbrances appropriated	65,278	65,278	65,278	-
Fund balance at end of year	<u>\$ 270,593</u>	<u>\$ 54,096</u>	<u>\$ 178,887</u>	<u>\$ 124,791</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Current:	
Equity in pooled cash and cash equivalents	\$ 552,078
Receivables:	
Accounts	<u>107</u>
Total assets	<u>552,185</u>
Liabilities:	
Current:	
Claims payable.	<u>32,229</u>
Total liabilities	<u>32,229</u>
Net assets:	
Unrestricted	<u>519,956</u>
Total net assets.	<u><u>\$ 519,956</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, 2005

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 821,007
Total operating revenues	821,007
Operating expenses:	
Purchased services	206,249
Claims.	450,896
Total operating expenses	657,145
Operating income.	163,862
Net assets at beginning of year	356,094
Net assets at end of year	\$ 519,956

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, 2005

	<u>Governmental Activities - Internal Service Fund</u>
Cash flows from operating activities:	
Cash received from charges for services	\$ 820,900
Cash payments for purchased services	(206,249)
Cash payments for claims	<u>(533,436)</u>
Net cash provided by operating activities	<u>81,215</u>
Net increase in cash and cash equivalents	81,215
Cash and cash equivalents at beginning of year . .	<u>470,863</u>
Cash and cash equivalents at end of year.	<u><u>\$ 552,078</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 163,862
Changes in assets and liabilities:	
Increase in accounts receivable.	(107)
Decrease in claims payable	<u>(82,540)</u>
Net cash provided by operating activities	<u><u>\$ 81,215</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2005

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 15,902
Total assets	\$ 15,902
Liabilities:	
Accounts payable	\$ 4,909
Due to students	10,993
Total liabilities	\$ 15,902

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, 2005

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 559th largest in the State of Ohio among the 614 public school districts in the state in terms of enrollment. The District is staffed by 37 non-certificated and 57 certificated personnel to provide services to approximately 730 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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 \$18,416 to the COG during fiscal year 2005. The COG is governed by an assembly consisting of superintendents or other designees of the member school districts. The assembly exercises total control over the operation of the COG including budgeting, appropriating, contracting and designating management. All of the COG revenues are generated from charges for services and State funding.

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

Mahoning County Career & Technical Center

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

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

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 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.

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

D. Basis of Accounting

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, 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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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 certificate of estimated resources and the appropriation resolution, each of which is 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Tax Budget:

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

Estimated Resources:

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

Appropriations:

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

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 which covered the entire fiscal year, including amounts automatically carried over from the 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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 2005, investments were limited to repurchase agreements and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Repurchase agreements are reported at cost. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$30,388, which includes \$22,739 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.

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.

**SEBRING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

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

<u>Description</u>	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
Library books	5 years

I. Compensated Absences

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

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, 2005, 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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.

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. Net assets restricted for other purposes include resources restricted for budget stabilization and school bus purchases.

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.

**SEBRING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

O. Estimates

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

P. Restricted Assets

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

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 2005.

NOTE 3 – ACCOUNTIBILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosures” and GASB Technical Bulletin 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers”.

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 – ACCOUNTIBILITY AND COMPLIANCE – (Continued)

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ (250,147)	\$ 140,075	\$ 429,683	\$ 319,611
GASB Technical Bulletin No. 2004-2	(43,193)	-	(10,651)	(53,844)
Restated Fund Balance, June 30, 2004	\$ (293,340)	\$ 140,075	\$ 419,032	\$ 265,767

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Fund</u>	
General	\$ 346,881
<u>Nonmajor Funds</u>	
Food Service	16,375
Managed Information Systems	31
Disadvantaged Pupil Impact Aid	543
Summer Intervention	101
Miscellaneous State Grants	11
IDEA - B	12,428
Improving Teacher Quality	275
Miscellaneous Federal Grants	24

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

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

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

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

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 – DEPOSITS AND INVESTMENTS – (Continued)

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

A. Deposits with Financial Institutions

At June 20, 2005, the carrying amount of all District deposits was \$744,358. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2005, \$437,180 of the District’s bank balance of \$637,180 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

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

B. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAR Ohio	\$ 522,776	\$ 522,726
Repurchase Agreement	193,162	193,162
Total	<u>\$ 715,938</u>	<u>\$ 715,888</u>

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 – DEPOSITS AND INVESTMENTS – (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 522,776	73.0%
Repurchase Agreement	<u>193,162</u>	<u>27.0%</u>
Total	<u>\$ 715,938</u>	<u>100.0%</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 744,358
Investments	<u>715,938</u>
Total	<u>\$ 1,460,296</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,444,394
Agency funds	<u>15,902</u>
Total	<u>\$ 1,460,296</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2005, 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 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 statement of activities.

NOTE 6 - PROPERTY TAXES

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 6 – PROPERTY TAXES – (Continued)

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 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2003. 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, 2005, are available to finance fiscal year 2005 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, 2005 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 – PROPERTY TAXES – (Continued)

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real property	\$ 35,283,400	76.95	\$ 35,664,350	78.39
Public utility personal property	1,887,310	4.12	1,879,600	4.13
Tangible personal property	<u>8,680,270</u>	<u>18.93</u>	<u>7,952,595</u>	<u>17.48</u>
Total assessed valuation	<u>\$ 45,850,980</u>	<u>100.00</u>	<u>\$ 45,496,545</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$ 53.80		\$ 53.80	
Permanent Improvement	3.00		3.00	
Debt Service	4.60		4.60	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes and accounts (billings for user charged services and student fees). 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	\$ 1,807,088
Accounts	<u>2,922</u>
Total	<u>\$ 1,810,010</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

Governmental Activities:	<u>Balance 07/01/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/05</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 219,600	\$ -	\$ -	\$ 219,600
Total capital assets, not being depreciated	<u>219,600</u>	<u>-</u>	<u>-</u>	<u>219,600</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,106,880	-	-	1,106,880
Buildings and improvements	16,263,934	4,168	-	16,268,102
Furniture and equipment	930,982	25,472	(83,084)	873,370
Library books	168,009	-	-	168,009
Vehicles	<u>331,674</u>	<u>-</u>	<u>(52,545)</u>	<u>279,129</u>
Total capital assets, being depreciated	<u>18,801,479</u>	<u>29,640</u>	<u>(135,629)</u>	<u>18,695,490</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(350,398)	(52,472)	-	(402,870)
Buildings and improvements	(3,247,977)	(484,989)	-	(3,732,966)
Furniture and equipment	(510,174)	(82,853)	82,042	(510,985)
Library books	(139,313)	(19,131)	-	(158,444)
Vehicles	<u>(208,801)</u>	<u>(19,478)</u>	<u>52,545</u>	<u>(175,734)</u>
Total accumulated depreciation	<u>(4,456,663)</u>	<u>(658,923)</u>	<u>134,587</u>	<u>(4,980,999)</u>
Governmental activities capital assets, net	<u>\$ 14,564,416</u>	<u>\$ (629,283)</u>	<u>\$ (1,042)</u>	<u>\$13,934,091</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 562,453
Special	156

Support Services:

Pupil	376
Instructional Staff	43,031
Administration	10,798
Fiscal	378
Operations and Maintenance	1,455
Pupil Transportation	19,478
Extracurricular Activities	10,569
Food Service Operations	<u>10,229</u>
Total depreciation expense	<u>\$ 658,923</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	<u>Balance</u> <u>06/30/04</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>06/30/05</u>	<u>Due in</u> <u>One Year</u>
Governmental Activities:					
<u>General Obligation Bonds:</u>					
1999 issue current interest bonds	\$ 1,585,000	\$ -	\$ (55,000)	\$ 1,530,000	\$ 55,000
Total general obligation bonds payable	<u>1,585,000</u>	<u>-</u>	<u>(55,000)</u>	<u>1,530,000</u>	<u>55,000</u>
<u>Other Long-Term Obligations:</u>					
Compensated absences	252,784	47,531	(81,822)	218,493	47,715
Total other long-term obligations	<u>252,784</u>	<u>47,531</u>	<u>(81,822)</u>	<u>218,493</u>	<u>47,715</u>
Total governmental activities	<u>\$ 1,837,784</u>	<u>\$ 47,531</u>	<u>\$ (136,822)</u>	<u>\$ 1,748,493</u>	<u>\$ 102,715</u>

General Obligation Bonds: The District issued \$1,832,670 in general obligation bonds in 1999 to provide funds for the acquisition and construction of facilities and equipment. These bonds are general obligations of the District for which the full faith and credit of the District are pledged for repayment. The general obligation bonds were issued in September 1999, mature on December 1, 2021, and bear an interest rate of 5.00%. The bonds are being retired from the debt service fund.

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

B. Principal and interest requirements to retire the long-term obligations outstanding at June 30, 2005, are as follows:

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	70,000	76,175	146,175
2011 - 2015	400,000	314,631	714,631
2016 - 2020	550,000	171,194	721,194
2021 - 2025	<u>270,000</u>	<u>16,844</u>	<u>286,844</u>
Total	<u>\$1,530,000</u>	<u>\$ 915,645</u>	<u>\$ 2,445,645</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2005 are a voted legal debt margin of \$2,744,946 (including available funds of \$180,257) and an unvoted legal debt margin of \$45,497.

NOTE 10 - COMPENSATED ABSENCES

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

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

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

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

Buildings and Contents - replacement cost (\$5,000 deductible)	\$ 22,895,000
Boiler & Machinery - (\$500 deductible)	14,145,000
Inland Marine Coverage - (\$100 deductible)	62,500
General Liability:	
Per Occurrence	1,000,000
Aggregate	3,000,000
Fleet Insurance:	
Uninsured motorists	1,000,000
Comprehensive (deductibles: \$1,000 buses/\$250 other)	1,000,000
Collision (deductibles \$1,000 buses/\$500 other)	1,000,000

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - RISK MANAGEMENT – (Continued)

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 \$300 family and \$150 single deductible. A third party administrator, Benefit Services, Inc., located in Akron, Ohio, reviews all claims, which are then paid by the District. The District purchases stop-loss coverage of \$20,000 per employee and \$860,492 in the aggregate. The District pays into the self-insurance internal service fund \$1,000 family coverage or \$500 individual coverage per month for full-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 Benefit Services, Inc. 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 100% of the cost of prescriptions. This plan utilizes a per prescription deductible of \$5 for generic and \$10 for brand names for long-term prescriptions. The third party administrator, Benefit Services Incorporated of Copley, Ohio, reviews and pays the claims. The premium for this coverage currently is included with medical monthly on a composite basis.

The claims liability of \$32,229 reported in the fund at June 30, 2005, 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 three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Balance</u>	<u>Incurred</u>	<u>Payments</u>	<u>Balance</u>
2005	\$ 114,769	\$ 450,896	\$ (533,436)	\$ 32,229
2004	35,762	615,979	(536,972)	114,769
2003	66,176	177,087	(207,501)	35,762

NOTE 12 - DEFINED BENEFIT PENSION PLAN

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 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 43215-3746, 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, 2005

NOTE 12 - DEFINED BENEFIT PENSION PLAN - (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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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, 2005, 2004, and 2003 were \$105,234, \$97,592 and \$93,830, respectively; 42.69% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$60,312, represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

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 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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, 2005**

NOTE 12 - DEFINED BENEFIT PENSION PLAN – (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 2005 and 2004, 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 STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$411,307, \$403,598, and \$398,763, respectively; 85.07% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$61,420 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$3,932 made by the District and \$7,989 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through 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 fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$29,379 during fiscal 2005.

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

For SERS, coverage is made available to service retirees with 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, 2005**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% 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 2005, the minimum pay has been established at \$27,400. 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 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) 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 \$40,610 during the 2005 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, 2005

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	\$ (191,336)
Net adjustment for revenue accruals	(23,741)
Net adjustment for expenditure accruals	123,327
Net adjustment for other sources/uses	(10,830)
Adjustment for encumbrances	<u>49,039</u>
GAAP basis	<u><u>\$ (53,541)</u></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, 2005

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, 2005, 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, 2004	\$ -	\$ -	\$ 24,007
Current year set-aside requirement	106,218	106,218	-
Qualifying disbursements	<u>(121,183)</u>	<u>(169,050)</u>	<u>-</u>
Total	<u>\$ (14,965)</u>	<u>\$ (62,832)</u>	<u>\$ 24,007</u>
Balance carried forward to FY 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,007</u>

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

In addition to the above, the District has received in monies from the State of Ohio that are restricted for school bus purchases. At June 30, 2005, the balance of these funds was \$6,731.

A schedule of the governmental fund restricted assets at June 30, 2005 follows:

Amount restricted for budget stabilization	\$ 24,007
Amount restricted for school bus purchase	<u>6,731</u>
Total restricted assets	<u>\$ 30,738</u>

NOTE 21 – FINANCIAL CONDITION

In November 2005, a 1.0% income tax on earned income for operating expenses was not approved by the voters within the District. This was the fifth ballot issue to fail within the past three years. The funds expected from these levies were intended to stem the projected \$140,500 deficit projected by the District by the end of the 2005-2006 school year.

Subsequence, the Board of Education has determined to place another 1% income tax on earned income levy before the voters in March 2006.

On October 31, 2003, the Ohio Department of Education placed the District in fiscal watch. Absent the passage of the May 2006 levy the District will exhaust its cash balance by June 30, 2006. At that point it is likely the District will go into State Receivership with a financial planning and supervision commission.

Sebring Local School District
Mahoning County
Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2005

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
United States Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
Food Distribution Program	NA	10.550	\$ -	\$ 11,458	\$ -	\$ 11,458
National School Breakfast Program	O5PU	10.553	14,775	-	14,775	-
National School Lunch Program	LLP4	10.555	93,623	-	93,623	-
Total United States Department of Agriculture - Nutrition Cluster			108,398	11,458	108,398	11,458
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
Title 1 Grants to Local Education Agencies	C1S1	84.010	166,193	-	168,260	-
Special Education - Grants to States	6BSF	84.027	197,032	-	189,039	-
Safe and Drug-Free Schools and Communities - State Grants	DRS1	84.186	4,678	-	4,678	-
State Grants for Innovative Programs	C2S1	84.298	3,048	-	4,048	-
Education Technology State Grants	TJS1	84.318	3,940	-	3,940	-
Improving Teacher Quality State Grants	TRS1	84.367	42,888	-	43,870	-
Total United States Department of Education			417,779	-	413,835	-
Corporation for National and Community Service						
<i>Passed through Ohio Department of Education</i>						
Learn and Serve America-School and Community Based Programs	SVS1	94.004	3,000	-	3,000	-
Total Federal Financial Assistance			\$ 529,177	\$ 11,458	\$ 525,233	\$ 11,458

NA - Not Available

See accompanying notes to the schedule of federal awards receipts and expenditures

**SEBRING LOCAL SCHOOL DISTRICT
MAHONING COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) is a summary of the 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 non-monetary 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.

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

Members of the Board
Sebring Local School District
510 N. 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 the Sebring Local School District (the District), Mahoning County, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 2, 2006, wherein we indicated the District implemented GASB Statement No. 40 and GASB Technical Bulletin No. 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

We noted certain matters that we reported to the management of the District in a separate letter dated March 2, 2006.

Members of the Board
Sebring Local School District
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With *Government Auditing Standards*
Page 2

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

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

Balestra, Harr & Scherer, CPAs, Inc.

March 2, 2006

BALESTRA, HARR & SCHERER CPAs, INC.

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

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

Compliance

We have audited the compliance of Sebring Local School District (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 its major federal program for the year ended June 30, 2005. The District's major federal program is 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 its major federal program 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 of 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 its major federal program for the year ended June 30, 2005.

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 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to 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 solely for the information and use of the audit committee, management, members of the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

March 2, 2006

**SEBRING LOCAL SCHOOL DISTRICT
MAHONING COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 Section .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

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

**SEBRING LOCAL SCHOOL DISTRICT
MAHONING COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 Section .505
JUNE 30, 2005
(Continued)**

**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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800-282-0370

Facsimile 614-466-4490

**SEBRING LOCAL SCHOOL DISTRICT
MAHONING COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 30, 2006**