



**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Statement of Cash and Fund Cash Balances - All Fund Types	3
Combined Statement of Receipts, Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types	4
Combined Statement of Receipts, Disbursements and Changes in Fund Cash Balances - Proprietary and Similar Fiduciary Fund Types	5
Combined Statement of Receipts - Budget and Actual - All Budgeted Fund Types	6
Combined Statement of Disbursements and Encumbrances Compared with Expenditure Authority - All Budgeted Fund Types	7
Notes to the Financial Statements	9
Schedule of Federal Awards Receipts and Expenditures	25
Notes to Schedule of Federal Awards Receipts and Expenditures	26
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	27
Report of Independent Accountants on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133	29
Schedule of Findings - <i>OMB Circular A-133 §.505</i>	31
Schedule of Prior Audit Findings - <i>OMB Circular A-133 §.315(b)</i>	35

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REPORT OF INDEPENDENT ACCOUNTANTS

Southern Local School District
Meigs County
Box 176, Elm Street
Racine, Ohio 45771

To the Board of Education:

We have audited the accompanying financial statements of the Southern Local School District, Meigs County, Ohio (the School District), as of and for the year ended June 30, 2001. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the School District prepares and files its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash and combined fund cash balances of the Southern Local School District, Meigs County, as of June 30, 2001, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 1.

The accompanying financial statements have been prepared assuming the School District will continue as a going concern. As discussed in Note 1 to the financial statements, the School District has forecast an operating deficit of \$778,929 for the fiscal year ending June 30, 2002. In addition, the Ohio Department of Education and the State of Ohio Auditor's Office declared the School District to be in fiscal emergency on November 8, 1999, which raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2001, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the financial statements of the School District, taken as a whole. The accompanying Schedule of Federal Awards Receipts and Expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management and the Board of Education, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

September 6, 2001

SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY

COMBINED STATEMENT OF CASH AND FUND
CASH BALANCES - ALL FUND TYPES
AS OF JUNE 30, 2001

Cash	<u>\$ 2,424,658</u>
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CASH BALANCES BY FUND TYPE

Governmental Funds:

General Fund	\$ 477,916
Special Revenue Funds	216,753
Debt Service Fund	141,919
Capital Projects Funds	1,569,066

Proprietary Funds:

Enterprise Funds	776
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Fiduciary Funds:

Agency Funds	<u>18,228</u>
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Total	<u>\$ 2,424,658</u>
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The notes to the financial statements are an integral part of this statement.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
RECEIPTS:					
Receipts from Local Sources					
Taxes	\$ 1,434,254	\$ 27,695	\$ 379,182	\$	\$ 1,841,131
Tuition	6,827				6,827
Earnings on Investment	20,648			199,432	220,080
Extracurricular Activities		102,098			102,098
Classroom Material & Fees	4,000				4,000
Miscellaneous	17,439	16,150		1,001	34,590
Receipts from State Sources					
Unrestricted Grants-In-Aid	2,174,039	70,700	341,353		2,586,092
Restricted Grants-In-Aid	27,282	267,752		4,198,698	4,493,732
Receipts from Federal Sources					
Restricted Grants-In-Aid		444,730			444,730
Total Receipts	3,684,489	929,125	720,535	4,399,131	9,733,280
DISBURSEMENTS:					
Instruction:					
Regular	1,675,815	276,046		64,597	2,016,458
Special	338,964	299,221			638,185
Vocational Education	189,295				189,295
Other Instruction	129,792				129,792
Supporting Services:					
Pupils	46,900	116,333			163,233
Instructional Staff	190,143	118,412			308,555
Board of Education	11,590				11,590
Administration	459,454	7,435			466,889
Fiscal Services	197,009	1,710			198,719
Operation and Maintenance - Plant	435,016	1,129			436,145
Pupil Transportation	415,279	280			415,559
Community Services		4,000			4,000
Extracurricular Activities:					
Academic and Subject Oriented Activities	61,822	11,576			73,398
Sports Oriented		39,951			39,951
Facilities Acquisition and Construction Services:					
Architecture and Engineering				91,518	91,518
Building Acquisition and Construction				7,688,088	7,688,088
Debt Service:					
Repayment of Debt			687,381		687,381
Total Disbursements	4,151,079	876,093	687,381	7,844,203	13,558,756
Excess of Receipts Over/(Under) Disbursements	(466,590)	53,032	33,154	(3,445,072)	(3,825,476)
OTHER FINANCING SOURCES/(USES):					
Advance From State Solvency Assistance	766,000				766,000
Refund of Prior Year Expenditures		70			70
Total Other Financing Sources/(Uses)	766,000	70	0	0	766,070
Excess of Receipts and Other Financing Sources Over/(Under) Disbursements and Other Financing (Uses)	299,410	53,102	33,154	(3,445,072)	(3,059,406)
Fund Cash Balances, July 1	178,506	163,651	108,765	5,014,138	5,465,060
Fund Cash Balances, June 30	\$ 477,916	\$ 216,753	\$ 141,919	\$ 1,569,066	\$ 2,405,654

The notes to the financial statements are an integral part of this statement.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND
CASH BALANCES - PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Proprietary Fund Types	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency	
OPERATING RECEIPTS:			
Food Service	\$ 84,806	\$	\$ 84,806
Extracurricular Activities		27,995	27,995
Classroom Materials and Fees	7,946		7,946
Total Operating Receipts	92,752	27,995	120,747
OPERATING DISBURSEMENTS:			
Personal Services - Salaries	101,743		101,743
Employees' Retirement and Insurance	49,920		49,920
Purchased Services	141	203	344
Supplies and Materials	112,619	30,507	143,126
Capital Outlay	3,215		3,215
Other	1,205	40	1,245
Total Operating Disbursements	268,843	30,750	299,593
Operating Income/(Loss)	(176,091)	(2,755)	(178,846)
NONOPERATING RECEIPTS/(DISBURSEMENTS):			
Miscellaneous	2,205	377	2,582
State Restricted Grants-In-Aid	11,799		11,799
Federal Unrestricted Grants-In-Aid	135,277		135,277
Total Nonoperating Receipts/(Disbursements)	149,281	377	149,658
Net Income/(Loss)	(26,810)	(2,378)	(29,188)
Fund Cash Balances, July 1	27,586	20,606	48,192
Fund Cash Balances, June 30	\$ 776	\$ 18,228	\$ 19,004

The notes to the financial statements are an integral part of this statement.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
ALL BUDGETED FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental			
General	\$ 4,434,095	\$ 4,450,489	\$ 16,394
Special Revenue	1,035,763	929,195	(106,568)
Debt Service	720,661	720,535	(126)
Capital Projects	4,428,242	4,399,131	(29,111)
Proprietary			
Enterprise	277,100	242,033	(35,067)
Fiduciary			
Agency	47,478	28,372	(19,106)
Totals (Memorandum Only)	<u>\$ 10,943,339</u>	<u>\$ 10,769,755</u>	<u>\$ (173,584)</u>

The notes to the financial statements are an integral part of this statement.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES
COMPARED WITH EXPENDITURE AUTHORITY - ALL BUDGETED FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Fund Types/Funds</u>	<u>Prior Year Carryover Appropriations</u>	<u>Appropriations</u>	<u>Total</u>
Governmental			
General	\$ 14,833	\$ 4,373,073	\$ 4,387,906
Special Revenue	18,965	1,024,810	1,043,775
Debt Service		686,335	686,335
Capital Projects	800,648	8,543,474	9,344,122
Proprietary			
Enterprise		290,409	290,409
Fiduciary			
Agency	<u>290</u>	<u>59,946</u>	<u>60,236</u>
Totals (Memorandum Only)	<u>\$ 834,736</u>	<u>\$ 14,978,047</u>	<u>\$ 15,812,783</u>

The notes to the financial statements are an integral part of this statement.

<u>Disbursements</u>	<u>Encumbrances Outstanding 6/30/01</u>	<u>Total</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 4,151,079	\$ 8,424	\$ 4,159,503	\$ 228,403
876,093	18,180	894,273	149,502
687,381		687,381	(1,046)
7,844,203	1,268,105	9,112,308	231,814
268,843		268,843	21,566
30,750		30,750	29,486
<u>\$ 13,858,349</u>	<u>\$ 1,294,709</u>	<u>\$ 15,153,058</u>	<u>\$ 659,725</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. SUMMARY OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Southern Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and/or local guidelines.

The School District is staffed by 61 certificated employees and 36 non-certificated employees who provide services to 761 students. The School District currently operates three elementary schools, one junior high and one high school. Beginning for school year 2001-2002 the School District will operate one elementary school and one high school.

The Auditor of the State of Ohio declared the School District to be in fiscal emergency on November 8, 1999. A financial planning and supervision commission has been established to develop and oversee a financial recovery plan which must be submitted to the State Superintendent of Public Instruction. Once developed, the Southern Local School District Board will be prohibited from taking any action which is contrary to or not authorized by the plan.

As of August 31, 2001, the School District had an unaudited negative fund cash balances of \$26,097 in the Food Service Fund, \$1,673 in the Uniform School Supply Fund, \$5,428 in the Title I Fund, \$6,490 in the Title VI-B Fund and \$8,883 in the DPIA Fund. The School District is waiting on grant revenue which is expected to balance these funds. As of August 31, 2001, the School District's General Fund balances could not cover these deficits.

The School District has adopted a budget for 2002 which includes payments for the two Solvency Assistance Advance Loans.

The School District has forecast an operating deficit of \$778,929 for the fiscal year ending June 30, 2002. The School District has also forecast an operating deficit for the fiscal years ending 2003 through 2005. As of August 31, 2001, no cost cutting measures have been implemented by the School District.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Southern Local School District, this includes general operations, food service and student related activities.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organizations' governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organizations' resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also included organizations that are fiscally dependent on the School District in that the District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the School District. The School District is associated with the Southeast Ohio Voluntary Educational Consortium, which is defined as a jointly governed organization, and the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool. These organizations are presented in Notes 11 and 12.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03(B) to file its annual financial report pursuant with accounting principles generally accepted in the United States of America, the School District chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as formerly prescribed or permitted by the Auditor of State.

B. Pooled Cash

The School District Treasurer invests available funds of the School District in interest-bearing checking accounts with commercial banks.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings.

C. Fund Accounting

The School District maintains its accounting records in accordance with the principles of fund accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds.

The restrictions associated with each type of fund are as follows:

1. Governmental Fund Types

General Fund

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

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

1. Governmental Fund Types (Continued)

Special Revenue Funds

The Special Revenue Funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs. According to governmental accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds. For purposes of this report, these funds have been classified into the proper groups, if practicable.

Capital Projects Funds

The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

2. Proprietary Fund Type

Enterprise Funds

The Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. Fiduciary Fund Type

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include agency funds. Agency funds are purely custodial and thus do not involve measurement of results of operations.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

1. Budget

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation 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 primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

2. Tax Budget

Prior to January 15, the Superintendent and Treasurer submit, to the Board of Education, a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates.

By no later than January 20, the Board-adopted budget is filed with the Meigs County Budget Commission for rate determination.

3. Estimated Resources

The County Budget Commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year.

Prior to June 30, the School District must revise its budget so that the total contemplated disbursements from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2000, unencumbered fund balances. However, those fund balances are available for appropriations

4. Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

5. Encumbrances

The School District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts, and other commitments for the disbursement of funds are recorded in order to reserve the portion of the applicable appropriation.

6. 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.

E. Property, Plant and Equipment

Fixed assets acquired or constructed for the School District are recorded as disbursements. Depreciation is not recorded for these fixed assets.

F. Accumulated Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

G. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

3. EQUITY IN POOLED CASH

The School District maintains a cash pool which is used by all funds. Each fund type's portion of this pool is displayed on the "Combined Statement of Cash and Fund Cash Balances" as "Cash Balances by Fund Type."

State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation, 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.

- a. 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;
- b. 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;
- c. 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;
- d. Bonds and other obligations of the State of Ohio;
- e. 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;
- f. The State Treasurer's investment pool (STAROhio);

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

3. EQUITY IN POOLED CASH (Continued)

- g. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
- h. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature with five years from the date of purchase unless matched to a specific obligation or debt of the School 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.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits - At fiscal year end, the carrying amount of the School District's deposits was \$2,424,658 and the bank balance was \$2,461,628. Of the bank balance, \$100,000 was covered by federal deposit insurance, and \$2,361,628 was collateralized by securities held by a third party bank in the School District's name.

4. BUDGETARY COMPLIANCE

Expenditures exceeded appropriations for all funds and line items from October 1, 2000 through May 28, 2001 due to the School District not adopting its permanent appropriations until May 29, 2001, contrary to Section 5705.41(B), Ohio Rev. Code. Also at June 30, 2001, expenditures exceeded appropriations in the Debt Service Fund in the amount of \$1,046, contrary to Section 5705.41(B), Ohio Rev. Code.

The following funds had total appropriations (current appropriations plus outstanding encumbrances), that exceeded the available resources (actual receipts plus July 1, 2000 beginning fund balance), at June 30, 2001 contrary to Section 5705.36, Ohio Rev. Code:

Entry Year Program Fund	\$4,000
DPIA	\$367
Title I	\$40,259
Title VI	\$694
Drug Free Schools	\$422
Goals 2000	\$111
Food Service	\$15,589
Uniform School Supplies	\$5,201
Student Managed Activities	\$11,612

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

4. BUDGETARY COMPLIANCE (Continued)

The DPIA Fund had a negative fund of \$10,127 at June 30, 2001. Also, the General Fund and the State Classroom Facilities Fund had a negative fund balances of \$212,006 and 132,700, respectively, at December 31, 2000, contrary to Section 5705.10, Ohio Rev. Code.

The School District had expenditures that had invoice dates preceding the certification dates and no corresponding Then and Now Certificate was obtained, contrary to Section 5705.41(D), Ohio Rev. Code.

5. PROPERTY TAXES

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Board of Education. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the School District.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the School District.

6. DEBT OBLIGATIONS

The School District's long-term obligations at June 30, 2001 were as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Asbestos Loan	\$135,839	0.000%
Energy Conservation Bonds	185,913	5.750%
FY00 Solvency Advance Debt	313,500	0.000%
FY01 Solvency Advance Debt	766,000	0.000%
School Facilities Construction and Improvement Bonds	3,835,000	4.625%
Total	<u>\$5,236,252</u>	

Asbestos Loan

On May 25, 1993, the School District obtained a loan, in the amount of \$212,618, for removing asbestos. The loan was obtained under the authority of Ohio Rev. Code § 3317.22 for a twenty year period, with the first payment due in fiscal year 1995 and the final maturity in fiscal year 2013. The loan is being retired through the Bond Retirement debt service fund.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

6. DEBT OBLIGATIONS (Continued)

Energy Conservation Bonds

On August 15, 1994, the School District issued \$430,000 general obligation bonds for school energy conservation in the school buildings. The bonds were issued under the authority of Ohio Rev. Code §133.06 (G) without a vote of the people for a ten year period, with final maturity in fiscal year 2005. The bonds are being retired through the Bond Retirement debt service fund.

School Facilities Construction and Improvement Bonds

On December 1, 1998, the School District issued \$4,042,000 in voted general obligation bonds for constructing, renovating, and adding to buildings; furnishing and equipping such buildings; and improving School District sites. The bond issue included serial and term bonds, in the amount of \$1,432,000 and \$2,610,000 respectively. The bonds were issued for a twenty-three fiscal year period, with final maturity date during fiscal year 2022.

FY00 Solvency Assistance Fund Advance

On January 18, 2000, the School District obtained a loan, in the amount of \$627,000, from the State of Ohio Department of Education Solvency Assistance Fund. The loan was obtained under the authority of Ohio Rev. Code Section 3316.20 for a three year period, with the first payment due in August, 2000 and the final payment due in June, 2002. The loan is being retired through bi-monthly deductions from the School District's State Foundation Settlements.

FY01 Solvency Assistance Fund Advance

On April 24, 2001, The School District obtained a loan, in the amount of \$766,000, from the State of Ohio Department of Education Solvency Assistance Fund. This loan was obtained under the authority of Ohio Rev. Code Section 3316.20 for a three year period, with the first payment due in August, 2001 and the final payment due in June, 2003. This loan is being retired through bi-monthly deductions from the School District's State Foundation Settlements.

The annual requirements to amortize debt outstanding as of June 30, 2001, including interest payments, are as follows:

Year Ending June 30	Asbestos School Hazard Loan	School Energy Conservation Bonds	FY00 Solvency Assistance Fund Advance	FY01 Solvency Assistance Fund Advance	Facilities Construction and Improvement Bonds	Total
2002	\$11,812	\$56,500	\$383,000	\$313,500	\$293,171	\$1,057,983
2003	11,812	58,913	383,000	0	294,120	747,845
2004	11,812	56,038	0	0	294,771	362,621
2005	11,812	58,162	0	0	290,211	360,185
2006	11,812	0	0	0	290,463	302,275
2007-	59,060	0	0	0	1,450,390	1,509,450
2012-	17,718	0	0	0	1,450,034	1,467,752
2017-	0	0	0	0	1,442,056	1,442,056
2022	0	0	0	0	286,475	286,475
Total	\$135,838	\$229,613	\$766,000	\$313,500	\$6,091,691	\$7,536,642

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

7. RISK MANAGEMENT

The School 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. During fiscal year ending June 30, 2001 the School District contracted with Owners Insurance Company for property insurance and Inland Marine coverage. The policies include a \$500 deductible for the property insurance and \$100 for Inland Marine coverage.

Professional and general liability is protected by Nationwide Insurance with a \$2,000,000 single occurrence limit with \$5,000,000 aggregate and no deductible. Vehicles are covered by Nationwide Insurance and hold a \$1,000 deductible for collision. Vehicle liability had a \$5,000,000 combined single limit of liability. Boiler insurance is provided by the Hartford Steam Boiler Inspection and Insurance Company. Settled claims have not exceeded any aforementioned commercial coverage in any of the past three years.

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 salaries. This rate is calculated based on accident history and administrative costs.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001, 4.2 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2000, 5.5 percent was 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 School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$29,020, \$51,094, and \$62,729 respectively. 100 percent has been contributed for fiscal years 2001, 2000, and 1999.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established 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 for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2001, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000, the portion used to fund pension obligations was 6.0 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$206,462, \$135,057, and \$238,513, respectively. 100 percent has been contributed for fiscal years 2001, 2000, and 1999.

9. POST-EMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$97,798 for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2000, (the latest information available) the balance in the Fund was \$3,419 million. For the year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.80 percent of covered payroll, an increase of 1.3 percent for fiscal year 2000. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during 2001 fiscal year equaled \$73,666.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

9. POST-EMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2000 (the latest information available), were \$140,696,340 and the target level was \$211 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

10. OTHER EMPLOYEE BENEFITS

The School District provides medical insurance for all eligible employees through Medical Mutual of Ohio. The School District pays monthly premiums of \$698.52 for family and \$250.68 for individual coverage. The policy also provides life insurance and accidental death and dismemberment insurance for all eligible employees in the amount of \$10,000 at a premium cost to the District of \$2.20 per employee. Premiums are paid from the same funds that pay the employees' salaries.

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Coresource in the amount of \$25,000 for certified employees and \$30,000 for non-certified employees.

Dental coverage is provided through Coresource. Premiums for this coverage are \$44.24 monthly for family and individual coverage. The School District also provides vision insurance to its employees through Vision Plus. The monthly premium for this coverage is \$19.48 for employees with dependents and \$7.37 for employees without dependents.

11. JOINTLY GOVERNED ORGANIZATIONS

Southeastern Ohio Voluntary Educational Consortium (SEOVEC)

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC's governing board is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. To obtain financial information write to the Southeastern Ohio Voluntary Educational Consortium, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

12. INSURANCE PURCHASING POOL

Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool.

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

13. STATUTORY RESERVES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. The School District is also required to set aside money for budget stabilization. The following information describes the change in the year-end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State.

	Textbook	Capital Acquisition	Budget Stabilization	Total
Set-aside Reserve Balance as of June 30, 2000	\$ (41,756)	\$ (9,767)	\$ 24,836	\$ (26,687)
Total Offsets	0	(70,900)	0	(70,900)
Current Year Set-aside Requirement	98,796	98,796	12,449	210,041
Qualifying Disbursements	<u>(118,188)</u>	<u>(7,779,607)</u>	<u>0</u>	<u>(7,897,795)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$ (61,148)</u>	<u>\$ (7,761,478)</u>	<u>\$ 37,285</u>	<u>\$ (7,785,341)</u>
Set-aside Reserve Balance as of June 30, 2001	<u>\$ (61,148)</u>	<u>\$ (7,761,478)</u>	<u>\$ 37,285</u>	<u>\$ (7,785,341)</u>

The set-aside reserve balances as of June 30, 2000 are restated from the amounts appearing in the District's financial statements for the year ended June 30, 2000.

On April 10, 2001, Senate Bill 345 eliminated the Budget Stabilization Reserve and required the School District's Board of Education to designate its intended use of the Reserve. The current year set-aside requirement for the Reserve is from a Bureau of Workers' Compensation refund received prior to April 10, 2001 at which time the set aside was required. As of September 6, 2001, the Board of Education has not designated its intended use of the Reserve.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

13. STATUTORY RESERVES (Continued)

The School District had qualifying disbursements during the fiscal year that reduced the textbook and capital acquisition set-aside amounts to below zero. This extra amount may be used to reduce the set-aside requirement of future years.

14. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- ▶ A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- ▶ Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of September 6, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

15. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2001.

B. Litigation

There are currently no matters in litigation with the School District as defendant.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

16. CONTRACTUAL COMMITMENTS

The School District has entered into the following contractual agreements which had an outstanding balance as of June 30, 2001.

<u>Vendor</u>	<u>Outstanding Balance</u>
Quandel Group, Inc.	\$3,662
Geiger Brothers Mechanical	235,565
Wesam Construction	361,557
Capitol Aluminum	4,505
Farnham Equipment	16,310
Polstar	149,403
Cabling Concepts	18,557
Brewer & Company	10,766
J.J. Morley Enterprises	4,921
D.V. Weber	1,041
Lang Masonry	19,607
KAL Electric	<u>150,563</u>
 Total	 <u><u>\$976,457</u></u>

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**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through the Ohio Department of Education</i>						
Nutrition Cluster:						
Food Distribution	10.550	N/A	\$	\$ 18,627	\$	\$ 19,321
School Breakfast Program	10.553	05-PU-00 05-PU-01	5,182 <u>35,092</u>		5,182 <u>35,092</u>	
Total School Breakfast Program			<u>40,274</u>	<u>0</u>	<u>40,274</u>	<u>0</u>
National School Lunch Program	10.555	LL-P1-00 LL-P4-00 LL-P1-01 LL-P4-01	10,897 2,093 68,241 <u>13,769</u>		10,897 2,093 68,241 <u>13,769</u>	
Total National School Lunch Program			<u>95,000</u>	<u>0</u>	<u>95,000</u>	<u>0</u>
Total Nutrition Cluster			<u>135,274</u>	<u>18,627</u>	<u>135,274</u>	<u>19,321</u>
Total United States Department of Agriculture			135,274	18,627	135,274	19,321
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through the Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	84.010	C1-S1-00 C1-S1-01	36,550 <u>215,114</u>		58,778 <u>201,363</u>	
Total Title I Grants to Local Educational Agencies			<u>251,664</u>	<u>0</u>	<u>260,141</u>	<u>0</u>
Special Education Cluster:						
Special Education - Grants to States	84.027	6B-SF-99P 6B-SF-00P	71,552 <u>71,552</u>		7,291 <u>64,915</u>	
Total Special Education - Grants to States			<u>71,552</u>	<u>0</u>	<u>72,206</u>	<u>0</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	DR-S1-00 DR-S1-01	2,882 <u>2,882</u>		2,212 <u>600</u>	
Total Safe and Drug-Free Schools and Communities - State Grants			<u>2,882</u>	<u>0</u>	<u>2,812</u>	<u>0</u>
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	G2-S1-00 G2-S2-00 G2-S1-01 G2-S2-01	21,000 35,108 <u>14,000</u> <u>70,108</u>		7,727 12,002 15,663 <u>0</u>	
Total Goals 2000 - State and Local Education Systemic Improvement Grants			<u>70,108</u>	<u>0</u>	<u>35,392</u>	<u>0</u>
Eisenhower Professional Development State Grants	84.281	MS-S1-00 MS-S1-01	6,244 <u>6,244</u>		6,266 <u>3,237</u>	
Total Eisenhower Professional Development State Grants			<u>6,244</u>	<u>0</u>	<u>9,503</u>	<u>0</u>
Innovative Education Program Strategies	84.298	C2-S1-00 C2-S1-01	3,249 <u>3,249</u>		2,453 <u>3,794</u>	
Total Innovative Education Program Strategies			<u>3,249</u>	<u>0</u>	<u>6,247</u>	<u>0</u>
<i>Passed through the Ohio University</i>						
Appalachian Rural Systemic Initiative	84.001		0	0	234	0
Class Size Reduction	84.340	CR-S1-00 CR-S1-01	12,771 <u>26,259</u> <u>39,030</u>		12,771 <u>18,360</u> <u>31,131</u>	
Total Class Size Reduction			<u>39,030</u>	<u>0</u>	<u>31,131</u>	<u>0</u>
Total United States Department of Education			<u>444,729</u>	<u>0</u>	<u>417,666</u>	<u>0</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 580,003</u>	<u>\$ 18,627</u>	<u>\$ 552,940</u>	<u>\$ 19,321</u>

The notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2001, the School District had no significant food commodities in inventory.



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OFFICE OF THE AUDITOR

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Southern Local School District
Meigs County
Box 176, Elm Street
Racine, Ohio 45771

To the Board of Education:

We have audited the financial statements of the Southern Local School District, Meigs County, Ohio (the School District), as of and for the year ended June 30, 2001, and have issued our report thereon dated September 6, 2001, wherein we noted that the School District had not adopted accounting principles generally accepted in the United States of America. We also expressed substantial doubt about the School District's ability to continue as a going concern. 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.

Compliance

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as item 2001-10705-001 through 2001-10705-006. We also noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated September 6, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2001-10753-002 through 2001-10753-006.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe reportable conditions 2001-10753-002 through 2001-10753-006 described above are material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the School District in a separate letter dated September 6, 2001.

This report is intended for the information and use of the audit committee, management, Board of Education, 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.

Jim Petro
Auditor of State

September 6, 2001



STATE OF OHIO
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Southern Local School District
Meigs County
Box 176, Elm Street
Racine, Ohio 45771

To the Board of Education:

Compliance

We have audited the compliance of the Southern Local School District, Meigs County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2001. The School 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 School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School 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, 2001.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to the management of the School District in a separate letter dated September 6, 2001.

This report is intended for the information and use of the audit committee, management, Board of Education, 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.

Jim Petro
Auditor of State

September 6, 2001

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

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

Finding Number 2001-10753-001

Noncompliance Citation

Ohio Admin. Code § 117-2-03(B) requires the School District to file its annual financial report pursuant to generally accepted accounting principles.

As in previous fiscal years, the School District prepared its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other legal administrative remedies, including being placed in fiscal caution, may be taken against the School District.

We recommend the School District take the necessary steps to ensure the annual financial report is prepared on a generally accepted accounting principles basis.

Finding Number 2000-10753-002

Noncompliance Citation and Material Weakness

Ohio Rev. Code § 5705.10 requires that money paid into any fund shall be used only for the purposes of which such fund is established.

The DPIA Fund had a negative fund balance of \$10,127 at June 30, 2001. Also, the General Fund and the State Classroom Facilities Fund had negative fund balances of \$212,006 and \$132,700, respectively, at December 31, 2000.

Since the School District uses a cash pool for all funds, a negative fund cash balance indicates cash from one fund was used to pay the obligation of another. We recommend the School District not pay obligations of one fund with monies from another fund. We also recommend the Board take steps to control spending or increase revenue sources in these funds to help prevent the deficit fund cash balances, and closely review the School District's financial activity. This review should include beginning fund balances, receipts, disbursements, and ending fund balances, on a monthly basis, as well as budgeted and actual revenues and expenditures.

Finding Number 2001-10753-003

Noncompliance Citation and Material Weakness

Ohio Rev. Code § 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

Expenditures exceeded appropriations for all funds and line-items from October 1, 2000 through May 28, 2001 due to the District not adopting its permanent appropriations until May 29, 2001. Also at June 30, 2001, expenditures exceeded appropriations in the Debt Service Fund in the amount of \$1,046.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

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

Finding Number 2001-10753-003 (Continued)

Noncompliance Citation and Material Weakness (Continued)

Ohio Rev. Code § 5705.41 (B)(Continued)

We recommend the School District approve permanent appropriations by the required date and also that the Board of Education monitor appropriations and expenditures to ensure that expenditures do not exceed appropriations.

Finding Number 2001-10753-004

Noncompliance Citation and Material Weakness

Ohio Rev. Code § 5705.36 allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon the determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

The total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

At June 30, 2001, fifty nine percent of the School District's funds reflected estimated receipts greater than actual receipts.

The School District also had total appropriation (current appropriations plus outstanding encumbrances), that exceeded the available resources (actual receipts plus July 1, 2001 beginning fund balance), at June 30, 2001, in the following funds:

Fund Name	Total Appropriations	Available Resources	Variance
Entry Year Program	\$4,000	\$0	\$(4,000)
DPIA	\$315,715	\$315,348	\$(367)
Title I	\$314,152	\$273,893	\$(40,259)
Title VI	\$6,396	\$5,702	\$(694)
Drug Free Schools	\$5,517	\$5,095	\$(422)
Goals 2000	\$60,868	\$60,757	\$(111)
Food Service	\$275,909	\$260,320	\$(15,589)
Uniform School Supplies	\$14,500	\$9,299	\$(5,201)
Student Managed Activities	\$60,236	\$48,624	\$(11,612)

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number 2001-10753-004 (Continued)

Noncompliance Citation and Material Weakness (Continued)

Ohio Rev. Code § 5705.36 (Continued)

This could have resulted in deficit spending.

We recommend the School District obtain a reduced amended certificate of estimated resources when it becomes apparent the School District is going to receive less than what was estimated. We also recommend the School District's management monitor the effect of the reduction in relation to their appropriations and make amendments as needed.

Finding Number 2001-10753-005

Noncompliance Citation and Material Weakness

Ohio Rev. Code §5705.41(D) states that in part that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$100 for counties, or less than \$1,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Of the transactions tested, 15% of the expenditures had invoice dates preceding the certification dates and no corresponding Then and Now Certificate was obtained. This could lead to obligations being entered into when there is not sufficient funds available to cover the transaction and did contribute to the negative fund balance in Finding Number 2000-10753-002 above.

We recommend the School District Treasurer certify the availability of funds prior to ordering goods or services.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number 2001-10753-006

Reportable Condition and Material Weakness

Budgeted Appropriation Postings

Appropriations as approved by the Board of Education did not agree to the amounts posted to the School District's system. Also, amended certificates as approved by the Budget Commission did not agree to the amounts posted to the School District's system. Therefore, budgetary information being reviewed by management ,on the School District's budget vs actual reports, was incorrect. This allowed management of the School District to make financial decisions that were based on incorrect information. The Board approved appropriations and estimated receipts are reflected in the audited: Combined Statement of Receipts - Budget and Actual and Combined Statement of Disbursements and Encumbrances Compared with Expenditure Authority.

We recommend the School District establishes a written policy/procedure that would require the comparison of the budgetary amounts approved to those posted to the system. The policy/procedure should require specific documentation of such review, such as the reviewers initial/date, as an indication that the policy/procedure is being performed.

3. FINDINGS FOR FEDERAL AWARDS

There were no findings related to federal awards.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2000-10753-001	A noncompliance citation was issued under former Ohio Admin. Code Section 117-2-01, for failing to prepare the School District's financial statements in accordance with generally accepted accounting principles.	No	Not Corrected: The School District's officials did not believe that preparing financial statements in accordance with generally accepted accounting principles was cost beneficial. Refer to finding number 2001-10753-001 above.
2000-10753-002	A noncompliance citation was issued under Ohio Rev. Code Section 5705.10; the School District maintained negative fund balances.	No	Not Corrected: Refer to finding number 2001-10753-002 above.
2000-10753-003	A noncompliance citation was issued under Ohio Rev. Code Section 5705.29(H) and Ohio Admin. Code Section 301-92-03 and Section 117-1-24 (budgetary stabilization); Ohio Rev. Code Section 3315.17-.171 and Ohio Admin. Code Section 301-92-01(textbooks); and Ohio Rev. Code Section 3315.18-.181 and Ohio Admin. Code Section 3301-92-02 (capital); the School District did not calculate the base amount as defined by the Code, nor did the School District properly account for the textbooks and capital reserves in the General Fund.	Yes	Corrected

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2000-10753-004	A noncompliance citation was issued under Ohio Rev. Code Section 5705.39; appropriations exceeded the total estimated revenue.	Yes	Corrected
2000-10753-005	A noncompliance citation was issued under Ohio Revised Code Section 5705.40; supplemental appropriations approved by the Board of Education were not always properly posted to the system.	No	Citation No Longer Valid: There were no amendments during FY2001, however, appropriations and estimated receipts approved by the Board of Education did not agree to the system. Refer to finding number 2001-10753-007 above.



STATE OF OHIO
OFFICE OF THE AUDITOR

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SOUTHERN LOCAL SCHOOL DISTRICT

MEIGS 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
NOVEMBER 8, 2001**