



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

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STATE OF OHIO
OFFICE OF THE AUDITOR

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REPORT OF INDEPENDENT ACCOUNTANTS

Southern Local School District
Perry County
10390 State Route 155 SE
Corning, Ohio 45730

To the Board of Education:

We have audited the accompanying financial statements of the Southern Local School District, Perry County, Ohio (the School District), as of and for the year ended June 30, 2002. 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 accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes 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 investments and combined fund cash balances of the Southern Local School District, Perry County, as of June 30, 2002, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements, for the year then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2002, 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.

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, 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.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

September 17, 2002

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**COMBINED STATEMENT OF CASH, INVESTMENTS AND FUND
CASH BALANCES
ALL FUND TYPES
AS OF JUNE 30, 2002**

Cash	\$ 6,552,939
Investments	<u>572,964</u>
Total	<u><u>\$ 7,125,903</u></u>

CASH BALANCES BY FUND TYPE

Governmental Funds:	
General Fund	\$ 1,026,378
Special Revenue Funds	173,541
Debt Service Funds	228,970
Capital Projects Funds	5,342,492
Proprietary Funds:	
Enterprise Funds	2,393
Internal Service	319,522
Fiduciary Funds:	
Expendable Trust	9,291
Agency Funds	<u>23,316</u>
Total	<u><u>\$ 7,125,903</u></u>

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

SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDING JUNE 30, 2002**

	Governmental Fund Types			Fiduciary	Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects		Expendable Trust
RECEIPTS:						
Receipts from Local Sources:						
Taxes	\$ 654,441	\$ 14,435	\$ 167,523	\$	\$	\$ 836,399
Earnings on Investments	47,918			38,290	3	86,211
Extracurricular Activities		119,323				119,323
Classroom Material & Fees	13,740					13,740
Miscellaneous	138,197	52,362		920	8,857	200,336
Receipts from State Sources:						
Unrestricted Grants-In-Aid	5,771,820	2,277	26,385			5,800,482
Restricted Grants-In-Aid	232,232	339,595		5,267,516		5,839,343
Receipts from Federal Sources:						
Restricted Grants-In-Aid		410,705				410,705
Total Receipts	6,858,348	938,697	193,908	5,306,726	8,860	13,306,539
DISBURSEMENTS:						
Instruction:						
Regular	2,539,321	275,051		66,921	5,479	2,886,772
Special	1,177,432	313,984				1,491,416
Vocational Education	91,274					91,274
Supporting Services:						
Pupils	188,853	83,245				272,098
Instructional Staff	246,404	92,672				339,076
Board of Education	101,980					101,980
Administration	628,786	27,164				655,950
Fiscal Services	193,897	745	5,993	18,562		219,197
Operation and Maintenance - Plant	682,950					682,950
Pupil Transportation	474,439					474,439
Central	47,931	4,900				52,831
Operation of Noninstructional Services:						
Food Services Operations	26,657					26,657
Extracurricular Activities:						
Academic and Subject Oriented Activities	10,712	39,759				50,471
Sports Oriented	80,964	30,160				111,124
Co-Curricular Activities	24,203	91,901				116,104
Facilities Acquisition and Construction Services:						
Architecture and Engineering				354,794		354,794
Building Acquisition and Construction				503		503
Building Improvement				18,615		18,615
Debt Service:						
Repayment of Debt	17,293		159,487			176,780
Total Disbursements	6,533,096	959,581	165,480	459,395	5,479	8,123,031
Excess of Receipts Over/(Under) Disbursements	325,252	(20,884)	28,428	4,847,331	3,381	5,183,508
Fund Cash Balances, July 1	701,126	194,425	200,542	495,161	5,910	1,597,164
Fund Cash Balances, June 30	\$ 1,026,378	\$ 173,541	\$ 228,970	\$ 5,342,492	\$ 9,291	\$ 6,780,672

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

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND
CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>	
OPERATING RECEIPTS:				
Food Service	\$ 127,786	\$	\$	\$ 127,786
Extracurricular Activities			40,276	40,276
Classroom Materials and Fees	442			442
Total Operating Receipts	<u>128,228</u>		<u>40,276</u>	<u>168,504</u>
OPERATING DISBURSEMENTS:				
Personal Services - Salaries	101,616			101,616
Employees' Retirement and Insurance	44,700			44,700
Purchased Services	211,870	88,503		300,373
Supplies and Materials	473			473
Capital Outlay - Replacement	960			960
Other			43,706	43,706
Total Operating Disbursements	<u>359,619</u>	<u>88,503</u>	<u>43,706</u>	<u>491,828</u>
Operating Income/(Loss)	(231,391)	(88,503)	(3,430)	(323,324)
NONOPERATING RECEIPTS:				
Earnings on Investments			21	21
Miscellaneous	405	114,036	2,737	117,178
State Restricted Grants-In-Aid	15,389			15,389
Federal Unrestricted Grants-In-Aid	215,665			215,665
Total Nonoperating Receipts	<u>231,459</u>	<u>114,036</u>	<u>2,758</u>	<u>348,253</u>
Net Income/(Loss)	68	25,533	(672)	24,929
Fund Cash Balances, July 1	<u>2,325</u>	<u>293,989</u>	<u>23,988</u>	<u>320,302</u>
Fund Cash Balances, June 30	<u>\$ 2,393</u>	<u>\$ 319,522</u>	<u>\$ 23,316</u>	<u>\$ 345,231</u>

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

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**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
ALL BUDGETED FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental			
General	\$ 6,840,881	\$ 6,858,348	\$ 17,467
Special Revenue	933,219	938,697	5,478
Debt Service	194,246	193,908	(338)
Capital Projects	5,300,073	5,306,726	6,653
Proprietary			
Enterprise	359,675	359,687	12
Internal Service	114,229	114,036	(193)
Fiduciary			
Expendable Trust	8,859	8,860	1
Totals (Memorandum Only)	<u><u>\$ 13,751,182</u></u>	<u><u>\$ 13,780,262</u></u>	<u><u>29,080</u></u>

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

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS COMPARED WITH
EXPENDITURE AUTHORITY
ALL BUDGETED FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Fund Types/Funds</u>	<u>Prior Year Carryover Appropriations</u>	<u>Appropriations</u>	<u>Total</u>
Governmental			
General	\$ 105,788	\$ 7,436,219	\$ 7,542,007
Special Revenue	16,525	1,111,119	1,127,644
Debt Service		394,788	394,788
Capital Projects	7,168	5,788,066	5,795,234
Proprietary			
Enterprise	150	361,850	362,000
Internal Service		408,218	408,218
Fiduciary			
Expendable Trust	50	12,187	12,237
Totals (Memorandum Only)	<u>\$ 129,681</u>	<u>\$ 15,512,447</u>	<u>\$ 15,642,128</u>

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

<u>Disbursements</u>	<u>Encumbrances Outstanding 6/30/2002</u>	<u>Total</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 6,533,096	\$ 206,057	\$ 6,739,153	\$ 802,854
959,581	41,871	1,001,452	126,192
165,480		165,480	229,308
459,395	46,409	505,804	5,289,430
359,619		359,619	2,381
88,503	1,567	90,070	318,148
5,479	948	6,427	5,810
<u>\$ 8,571,153</u>	<u>\$ 296,852</u>	<u>\$ 8,868,005</u>	<u>\$ 6,774,123</u>

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**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

1. DESCRIPTION OF THE ENTITY

The Southern Local School District, Perry County (the School District), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a local school district as defined by Ohio Revised Code Section 3311.03. The School District operates under an elected Board of Education (five members) and is responsible for the provision of public education to residents of the School District.

Average daily membership (ADM) as of October 1, 2001, was 1,071. The School District employed 86 certificated employees and 87 non-certificated employees.

The School District is associated with the Southeastern Ohio Voluntary Educational Consortium and the Coalition of Rural and Appalachian Schools, which are defined as jointly governed organizations, and the Ohio School Boards Association Worker's Compensation Group Rating Program, an insurance purchasing pool. These organizations are presented in Notes 10 and 11.

The following entities which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District:

- Tri-County Joint Vocational School District
- Perry Hocking Educational Service Center

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 in accordance with accounting principles generally accepted in the United States of America, the School District chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. 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, in accordance with the basis of accounting described in the preceding paragraph.

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the School District in a Fiscal Caution Status. This status requires the School District to submit a corrective action plan to the Department. The Auditor of State has reported this matter to the Ohio Department of Education.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Equity in Pooled Cash

The School District Treasurer invests all available funds of the School District in interest-bearing checking accounts and the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office which allows

governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2002. Income from these investments is distributed according to School District policy.

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.

Special Revenue Funds

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

Debt Service Fund

The Debt Service Fund is 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.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

1. Governmental Fund Types (Continued)

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 and Trust Funds).

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.

Internal Service Funds

The Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost reimbursement basis.

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 expendable trust and agency funds. The expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency Funds are custodial in nature and do not involve measurement of results of operations.

D. Budgetary Process

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year, for the subsequent July 1 to June 30 fiscal year.

2. 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.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

3. 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.

4. 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. 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 appropriations. The encumbered appropriation balance is carried forward to the succeeding year and need not be 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

Accumulated unpaid vacation and sick leave are not accrued under the basis of accounting described in Note 2. At June 30, 2002, management estimates that \$25,195 in vacation leave and \$2,753,375 in sick leave has been accumulated by the employees of the School District. All leave will either be absorbed by time off from work or, within certain limitations, be paid to the employees. It is not practicable to determine the actuarial value of these benefits as of June 30, 2002.

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.

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, Investments and Fund Cash Balances" as "Cash Balances by Fund Type."

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

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

3. EQUITY IN POOLED CASH (Continued)

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. 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 the 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.

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

- 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
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(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 within 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 \$6,552,939 and the bank balance was \$6,674,279. Of the bank balance, \$100,000 was covered by federal deposit insurance, and \$6,574,279 was collateralized by Surety Company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments - Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2002. The School District's investment in STAROhio is not categorized by risk because it is not evidenced by securities that exist in physical or book entry form. The School District's carrying value of its STAROhio investment and the market value was \$572,964 at June 30, 2002.

4. PROPERTY TAX

Real property taxes are levied on assessed values which equal 35% of appraised values. The County Auditor reappraises all real property every six years with a triennial update. The last reappraisal was completed for tax year 1999 for Perry County.

Real property taxes become a lien on all non-exempt real property located in the County on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for fiscal year ended June 30, 2002, was \$39.10 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$28.30 per \$1,000 of assessed valuation for real property classified as residential/agricultural and was \$31.14 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the School District by the State of Ohio.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

4. PROPERTY TAX (Continued)

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for tax year 2001 was \$39.10 per \$1,000 of assessed valuation.

	<u>Perry and Hocking Counties</u>
<u>Real Property - 2001 Valuation</u>	
Residential/Agricultural	\$23,285,690
Commercial/Industrial	2,006,290
Public Utilities	802,050
Minerals	149,500
<u>Tangible Personal Property - 2001 Valuation</u>	
General	1,575,512
Public Utilities	5,102,500
	\$32,921,542
Total	

The Perry and Hocking County Treasurers collect property tax on behalf of all taxing districts within their respective County. The Perry and Hocking County Auditors periodically remit to the taxing districts their portion of the taxes collected.

5. DEBT OBLIGATIONS

Debt outstanding at June 30, 2002, consisted of the following:

School Improvement Advance Refunding Bonds	
Principal Outstanding	\$969,995
Interest Rate	3.7% to 9.6%
School Energy Conservation Loan	
Principal Outstanding	\$28,682
Interest Rate	5.5%
School Facilities Improvement Notes	
Principal Outstanding	\$205,850
Interest Rate	5%

The School Improvement Advance Refunding Bonds are direct obligations of the School District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the School District. The Advance Refunding Bonds were issued in 1998 to reduce the School District's debt service requirements from a previously issued school building construction issue. The School District utilizes a trustee bank to service the bonds. Payments to the bank are recorded as disbursements in the year deposited with the bank.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

5. DEBT OBLIGATIONS (Continued)

The School Energy Conservation Loan was obtained in order to acquire and install equipment and other improvements which constitute energy conservation measures as per House Bill 264.

The School Facilities Improvement Notes were issued to finance building improvements. The notes are direct obligations of the School District for which its full faith, credit and resources are pledged.

The annual requirements to amortize debt outstanding as of June 30, 2002, including interest payments of \$998,591, are as follows:

Year Ending June 30	General Obligation Bonds	School Energy Conservation Loan	School Facilities Improvement Notes	Total
2003	\$148,679	\$17,293	\$16,000	\$181,972
2004	138,710	12,969	16,000	167,679
2005	138,545		16,000	154,545
2006	142,940		16,000	158,940
2007	140,000		16,000	156,000
2008 – 2012	710,000		80,000	790,000
2013 – 2017	420,000		80,000	500,000
2018- 2022			80,000	80,000
2023			13,982	13,982
Total	<u>\$1,838,874</u>	<u>\$30,262</u>	<u>\$333,982</u>	<u>\$2,203,118</u>

6. LEASE OBLIGATION

The School District entered into two, 60 month lease agreements with IOS Capital Inc. for the use of three copiers during fiscal year 2002. The annual requirements to amortize the lease obligations outstanding as of June 30, 2002, are as follows:

June 30	Amount
2003	\$11,543
2004	10,972
2005	10,972
2006	10,972
2007	10,402
Total	<u>\$54,861</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(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 the fiscal year ending June 30, 2002, the School District contracted with the Nationwide Insurance Company for property insurance and boiler and machinery coverage. Buildings and contents are 90% coinsured.

Vehicles are covered the Nationwide Insurance Company and include deductibles of \$25 to \$500. Vehicle liability has a \$1,000,000 single occurrence limit. Professional and general liability is covered through the Hartford Insurance Company with a \$1,000,000 single occurrence limit and a \$3,000,000 aggregate limit.

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.

The School District has chosen to establish a risk financing fund for risks associated with the employee dental and vision insurance plans. The risk financing fund is accounted for as an Internal Service Fund where assets are set aside for claims and assessments. Medical Claims Services Inc. acts as a third party administrator for the payment of claims. A premium is charged to each fund that accounts for part time and full time employees. The premium charge is allocated to each of the funds based on trends in actual claims expense and the percentage of each fund's current year payroll expense to the total payroll expense of the School District.

The School District offers health insurance through a private carrier. The employees contribute \$20 per month for single coverage and \$40 per month for family coverage and the School District pays the balance of the premiums from the same funds from which the employees are paid.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description. 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.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

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 2002, 4.2 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to 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, 2002, 2001, and 2000 were \$33,206, \$37,132, and \$48,009 respectively.

B. State Teachers Retirement System

The School District participates in 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.

For the fiscal year ended June 30, 2002, 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. 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, 2002, 2001, and 2000 were \$299,108, \$296,173, and \$177,544, respectively.

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.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

9. POST-EMPLOYMENT BENEFITS (Continued)

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, 2002, 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 \$141,950 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3,256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 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, 2002 employer contributions to fund health care benefits were 9.8 percent of covered payroll. 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 years 2002 the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during 2002 fiscal year equaled \$87,309.

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, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

10. JOINTLY GOVERNED ORGANIZATIONS

A. 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 30 participants consisting of 28 school districts and 2 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, Perry, Ohio 45701.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

10. JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. The Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization of over one hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The Board members are composed of one superintendent from each County elected by the school districts within that County. The Coalition provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or a financial responsibility for the Coalition.

11. 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.

12. 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 no longer required to set aside additional 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 Statute.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

12. STATUTORY RESERVES (Continued)

	<u>Textbook</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>Total</u>
Set-aside Reserve Cash Balance as of June 30, 2001	\$0	\$0	\$49,207	\$49,207
Current Year Set-aside Requirement	126,631	126,631	0	253,262
Set-aside Credit Balances Carried Forward From Prior Years	(1,424)	0	0	(1,424)
Offset Credits	0	(14,097)	0	(14,097)
Qualifying Disbursements	<u>(135,336)</u>	<u>(151,895)</u>	<u>0</u>	<u>(287,231)</u>
Current Year Reservation Requirement	(\$10,129)	(\$39,361)	\$0	(49,490)
Set-aside Balances Carried Forward to Future Fiscal Year	<u>(\$10,129)</u>	<u>(\$39,361)</u>	<u>\$0</u>	<u>(\$49,490)</u>
Set-aside Reserve Cash Balance as of June 30, 2002	<u>\$0</u>	<u>\$0</u>	<u>\$49,207</u>	<u>\$49,207</u>

The School District had qualifying disbursements during the fiscal year that reduced the textbook and capital acquisition set-aside amounts to below zero. These extra amounts may be used to reduce the set-aside requirement of future years. The Budget Stabilization reserve amount listed in the table above represents Bureau of Workers Compensation rebate amounts previously required by statute to be placed in the account. Senate Bill 345 eliminated the Budget Stabilization Reserve. The Bill requires the Board of Education to designate its intended use of the Reserve.

The Ohio School Facilities Commission agreed that the School District may fund its half-mill maintenance levy obligation for its construction project by establishing an account and funding it with a local donation contribution as provided for in Ohio Revised Code Section 3318.084. The School District has committed \$176,000 for this purpose using the amounts previously designated for budget stabilization purposes consisting of the Bureau of Workers Compensation rebate amounts listed in the table above and additional voluntary contributions from the General Fund. These monies have been transferred to a separate bank account to meet the half-mill levy requirement concerning the classroom facilities maintenance, however, at June 30, 2002, the School District had not transferred the fund balance on the School District's ledgers from the Budget Stabilization Reserve Account within the General Fund to the Classroom Facilities Maintenance Fund.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

13. 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.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirements that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

14. SUBSEQUENT EVENT

During FY 2002, the School District received \$5,224,695 from the Ohio Schools Facilities Commission for the purpose of additions and renovations for the Millcreek Elementary, Miller Jr. High and Miller High School. Additionally, during FY 2001, the School District issued \$214,000 in notes, the proceeds of which will be used as the School District's local match for this project. As of June 30, 2002, these funds remain on deposit with the School District and are reflected in the School District's Capital Projects Fund cash balance on the accompanying financial statements.

On July 9, 2002, the School District awarded bids in relation to this project and these funds to contractors in the amount of \$4,985,189. Total estimated construction costs for the entire project is \$7,774,398. The School District, however, does not reflect a corresponding liability in the accompanying financial statements as the School District reports on a comprehensive basis of accounting other than generally accepted accounting principles.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

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 are 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, 2002.

B. Litigation

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

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**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

FEDERAL GRANTOR/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Cash Receipts	Noncash Receipts	Cash Disbursements	Noncash Disbursements
<u>U.S. Department of Agriculture</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550	\$	\$27,537	\$	\$27,434
National School Breakfast Program	49064-05PU-01/02	10.553	59,827		59,827	
National School Lunch Program	49064-LLP4-01/02	10.555	154,332		154,332	
Total Nutrition Cluster			<u>214,159</u>	<u>27,537</u>	<u>214,159</u>	<u>27,434</u>
Total U.S. Department of Agriculture			214,159	27,537	214,159	27,434
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Educationally Deprived Children - Local Educational Agencies Title I						
	49064-C1-S1-01	84.010	39,444		101,438	
	49064-C1-S1-02	84.010	205,742		164,135	
Total Title I			<u>245,186</u>		<u>265,573</u>	
Education of the Handicapped						
	49064-6B-SF-01	84.027			16,649	
	49064-6B-SF-02	84.027	95,743		84,816	
Total Education of the Handicapped			<u>95,743</u>		<u>101,465</u>	
Drug Free School and Communities Grant						
	49064-DR-S1-02	84.186	10,298		10,298	
Goals 2000 - State and Local Education Systemic Improvement Grants						
	49064-G2-S1-01	84.276			6,294	
	49064-G2-S2-01	84.276			12,662	
	49064-G2-S2-00	84.276			3,589	
Total Goals 2000					<u>22,545</u>	
Eisenhower Professional Development State Grant						
	49064-MS-S1-00	84.281			865	
	49064-MS-S1-01	84.281			2,443	
	49064-MS-S1-02	84.281	7,929		839	
Total Eisenhower Professional Development State Grant			<u>7,929</u>		<u>4,147</u>	
Innovative Programs, IASA Title VI						
	49064-C2-S1-01	84.298			4,505	
	49064-C2-S1-02	84.298	1,621		872	
Total Innovative Programs, IASA Title VI			<u>1,621</u>		<u>5,377</u>	
Reducing Class Size - Title IV R						
	49064-CR-S1-01	84.340	18,051		29,181	
	49064-CR-S1-01	84.340	31,877		16,600	
Total Reducing Class Size - Title IV R			<u>49,928</u>		<u>45,781</u>	
Total U.S. Department of Education			<u>410,705</u>		<u>455,186</u>	
Total Federal Awards Receipts and Expenditures			<u>624,864</u>	<u>27,537</u>	<u>669,345</u>	<u>27,434</u>

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

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

NOTE A – SIGIFICANT 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.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

743 East State Street
Athens Mall, Suite B
Athens, Ohio 45701
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www.auditor.state.oh.us

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

Southern Local School District
Perry County
10390 State Route 155 SE
Corning, Ohio 45730

To the Board of Education:

We have audited the financial statements of the Southern Local School District, Perry County, Ohio (the School District), as of and for the year ended June 30, 2002 and have issued our report thereon dated September 17, 2002, which noted the School District prepares its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03(B). 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 items 2002-11064-001 and 2002-11064-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated September 17, 2002.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we 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 17, 2002.

Southern Local School District
Perry County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

September 17, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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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
Perry County
10390 State Route 155 SE
Corning, Ohio 45730

To the Board of Education:

Compliance

We have audited the compliance of the Southern Local School District, Perry 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, 2002. 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, 2002.

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.

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

September 17, 2002

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2002**

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

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

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

FINDING NUMBER 2002-11064-001

Noncompliance Citation

Ohio Admin. Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles.

The School District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual financial reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes 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 may be taken against the School District.

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the School District in a Fiscal Caution Status. This status requires the School District to submit a corrective action plan to the Department. The Auditor of State has reported this matter to the Ohio Department of Education.

We recommend the School District prepare its annual financial report in accordance with generally accepted accounting principles.

FINDING NUMBER 2002-11064-002

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) states that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two "exceptions" to the above requirements:

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that both at the time of the making of such contract or order and at the time of execution of such certificate, a sufficient sum was appropriated and free of any previous encumbrances, the Board of Education may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

- B. If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of the Board of Education.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

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

FINDING NUMBER 2002-11064-002 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(D) (Continued)

During our testing, we noted 35% of expenditures tested were not certified by the Treasurer until after the liability had been incurred. These commitments were not subsequently certified with a "then and now certificate" or approved by the Board of Education within the aforementioned 30 day time period.

We recommend liabilities, contracts and open purchase commitments be certified by the Treasurer prior to the date of the invoice.

3. FINDINGS FOR FEDERAL AWARDS

There were no findings related to federal awards.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
FOR THE YEAR ENDED JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid;
2001-11064-001	A noncompliance citation was issued under Ohio Admin. Code Section 117-2-03(B), 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.
2001-11064-002	A noncompliance citation was issued under Ohio Rev. Code Section 5705.41(D) for failing to obtain the Treasurer's certification of the availability of funds prior to incurring obligations.	No	Not Corrected – Repeated as Finding 2002-11064-002.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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SOUTHERN LOCAL SCHOOL DISTRICT

PERRY 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
DECEMBER 3, 2002**