



**Auditor of State
Betty Montgomery**

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Southern Local School District
Meigs County
920 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, 2003. 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, 2003, 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 2.

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 \$566,629, for the year ending June 30, 2004. 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 October 15, 2003 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 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. In our opinion, it is fairly stated, 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 15, 2003

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**COMBINED STATEMENT OF CASH AND FUND
CASH BALANCES
ALL FUND TYPES
AS OF JUNE 30, 2003**

Cash	<u><u>\$ 820,042</u></u>
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CASH BALANCES BY FUND TYPE

Governmental Funds:

General	\$ 32,465
Special Revenue	144,440
Debt Service	206,639
Capital Projects	409,239

Proprietary Funds:

Enterprise	8,733
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Fiduciary Funds:

Agency	<u>18,526</u>
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Total	<u><u>\$ 820,042</u></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 YEAR ENDING JUNE 30, 2003**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
RECEIPTS:					
Receipts from Local Sources:					
Taxes	\$ 1,253,113	\$ 26,879	\$ 357,286	\$	\$ 1,637,278
Tuition	3,178				3,178
Earnings on Investments	8,755			797	9,552
Extracurricular Activities	295	91,559			91,854
Classroom Material & Fees	7,934				7,934
Miscellaneous	38,251	100			38,351
Receipts from State Sources:					
Unrestricted Grants-In-Aid	3,232,323	10,324	56,426		3,299,073
Restricted Grants-In-Aid	269,703	369,210		254,326	893,239
Receipts from Federal Sources:					
Restricted Grants-In-Aid		451,325			451,325
Total Receipts	4,813,552	949,397	413,712	255,123	6,431,784
DISBURSEMENTS:					
Instruction:					
Regular	2,016,315	342,796			2,359,111
Special	399,378	319,010			718,388
Vocational Education	248,242				248,242
Other Instruction	191,900				191,900
Supporting Services:					
Pupils	51,992	111,276			163,268
Instructional Staff	194,186	110,200			304,386
Board of Education	11,797				11,797
Administration	710,458	60,751			771,209
Fiscal Services	235,789	1,830	11,059		248,678
Operation and Maintenance - Plant	505,500	72,879			578,379
Pupil Transportation	421,385	4,616			426,001
Central		13,020			13,020
Extracurricular Activities:					
Academic and Subject Oriented Activities	77,536	13,835			91,371
Sports Oriented		43,077			43,077
Facilities Acquisition and Construction Services:					
Architecture and Engineering				15,171	15,171
Building Acquisition and Construction				39,737	39,737
Debt Service:					
Repayment of Debt	593,500		364,845		958,345
Total Disbursements	5,657,978	1,093,290	375,904	54,908	7,182,080
Excess of Receipts Over/(Under) Disbursements	(844,426)	(143,893)	37,808	200,215	(750,296)
OTHER FINANCING SOURCES/(USES)					
Advance from State Solvency Assistance	665,000				665,000
Sale of Assets				85,088	85,088
Refund of Prior Year Expenditures		248			248
Transfers-Out	(4,000)				(4,000)
Advances-Out	(30,417)				(30,417)
Other Miscellaneous Use of Funds				(4,830)	(4,830)
Total Other Financing Sources/(Uses)	630,583	248	0	80,258	711,089
Excess of Receipts and Other Financing Sources Over/(Under) Disbursements and Other Financing (Uses)	(213,843)	(143,645)	37,808	280,473	(39,207)
Fund Cash Balances - July 1	246,308	288,085	168,831	128,766	831,990
Fund Cash Balances - June 30	\$ 32,465	\$ 144,440	\$ 206,639	\$ 409,239	\$ 792,783

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 PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003**

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
OPERATING RECEIPTS:			
Food Service	\$ 113,078	\$ 31,294	\$ 113,078
Extracurricular Activities		31,294	31,294
Classroom Materials and Fees	8,996		8,996
Total Operating Receipts	122,074	31,294	153,368
OPERATING DISBURSEMENTS:			
Personal Services - Salaries	107,587		107,587
Employees' Retirement and Insurance	83,124		83,124
Purchased Services	1,148	47	1,195
Supplies and Materials	126,893	34,397	161,290
Other	176	1,779	1,955
Total Operating Disbursements	318,928	36,223	355,151
Operating Income/(Loss)	(196,854)	(4,929)	(201,783)
NONOPERATING RECEIPTS/(DISBURSEMENTS):			
Miscellaneous	697	251	948
State Unrestricted Grants-In-Aid	28,359		28,359
Federal Restricted Grants-In-Aid	132,818		132,818
Refund of Prior Years Disbursements		97	97
Total Nonoperating Receipts/(Disbursements)	161,874	348	162,222
Excess of Receipts Over/(Under) Disbursements Before Interfund Advances	(34,980)	(4,581)	(39,561)
Transfers-In	4,000		4,000
Advances-In	30,417		30,417
Net Income/(Loss)	(563)	(4,581)	(5,144)
Fund Cash Balances - July 1	9,296	23,107	32,403
Fund Cash Balances - June 30	\$ 8,733	\$ 18,526	\$ 27,259

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 YEAR ENDED JUNE 30, 2003**

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental:			
General	\$ 5,551,242	\$ 5,478,552	\$ (72,690)
Special Revenue	1,115,978	949,645	(166,333)
Debt Service	452,293	413,712	(38,581)
Capital Projects	81,654	340,211	258,557
Proprietary:			
Enterprise	358,517	318,365	(40,152)
Fiduciary:			
Agency	<u>54,700</u>	<u>31,642</u>	<u>(23,058)</u>
Totals (Memorandum Only)	<u><u>\$ 7,614,384</u></u>	<u><u>\$ 7,532,127</u></u>	<u><u>\$ (82,257)</u></u>

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

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**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS COMPARED WITH
EXPENDITURE AUTHORITY - ALL BUDGETED FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Fund Types/Funds</u>	<u>Prior Year Carryover Appropriations</u>	<u>Appropriations</u>	<u>Total</u>
Governmental:			
General	\$ 20,858	\$ 5,779,996	\$ 5,800,854
Special Revenue	15,290	1,281,619	1,296,909
Debt Service		376,845	376,845
Capital Projects	1,094	68,666	69,760
Proprietary:			
Enterprise		342,918	342,918
Fiduciary:			
Agency	<u>66</u>	<u>60,652</u>	<u>60,718</u>
Totals (Memorandum Only)	<u>\$ 37,308</u>	<u>\$ 7,910,696</u>	<u>\$ 7,948,004</u>

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

<u>Disbursements</u>	<u>Encumbrances Outstanding 6/30/2003</u>	<u>Total</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 5,692,395	\$ 7,455	\$ 5,699,850	\$ 101,004
1,093,290	30,501	1,123,791	173,118
375,904		375,904	941
59,738	64,685	124,423	(54,663)
318,928	328	319,256	23,662
36,223	91	36,314	24,404
<u>\$ 7,576,478</u>	<u>\$ 103,060</u>	<u>\$ 7,679,538</u>	<u>\$ 268,466</u>

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**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE ENTITY

The Southern Local School District, Meigs County (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 62 certificated employees and 33 non-certificated employees who provide services to 773 students. The School District currently operates one elementary school and one high school.

The Auditor of 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. The Board of Education will be prohibited from taking any action which is contrary to or not authorized by the plan.

The School District has forecast an operating deficit of \$566,629 for the fiscal year ending June 30, 2004. The School District has also forecast an operating deficit for the fiscal years ending 2005 and 2006. On July 22, 2003, the Financial Planning and Supervisory Commission approved a cost reduction plan for 2004 submitted by the Board of Education that included \$437,500 in cost reductions, comprised mainly of staff reductions. Further, a 3 year, 4.0 mill renewal levy was approved by voters on the November 4, 2003 ballot. The Commission will continue to monitor the School District's progress in increasing revenue and reducing expenditures, as needed.

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 the 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 include 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 Southeastern Ohio Voluntary Education Cooperative and the Coalition of Rural and Appalachian Schools, which are defined as jointly governed organizations, and the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool. The organizations are presented in Notes 11 and 12, respectively.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare 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 the 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 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.

B. Pooled Cash

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

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.

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.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

1. Governmental Fund Types (Continued)

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.

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).

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

Agency Funds

Agency Funds are used to account for assets held by a governmental unit in an agency capacity for individuals, private organizations, other funds and/or governmental units.

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.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

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.

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, 2002, unencumbered fund balances. However, those fund balances are available for appropriations.

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. Encumbrances outstanding at year end are carried over, 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

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.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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;

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

3. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

- 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);
- 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 June 30, 2003, the carrying amount of the School District's deposits was \$820,042 and the bank balance was \$830,586. Of the bank balance, \$100,000 was covered by federal deposit insurance, and \$732,586 was collateralized by securities held by a third party bank in the School District's name.

4. BUDGETARY COMPLIANCE

Contrary to Ohio Revised Code, the Title IV-B Fund, Title VI Fund, and Title II Fund had negative fund balances of \$22,522, \$1,771, and \$7,506 respectively, at June 30, 2003.

The Board of Education did pass a temporary appropriation measure on July 22, 2002; however, contrary to Ohio Revised Code, the Board did not pass the permanent appropriations until April 28, 2003.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

4. BUDGETARY COMPLIANCE (Continued)

Contrary to Ohio Revised Code, budgeted revenue exceeded actual revenue and appropriations were greater than total available revenue at June 30, 2003 in the following funds: General, Title VI-B, Title I, Title VI, Drug Free Grant, Title II, Miscellaneous Federal Grants, Food Service, Uniform School Supplies and Student Activities.

Contrary to the Ohio Revised Code, budgetary expenditures exceeded appropriations at June 30, 2003 in the DPIA Fund, Permanent Improvement Fund and Classroom Facilities Fund.

5. PROPERTY TAX

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

The School District receives property taxes from Meigs County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The amount available as an advance at June 30, 2003 was \$330,610 in the General Fund, \$68,040 in the Debt Service Fund, and \$6,647 in the Classroom Facilities Capital Projects Fund. The amount available as an advance at June 30, 2002, was \$79,163 in the General Fund, \$19,153 in the Debt Service Fund, and \$1,678 in the Classroom Facilities Capital Projects Fund.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

5. PROPERTY TAX (Continued)

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 47,016,500	76.68 %	\$ 47,856,900	74.86 %
Public Utility Personal	11,605,380	18.93	12,746,990	19.94
Tangible Personal Property	2,690,000	4.39	3,326,810	5.20
Total	\$ 61,311,880	100.00 %	\$ 63,930,700	100.00 %
 Tax rate per \$1,000 of assessed valuation	 \$32.39		 \$32.39	

6. DEBT OBLIGATIONS

Debt outstanding at June 30, 2003, consisted of the following:

	Principal	Interest Rate
Asbestos Loan	\$ 112,215	0.00%
Energy Conservation Bonds	105,000	5.75%
FY02 Solvency Assistance Fund Advance	210,500	0.00%
FY03 Solvency Assistance Fund Advance	665,000	0.00%
School Facilities Construction and Improvement Bonds	3,610,000	3.2% -4.625%
Total	\$ 4,702,715	

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 Section 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.

Energy Conservation Bonds

On August 15, 1994, the School District issued \$430,000 in unvoted general obligation bonds for school energy conservation in the school buildings. The bonds were issued under the authority of Ohio Rev. Code Section 133.06(G) for a ten year period, with final maturity in fiscal year 2005. The bonds are being retired through the Bond Retirement Debt Service Fund.

FY02 Solvency Assistance Fund Advance

On April 12, 2002, the School District obtained a loan, in the amount of \$421,000, 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 two year period, with the first payment due in August, 2002 and the final payment due in June, 2004. This loan is being retired through bi-monthly deductions from the School District's State Foundation Settlements in the General Fund.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

6. DEBT OBLIGATIONS (Continued)

FY03 Solvency Assistance Fund Advance

On April 18, 2003, the School District obtained a loan, in the amount of \$665,000, 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, 2004 and the final payment due in June, 2005. This loan is being retired through bi-monthly deductions from the School District's State Foundation Settlements in the General 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 the final maturity date during fiscal year 2022. The bonds are being retired through the Bond Retirement Debt Service Fund.

The annual requirements to amortize debt outstanding as of June 30, 2003, including interest payments of \$1,903,600, are as follows:

Year Ending June 30	Asbestos School Hazard Loan	School Energy Conservation Bonds	FY02 Solvency Assistance Fund Advance	FY03 Solvency Assistance Fund Advance	Facilities Construction and Improvement Bonds	Total
2004	\$ 11,812	\$ 56,037	\$ 210,500	\$ 332,500	\$ 294,771	\$ 905,620
2005	11,812	58,163		332,500	290,211	692,686
2006	11,812				290,464	302,276
2007	11,812				290,426	302,238
2008	11,813				290,059	301,872
2009-2013	53,154				1,452,341	1,505,495
2014-2018					1,446,228	1,446,228
2019-2022					1,149,900	1,149,900
Total	<u>\$ 112,215</u>	<u>\$ 114,200</u>	<u>\$ 210,500</u>	<u>\$ 665,000</u>	<u>\$ 5,504,400</u>	<u>\$ 6,606,315</u>

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, 2003, the School District contracted with The Owners Insurance Company for property insurance and inland marine coverage. The policies include a \$500 deductible.

Professional and general liability is protected by The Great American Alliance Insurance Company with a \$1,000,000 single occurrence limit with \$1,000,000 aggregate and a \$1,000 deductible. Vehicles are covered by Nationwide Insurance Company and hold a \$500 deductible for collision and a \$250 deductible for comprehensive coverage. Vehicle liability had a \$5,000,000 combined single limit of liability. Settled claims have not exceeded any aforementioned commercial coverage in any of the past three years.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

7. RISK MANAGEMENT (Continued)

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. PENSION PLANS

A. School Employees Retirement System

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

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 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 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 years ended June 30, 2003, 2002, and 2001 were \$40,660, \$30,010, and \$29,020, respectively. 100 percent has been contributed for 2003, 2002, and 2001.

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 to members and death and survivor benefits to beneficiaries. STRS issues a stand alone financial report that may be obtained by writing to the STRS Ohio, 275 E. Broad Street, Columbus, Ohio 43215-3371 or by calling (614)227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

8. PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the year ended June 30, 2003, 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 the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS for the years ended June 30, 2003, 2002, and 2001 were \$232,690, \$213,742, and \$206,462, respectively. 100 percent has been contributed for 2003, 2002, and 2001.

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.

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2002, the board allocated employer contribution equal to 4.5 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. Effective July 1, 2002, 1 percent of covered payroll was allocated to the fund. For the School District, the amount to fund health care benefits equaled \$110,221 during the 2003 fiscal year. As of June 30, 2002, eligible recipients totaled 105,300. For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000. The balance in the fund was \$3.011 billion at June 30, 2002.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

9. POST EMPLOYMENT BENEFITS (Continued)

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.

At June 30, 2003, the employer contributions to fund health care benefits were 5.83 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 year 2003, the minimum pay has been established at \$14,500. For the School District the amount to fund health care benefits equaled \$63,596 during the 2003 fiscal year. The number of participants currently receiving health care benefits is approximately 50,000. For the fiscal year ended June 30, 2002, net health care costs paid by SERS were \$182,946,777. At June 30, 2002, SERS had net assets available for payment of healthcare benefits of \$335.2 million.

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 \$1,246.25 for family and \$446.09 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 of to the School 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 \$20,000 for certified employees and \$25,000 for non-certified employees. Dental coverage is provided through Coresource. Premiums for this coverage are \$51.60 monthly for family and individual coverage. The School District also provides vision insurance to its employee through Vision Plus. The monthly premium for this coverage is \$23.57 for employees with dependents and \$8.92 for employees without dependents.

11. JOINTLY GOVERNED ORGANIZATIONS

A. Southeastern Ohio Voluntary Education Cooperative (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 34 participants consisting of 30 school districts and 4 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 Education Cooperative, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

11. 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.

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 was also previously required to set aside an amount for budget stabilization. Effective April 10, 2001, the requirement was eliminated under Senate Bill 345. However, restrictions were placed on the budget stabilization balance representing Bureau of Workers' Compensation (BWC) refunds that were previously required to be deposited into the reserve.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

13. STATUTORY RESERVES (Continued)

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.

	Textbook	Capital Acquisition	Budget Stabilization
Set-aside Reserve Balance as of June 30, 2002	\$ (67,548)	\$ (8,842,343)	\$ 37,285
Current Year Set-aside Requirement	110,759	110,759	0
Qualifying Disbursements	(75,824)	(70,725)	(37,285)
 Set-aside Balance Carried Forward to Future Fiscal Years	 \$ (32,613)	 \$ (8,802,309)	 \$ 0
 Set-aside Reserve Balance as of June 30, 2003	 \$ 0	 \$ 0	 \$ 0

The School District had textbook and capital acquisition set-aside amounts below zero. State statute allows this amount to be used to reduce the set-aside requirements of future years.

14. STATE SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have in 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 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, 2003.

B. Litigation

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

SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	10.550	N/A	\$	\$ 28,157	\$	\$ 28,157
School Breakfast Program	10.553	05PU-2002 05PU-2003	6,895 34,341 41,236	0	6,895 34,341 41,236	0
Total School Breakfast Program			41,236	0	41,236	0
National School Lunch Program	10.555	LLP4-2002 LLP4-2003	17,759 90,197 107,956	0	17,759 90,197 107,956	0
Total National School Lunch Program			107,956	0	107,956	0
Total Nutrition Cluster			149,192	28,157	149,192	28,157
Total United States Department of Agriculture			149,192	28,157	149,192	28,157
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	C1S1-2002 C1S1-2003	1,199 248,813 250,012	0	33,633 241,864 275,497	0
Total Title I Grants to Local Educational Agencies			250,012	0	275,497	0
Special Education - Grants to States	84.027	6BSF-2002P 6BSF-2003P	33,774 77,601 111,375	0	28,898 80,192 109,090	0
Total Special Education - Grants to States			111,375	0	109,090	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DRS1-2003	6,120		5,207	
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	G2S2-2001 G2S9-2001	0	0	4,135 4,126 8,261	0
Total Goals 2000 - State and Local Education Systemic Improvement Grants			0	0	8,261	0
Eisenhower Professional Development State Grants	84.281	MSS1-2002	0		1,947	
Innovative Education Program Strategies	84.298	C2S1-2003	3,350		1,140	
Education Technology State Grants	84.318	TJS1-2003	5,974		3,323	
Class Size Reduction	84.340	CRS1-2002	0		4,615	
School Renovation, IDEA, and Technology	84.352A	ATS1-2002 ATS2-2002 ATS3-2002	2,974 684 3,658	0	2,974 769 3,743	0
Total School Renovation, IDEA, and Technology			3,658	0	3,743	0
Rural Education	84.358	RUS1-2003	13,900		12,819	
Improving Teacher Quality State Grants	84.367	TRS1-2003	53,685		61,309	
Total United States Department of Education			448,074	0	486,951	0
Total Federal Awards Receipts and Expenditures			\$ 597,266	\$ 28,157	\$ 636,143	\$ 28,157

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 THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

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 DONATION

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

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



Auditor of State Betty Montgomery

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

Southern Local School District
Meigs County
920 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, 2003, and have issued our report thereon dated October 15, 2003, wherein we noted the School District has not prepared financial statements in accordance with generally accepted accounting principles and wherein we 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 items 2003-001 to 2003-006. We also noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated October 15, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village'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 management of the School District in a separate letter dated October 15, 2003.

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Southern Local School District
Meigs County
Independent Accountants' Report 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 15, 2003



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT 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
920 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, 2003. 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 Board of Education'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, 2003.

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.

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

Betty Montgomery
Auditor of State

October 15, 2003

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable 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 – 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

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

FINDING NUMBER 2003-001

Finding for Recovery

Ohio Rev. Code Section 3315.062(B) requires that monies received from a student activity program in excess of fifty dollars per year be paid into an activity fund. The Board of Education is required to adopt regulations governing the establishment and maintenance of such funds. Expenditures from such funds are subject to the approval of the Board of Education.

The National Honor Society student activity program, of which William K. Beegle was the advisor, utilized a pop machine for an ongoing fundraiser throughout the school year. Generally, receipts collected from the sale of pop were deposited with the School District's Treasurer. However, at various times during the year, cash was removed from the pop machine and used for various purposes that did not appear to meet the purpose of the National Honor Society, such as a staff dinner, stocking refrigerators for staff and students, purchasing faculty shirts and decorating the Media Center.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

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

FINDING NUMBER 2003-001 (Continued)

Finding for Recovery - Ohio Rev. Code Section 3315.062(B) (Continued)

The expenditure of the cash from the pop machine was not approved by the Board. Further, certain uses of the monies did not appear to be for purposes for which the activity had been created. In addition, there was no supporting documentation maintained for the use of the cash, such as detailed purchase receipts, and no apparent authority granted to use cash or donation of materials for these purposes.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery is hereby issued for monies collected and not accounted for against William K. Beegle, National Honor Society Advisor, in the amount of \$1,388.05, in favor of the National Honor Society Student Activity Fund of the Southern Local School District.

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin. Code Section 117-2-03(B) requires the School District to file its annual financial report in accordance with generally accepted accounting principles. However, 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 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. Pursuant to Ohio Rev. Code Section 117.38, the School District can be fined and various other administrative remedies may be taken against the School District for its failure to file the required financial report.

We recommend the School District take the necessary steps to ensure that the annual financial report is prepared and filed pursuant to generally accepted accounting principles.

FINDING NUMBER 2003-003

Noncompliance Citation

Ohio Rev. Code Section 5705.10 states that money paid into any fund shall be used only for the purposes of which such fund is established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

The Title IV-B Fund, Title VI Fund, and Title II Fund had negative cash fund balances of \$22,522, \$1,771, and \$7,506, respectively, at June 30, 2003.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

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

FINDING NUMBER 2003-003 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.10 (Continued)

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. If needed to cover temporary deficits, the School District should advance cash from another fund, following the guidelines described in the Auditor of State Bulletin 97-003.

FINDING NUMBER 2003-004

Noncompliance Citation

Ohio Rev. Code Section 5705.36 allows all subdivisions to request reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be less than the amount in the official certificate of estimated resources. The School District must request a reduced amended certificate when actual receipts plus July 1 unencumbered cash will be less than amounts appropriated.

Estimated resources exceeded actual revenue plus unencumbered cash and appropriations were greater than actual revenue plus unencumbered cash at June 30, 2003, as follows:

Fund	Estimated Resources	Actual Revenue Plus Unencumbered Cash	Appropriation Authority
General Fund	\$ 5,775,149	\$ 5,704,002	\$ 5,779,996
Title VI-B	123,831	99,138	128,831
Title I	323,171	276,143	323,171
Title VI	5,106	3,350	5,106
Drug Free Grant	6,800	6,120	6,800
Title II	77,558	58,418	77,558
Miscellaneous Federal Grants	26,149	22,185	26,149
Food Service	332,375	314,644	328,418
Uniform School Supplies	15,021	13,017	14,500
Student Activities	77,387	54,232	60,643

This could result in more money being appropriated than will actually be available for expenditure.

We recommend the School District monitor estimated and actual revenues for all funds on a regular basis. In the situation where budgeted revenue exceeds actual revenue and appropriations exceed actual revenue, a reduced amended certificate must be obtained and appropriations adjusted accordingly.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

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

FINDING NUMBER 2003-005

Noncompliance Citation

Ohio Rev. Code Section 5705.38 states that a Board of Education shall pass its annual appropriation measure by the first day of October. If a school district's annual appropriation measure is delayed, the Board may pass a temporary measure for meeting the ordinary expense of the district until it passes an annual appropriation measure.

The Board of Education passed a temporary appropriation measure on July 22, 2002. However, the Board did not pass the permanent appropriations until April 28, 2003.

We recommend the Board of Education adopt permanent appropriations by the required date.

FINDING NUMBER 2003-006

Noncompliance Citation

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

Budgetary expenditures (actual expenditures plus encumbrances) exceeded appropriations at June 30, 2003, as follows:

Fund	Appropriation Authority	Budgetary Expenditures	Variance
DPIA Fund	\$ 343,429	\$ 382,571	\$ (39,142)
Permanent Improvement	38,666	43,496	(4,830)
Classroom Facilities	31,094	80,928	(49,834)

This could result in the School District spending more money than what is actually available.

The Treasurer should deny payment requests exceeding appropriations. The Treasurer may request the Board of Education to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

3. FINDINGS FOR FEDERAL AWARDS

None.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
FOR THE YEAR ENDED JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-10753-001	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 principals.	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. This issue is repeated in the current audit Schedule of Findings as item 2003-002.
2002-10753-002	A noncompliance citation and material weakness was issued under Ohio Rev. Code Section 5705.10 for maintaining negative cash fund balances.	No	Not Corrected: This issue is repeated in the current audit Schedule of Findings as item 2003-003.
2002-10753-003	A noncompliance citation and material weakness was issued under Ohio Rev. Code Section 5705.36 appropriations exceeding actual resources available for appropriation.	No	Not Corrected: This issue is repeated in the current audit Schedule of Findings as item 2003-004.
2002-10753-004	A noncompliance citation and material weakness was issued under Ohio Rev. Code Section 5705.40 appropriations entered into the accounting system not agreeing to Board of Education approved amounts.	No	Partially Corrected: The issue is not as severe as in past years. This matter is included in the current audit Management Letter as a recommendation.
2002-10753-005	A noncompliance citation and material weakness was issued under Ohio Rev. Code Section 5705.41(B) for expenditures exceeding appropriations.	No	Not Corrected: This issue is repeated in the current audit Schedule of Findings as item 2003-006.
2002-10753-006	A noncompliance citation and material weakness was issued under Ohio Rev. Code Section 5705.41(D) for failure to properly encumber funds prior to an obligation being incurred.	No	Not Corrected: The issue is not as severe as in past years. This matter is included in the current audit Management Letter as a noncompliance citation.



**Auditor of State
Betty Montgomery**

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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
DECEMBER 30, 2003**