



**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, 2004. 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, 2004, 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 \$291,000 for the year ending June 30, 2005. 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 January 25, 2005 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We conducted our audit to form an opinion on the School District's financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the financial statements. In our opinion, this information 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

January 25, 2005

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**COMBINED STATEMENT OF CASH AND FUND CASH BALANCES
ALL FUND TYPES
AS OF JUNE 30, 2004**

Cash	<u><u>\$ 1,122,270</u></u>
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CASH BALANCES BY FUND TYPE

Governmental Funds:

General	\$ 214,046
Special Revenue	237,483
Debt Service	228,368
Capital Projects	421,799

Proprietary Funds:

Enterprise	1,665
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Fiduciary Funds:

Agency	<u>18,909</u>
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Total	<u><u>\$ 1,122,270</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, 2004**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
RECEIPTS:					
Receipts from Local Sources:					
Taxes	\$ 1,316,585	\$ 28,100	\$ 364,205	\$	\$ 1,708,890
Tuition	565				565
Earnings on Investments	1,578			2,370	3,948
Extracurricular Activities	1,325	93,365			94,690
Classroom Material & Fees	6,393				6,393
Miscellaneous	42,622	2,068			44,690
Receipts from State Sources:					
Unrestricted Grants-In-Aid	3,435,720	7,901	31,824		3,475,445
Restricted Grants-In-Aid	68,974	384,884		26,757	480,615
Receipts from Federal Sources:					
Restricted Grants-In-Aid		612,383			612,383
Total Receipts	4,873,762	1,128,701	396,029	29,127	6,427,619
DISBURSEMENTS:					
Instruction:					
Regular	1,781,138	331,970		14,339	2,127,447
Special	390,207	333,891			724,098
Vocational Education	183,328				183,328
Other Instruction	149,216				149,216
Supporting Services:					
Pupils	50,001	77,168			127,169
Instructional Staff	170,757	71,898			242,655
Board of Education	10,220				10,220
Administration	674,533	89,923			764,456
Fiscal Services	215,030	1,825	11,679		228,534
Operation and Maintenance - Plant	581,063	35,657			616,720
Pupil Transportation	420,657	7,748			428,405
Central		19,095			19,095
Operation of Noninstructional Services:					
Community Services		5,462			5,462
Extracurricular Activities:					
Academic and Subject Oriented Activities	78,789	13,896			92,685
Sports Oriented		53,120			53,120
Facilities Acquisition and Construction Services:					
Architecture and Engineering				80,812	80,812
Building Acquisition and Construction				8,015	8,015
Debt Service:					
Repayment of Debt	543,000		362,621		905,621
Total Disbursements	5,247,939	1,041,653	374,300	103,166	6,767,058
Excess of Cash Receipts Over/(Under) Cash Disbursements	(374,177)	87,048	21,729	(74,039)	(339,439)
OTHER FINANCING SOURCES/(USES):					
Advance from State Solvency Assistance	671,000				671,000
Transfers-In	1,132			84,000	85,132
Advances-In		8,374			8,374
Sale of Assets				2,600	2,600
Transfers-Out	(84,000)	(2,379)			(86,379)
Advances-Out	(32,374)				(32,374)
Total Other Financing Sources/(Uses)	555,758	5,995	0	86,600	648,353
Excess of Receipts and Other Financing Sources Over/(Under) Disbursements and Other Financing (Uses)	181,581	93,043	21,729	12,561	308,914
Fund Cash Balances - July 1, 2003	32,465	144,440	206,639	409,238	792,782
Fund Cash Balances - June 30, 2004	\$ 214,046	\$ 237,483	\$ 228,368	\$ 421,799	\$ 1,101,696

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, 2004**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
OPERATING RECEIPTS:			
Food Service	\$ 121,725	\$	\$ 121,725
Earnings on Investments	901		901
Extracurricular Activities		28,627	28,627
Classroom Materials and Fees	11,874		11,874
	<u>134,500</u>	<u>28,627</u>	<u>163,127</u>
Total Operating Receipts			
OPERATING DISBURSEMENTS:			
Personal Services - Salaries	111,557		111,557
Employees' Retirement and Insurance	85,578		85,578
Purchased Services	1,247	24	1,271
Supplies and Materials	140,396	27,443	167,839
Capital Outlay	2,982		2,982
Other		777	777
	<u>341,760</u>	<u>28,244</u>	<u>370,004</u>
Total Operating Disbursements			
Operating Income/(Loss)	<u>(207,260)</u>	<u>383</u>	<u>(206,877)</u>
NONOPERATING RECEIPTS/(DISBURSEMENTS):			
Miscellaneous	1,489		1,489
State Restricted Grants-In-Aid	9,761		9,761
Federal Restricted Grants-In-Aid	163,695		163,695
	<u>174,945</u>	<u>0</u>	<u>174,945</u>
Total Nonoperating Receipts/(Disbursements)			
Excess of Cash Receipts Over/(Under) Cash Disbursements Before Interfund Advances	<u>(32,315)</u>	<u>383</u>	<u>(31,932)</u>
Transfers-In	1,247		1,247
Advances-In	24,000		24,000
	<u>25,247</u>		<u>25,247</u>
Net Income/(Loss)	<u>(7,068)</u>	<u>383</u>	<u>(6,685)</u>
Fund Cash Balances - July 1, 2003	<u>8,733</u>	<u>18,526</u>	<u>27,259</u>
Fund Cash Balances - June 30, 2004	<u>\$ 1,665</u>	<u>\$ 18,909</u>	<u>\$ 20,574</u>

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, 2004**

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental:			
General	\$ 5,544,061	\$ 5,545,894	\$ 1,833
Special Revenue	1,156,759	1,137,075	(19,684)
Debt Service	396,029	396,029	0
Capital Projects	186,675	115,727	(70,948)
Proprietary:			
Enterprise	334,579	334,692	113
Fiduciary:			
Agency	<u>26,445</u>	<u>28,627</u>	<u>2,182</u>
Totals (Memorandum Only)	<u>\$ 7,644,548</u>	<u>\$ 7,558,044</u>	<u>\$ (86,504)</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, 2004**

<u>Fund Types/Funds</u>	<u>Prior Year Carryover Appropriations</u>	<u>Appropriations</u>	<u>Total</u>
Governmental:			
General	\$ 7,455	\$ 5,540,015	\$ 5,547,470
Special Revenue	30,501	1,191,232	1,221,733
Debt Service		372,621	372,621
Capital Projects	64,685	63,500	128,185
Proprietary:			
Enterprise	328	341,503	341,831
Fiduciary:			
Agency	<u>91</u>	<u>35,984</u>	<u>36,075</u>
Totals (Memorandum Only)	<u>\$ 103,060</u>	<u>\$ 7,544,855</u>	<u>\$ 7,647,915</u>

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

<u>Disbursements</u>	<u>Encumbrances Outstanding 6/30/2004</u>	<u>Total</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 5,364,313	\$ 23,662	\$ 5,387,975	\$ 159,495
1,044,032	24,496	1,068,528	153,205
374,300		374,300	(1,679)
103,166	79,593	182,759	(54,574)
341,760		341,760	71
28,244	327	28,571	7,504
<u>\$ 7,255,815</u>	<u>\$ 128,078</u>	<u>\$ 7,383,893</u>	<u>\$ 264,022</u>

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**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

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

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 64 certificated employees and 37 non-certificated employees who provide services to 758 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 \$291,000 for the fiscal year ending June 30, 2005. The School District has also forecasted an operating deficit for the year ending June 30, 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. The projected deficits include the effect of the renewal levy receipts.

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 School 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 Plan, 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, 2004
(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, 2004
(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, 2004
(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, 2003, 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.

G. Total Columns on Financial Statements

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

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

3. EQUITY IN POOLED CASH

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

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

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

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

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

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

- a. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
- b. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- c. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- d. Bonds and other obligations of the State of Ohio;
- e. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

3. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

- 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, 2004, the carrying amount of the School District's deposits was \$1,122,270 and the bank balance was \$1,226,592. Of the bank balance, \$100,000 was covered by federal deposit insurance, and \$1,126,592 was collateralized by securities held by a third party bank in the School District's name.

4. BUDGETARY COMPLIANCE

Contrary to the Ohio Revised Code, expenditures exceeded appropriations in Athletics, Miscellaneous Federal, Bond Retirement, Permanent Improvement and Classroom Facilities Funds.

5. PROPERTY TAXES

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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

5. PROPERTY TAXES (Continued)

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. 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, 2004, are available to finance fiscal year 2004 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, 2004 was \$448,677 in the General Fund, \$102,765 in the Debt Service Fund, and \$9,853 in the Capital Projects Fund. 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 Capital Projects Fund.

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

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 47,856,900	74.86%	\$ 48,732,620	75.85%
Public Utility Personal	12,746,990	19.94%	12,736,740	19.82%
Tangible Personal Property	<u>3,326,810</u>	<u>5.20%</u>	<u>2,780,050</u>	<u>4.33%</u>
Total	<u>\$ 63,930,700</u>	<u>100.00%</u>	<u>\$ 64,249,410</u>	<u>100.00%</u>
 Tax rate per \$1,000 of assessed valuation	 \$32.39		 \$32.39	

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

6. DEBT OBLIGATIONS

Debt outstanding at June 30, 2004, consisted of the following:

	Principal	Interest Rate
Asbestos Loan	\$ 100,403	0.00%
Energy Conservation Bonds	55,000	5.75%
FY03 Solvency Assistance Fund Advance	332,500	0.00%
FY04 Solvency Assistance Fund Advance	671,000	0.00%
School Facilities Construction and Improvement Bonds	3,490,000	3.2% - 4.625%
Total	\$ 4,648,903	

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.

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.

FY04 Solvency Assistance Fund Advance

On May 25, 2004, the School District obtained a loan, in the amount of \$671,000, 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 2006. 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 year period, with the final maturity date during fiscal year 2022. The bonds are being retired through the Bond Retirement Debt Service Fund.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

6. DEBT OBLIGATIONS (Continued)

The annual requirements to amortize debt outstanding as of June 30, 2004, including interest payments of \$1,722,792, are as follows:

Year Ending June 30	Asbestos School Hazard Loan	School Energy Conservation Bonds	FY03 Solvency Assistance Fund Advance	FY04 Solvency Assistance Fund Advance	Facilities Construction and Improvement Bonds	Total
2005	\$ 11,812	\$ 58,163	\$ 332,500	\$ 335,500	\$ 290,211	\$ 1,028,186
2006	11,812			335,500	290,464	637,776
2007	11,812				290,426	302,238
2008	11,812				290,059	301,871
2009	11,813				285,764	297,577
2010-2014	41,342				1,454,971	1,496,313
2015-2019					1,445,731	1,445,731
2020-2022					862,003	862,003
Total	<u>\$ 100,403</u>	<u>\$ 58,163</u>	<u>\$ 332,500</u>	<u>\$ 671,000</u>	<u>\$ 5,209,629</u>	<u>\$ 6,371,695</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, 2004, 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.

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.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

8. PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

Plan members are required to contribute 10 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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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, 2004, 2003, and 2002 were \$66,289, \$40,660, and \$30,010, respectively. 100 percent has been contributed for 2004, 2003, and 2002.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

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.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

8. PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. 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, 2004, 2003, and 2002 were \$332,959, \$232,690, and \$213,742. 100 percent has been contributed for 2004, 2003, and 2002.

9. POST EMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$25,611 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 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, 2004, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits during the 2004 fiscal year equaled \$35,807.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

9. POST EMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

10. OTHER EMPLOYEE BENEFITS

The School District provides medical insurance for all eligible employees through Medical Mutual of Ohio. The School District pays monthly premiums of \$1,329.06 for family and \$475.61 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 \$40,000 for certified employees and \$35,000 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 \$25.33 for employees with dependents and \$9.59 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 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC's governing board is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

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.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

12. INSURANCE PURCHASING POOL

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

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (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.

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
Set-aside Reserve Balance as of June 30, 2003	\$ (35,636)	\$ (8,802,309)
Total Offsets		67,849
Current Year Set-aside Requirement	110,759	110,759
Qualifying Disbursements	(65,304)	
Set-aside Balance Carried Forward to Future Fiscal Years	\$ 9,819	\$ (8,623,701)
Set-aside Reserve Balance as of June 30, 2004	\$ 9,819	\$ (8,623,701)

The School District had 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 plan is unconstitutional.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

14. STATE SCHOOL FUNDING DECISION (Continued)

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, 2004.

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, 2004**

FEDERAL GRANTOR <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	10.550	N/A	\$	\$ 24,193	\$	\$ 24,193
School Breakfast Program	10.553	05PU-2003 05PU-2004	7,180 41,255		7,180 41,255	
Total School Breakfast Program			48,435	0	48,435	0
National School Lunch Program	10.555	LLP4-2003 LLP4-2004	17,743 97,518		17,743 97,518	
Total National School Lunch Program			115,261	0	115,261	0
Total Nutrition Cluster			163,696	24,193	163,696	24,193
Team Nutrition Grants	10.574	TWSU-2004	10,000			
Total United States Department of Agriculture			173,696	24,193	163,696	24,193
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	C1S1-2003 C1S1-2004	30,312 293,935		37,030 254,177	
Total Title I Grants to Local Educational Agencies			324,247	0	291,207	0
Special Education - Grants to States	84.027	6BSF-2003P 6BSF-2004P	24,694 121,860		22,103 106,588	
Total Special Education - Grants to States			146,554	0	128,691	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DRS1-2003 DRS1-2004	(713) 8,976		200 3,445	
Total Safe and Drug-Free Schools and Communities - State Grants			8,263	0	3,645	0
State Grants for Innovative Programs	84.298	C2S1-2003 C2S1-2004	1,756 4,598		3,966 1,496	
Total State Grants for Innovative Programs			6,354	0	5,462	0
Education Technology State Grants	84.318	TJS1-2003 TJS1-2004	1,507 5,912		4,158 5,912	
Total Education Technology State Grants			7,419	0	10,070	0
School Renovation, IDEA, and Technology	84.352A	ATS3-2002			684	
Rural Education	84.358	RUS1-2003 RUS1-2004	1,794 13,977		2,875 13,977	
Total Rural Education			15,771	0	16,852	0
Improving Teacher Quality State Grants	84.367	TRS1-2003 TRS1-2004	14,265 84,092		6,641 67,041	
Total Improving Teacher Quality State Grants			98,357	0	73,682	0
Total United States Department of Education			606,965	0	530,293	0
UNITED STATES DEPARTMENT OF HOMELAND SECURITY						
<i>Passed through the Ohio Emergency Management Agency:</i>						
Public Assistance Grants	97.036	105-05A93	2,050		2,050	
Total United States Department of Homeland Security			2,050	0	2,050	0
Total Federal Awards Receipts and Expenditures			\$ 782,711	\$ 24,193	\$ 696,039	\$ 24,193

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.

NOTE C – NEGATIVE RECEIPTS

Negative receipts shown on the Schedule of Federal Awards Receipts and Expenditures resulted from carryover amounts transferred from one grant fiscal year to another due to ODE administrative action and do not represent a loss of funds due to noncompliance.

NOTE D – TRANSFERS

During 2004, the Ohio Department of Education (ODE) authorized the School District to transfer unneeded funds to other grants as well as carryover monies from the prior fiscal year to the current fiscal year. Authorized transfers and carryover monies are shown as a reduction of federal revenues in the program that the transfer was made from and increased federal revenue in the program that received the transfer or carryover. A detailed listing of the transfers/carryovers and refunds are as follows:

CFDA Number	Program Title	Pass-Through Entity Number	Transfers Out	Transfers In
84.010	Title I Grants to Local Educational Agencies	C1-S1-2003	\$ 16,716	
84.010	Title I Grants to Local Educational Agencies	C1-S1-2004		\$ 16,716
84.186	Safe and Drug-Free Schools and Communities	DR-S1-2003	1,393	
84.186	Safe and Drug-Free Schools and Communities	DR-S1-2004		1,393
84.358	Rural Education	TR-S1-2003	10,368	
84.358	Rural Education	TR-S1-2004		10,368
Total			<u>\$ 28,477</u>	<u>\$ 28,477</u>



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, 2004, and have issued our report thereon dated January 25, 2005, wherein we noted the School District has not prepared financial statements in accordance with generally accepted accounting principles, and 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 tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2004-001 to 2004-005. We also noted certain immaterial instances of noncompliance that we have reported to the School District's management in a separate letter dated January 25, 2005.

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 School District's management in a separate letter dated January 25, 2005.

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www.auditor.state.oh.us

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

January 25, 2005



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, 2004. 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, 2004.

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

January 25, 2005

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2003-001

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.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

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

FINDING NUMBER 2004-001 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 117.38 (Continued)

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/or subjected to 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 2004-002

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) states that no subdivision or taxing unit shall make any expenditures of money unless it has been appropriated.

Budgetary expenditures (expenditures and year-end encumbrances) exceeded total appropriations (current year appropriations and prior-year encumbrances) at June 30, 2004 in the following funds:

<u>Fund</u>	<u>Total Appropriations</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Athletics	\$ 72,188	\$ 73,305	\$ (1,117)
Miscellaneous Federal	28,104	28,135	(31)
Bond Retirement	372,621	374,300	(1,679)
Permanent Improvement	38,500	43,015	(4,515)
Classroom Facilities	64,685	124,753	(60,068)

Failure to comply with this Section could result in deficit spending by the School District.

The Treasurer should not certify the availability of funds and 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.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

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

FINDING NUMBER 2004-003

Finding for Recovery – Repaid Under Audit

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, including a system of accounting to separate and verify each transaction and to show the sources from which the fund revenue is received, the amount collected from each source, and the amount expended for each purpose. Expenditures from such funds are subject to the approval of the Board of Education. According to the Guidelines for Developing Policies for Student Activity Programs, developed by the Auditor of State in compliance with the Ohio Administrative Code, the duties and responsibilities of the advisors/sponsors are at the direction of the Board of Education and should consist of, among others, supervising the activities of the activity group, including preparation of fund raising potentials, proofs of cash, and other appropriate documentation.

The Future Farmers of America (FFA) student activity program, of which Dwight Mitchell was the advisor, conducted a fruit sale for a fundraiser during the school year. Generally, receipts collected from the sale of fruit were deposited with the School District's Treasurer. However, at the conclusion of the sale, it was determined that some fruit received could not be accounted for. Due to problems encountered during the distribution of the fruit to students, parents and customers, it was not known if the fruit received had been fully distributed and no records were maintained to determine if all receipts had been collected. Also, the activity advisor "wrote off" the amounts deemed uncollected due to the circumstances described above, without Board of Education or other supervisory approval. This amounted to \$629. Additionally, a fund raising potential form had not been completed for this fundraiser.

According to the High School Principal, Gordon Fisher, when students or customers owe the School District money from a fundraiser, the list of students and/or customers is given to the Principal. Grade cards for students are held until the money is turned in and other efforts are made to receive amounts due from customers. According to a policy adopted by the Board of Education of the Southern Local School District on February 28, 1994 and revised on May 22, 2000, in accordance with Revised Code Section 3313.642, failure to pay fees and fines may result in the withholding of grades and credit. However, this action was not pursued by the FFA advisor.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery is hereby issued for monies due but not collected against Dwight Mitchell, FFA Advisor, in the amount of \$629, in favor of the FFA Student Activity Fund of the Southern Local School District.

This Finding for Recovery was repaid in full on January 31, 2005.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

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

FINDING NUMBER 2004-004

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, including a system of accounting to separate and verify each transaction and to show the sources from which the fund revenue is received, the amount collected from each source, and the amount expended for each purpose. Expenditures from such funds are subject to the approval of the Board of Education. According to the Guidelines for Developing Policies for Student Activity Programs, developed by the Auditor of State in compliance with the Ohio Administrative Code, the duties and responsibilities of the advisors/sponsors are at the direction of the Board of Education and should consist of, among others, supervising the activities of the activity group, including preparation of fund raising potentials, proofs of cash, and other appropriate documentation.

The Spanish Club student activity program, of which April King was the advisor, conducted a fundraiser during the school year. Generally, receipts collected from the fundraiser were deposited with the School District's Treasurer. At the conclusion of the fundraiser, not all monies due from students were collected by the advisor. A list of monies due from students had been maintained, but no effort had been made to collect the amounts due. This amounted to \$128. Additionally, a fund raising potential form had not been completed for this fundraiser.

According to the High School Principal, Gordon Fisher, when students owe the School District money from a fundraiser, the list of students is given to the Principal. Grade cards for students are held until the money is turned in. According to a policy adopted by the Board of Education of the Southern Local School District on February 28, 1994 and revised on May 22, 2000, in accordance with Revised Code Section 3313.642, failure to pay fees and fines may result in the withholding of grades and credit. However, this action was not pursued by the Spanish Club advisor.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery is hereby issued for monies due but not collected against April King, Spanish Club Advisor, in the amount of \$128, in favor of the Spanish Club Student Activity Fund of the Southern Local School District.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

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

FINDING NUMBER 2004-005

Noncompliance Citation

Ohio Rev. Code Sections 5705.14, 5705.15, and 5705.16 provide guidelines pertaining to allowable inter-fund transfers. In certain circumstances, which are detailed in Ohio Rev. Code Section 5705.14, transfers from funds other than the General Fund may be made by resolution of the taxing authority, passed with a two-thirds affirmative vote. Ohio Rev. Code Section 5705.14 indicates that before an inter-fund transfer can be made from the General Fund, a resolution of the taxing authority of the political subdivision shall be passed by a majority of the governing board. See also 1989 Ohio Attorney General Opinion Number 89-075 (Ohio Rev. Code Section 5705.14(E) has been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds). In addition to the transfers listed above, which are authorized in Ohio Rev. Code Section 5705.14, the taxing authority of any political subdivision, with the approval of the Tax Commissioner and of the Court of Common Pleas, may transfer from one fund to another any public funds under its supervision, with certain exceptions, which are detailed in Ohio Rev. Code Section 5705.15.

During the year, the Board of Education authorized the transfer of \$35,000 from the Permanent Improvement Fund to the Local Classroom Facilities Fund. This transfer was made in an effort to provide a local match for monies received from the Ohio School Facilities Commission. The transfer of monies from the Permanent Improvement Fund to the Local Classroom Facilities Fund was contrary to Ohio Rev. Code Section 5705.14. Further, no action was taken to receive approval from the Court of Common Pleas or the Tax Commissioner, under Sections 5705.14 to 5705.16.

The Board of Education also authorized the transfer of \$35,000 from the .5 Mill Maintenance Fund to the Local Classroom Facilities Fund. This transfer was made in an effort to provide a local match for monies received from the Ohio School Facilities Commission. However, Ohio Rev. Code Section 3318.05(D), states that the proceeds of the tax to be used for maintenance of the classroom facilities shall be deposited into a separate fund established by the School District for such purpose. The transfer of monies from that .5 Mill Maintenance Fund to the Local Classroom Facilities Fund was contrary to not only Ohio Rev. Code Sections 5705.14 to 5705.16, but also Section 3318.05(D). Further, no action was taken to receive approval from the Court of Common Pleas or the Tax Commissioner.

We recommend the School District consult with their legal counsel prior to making a transfer from other than the General Fund. On January 24, 2005, the Board of Education approved resolutions to reverse the above noted transfers, and on January 25, 2005, the Treasurer made the necessary adjustments to the School District's financial records to correct these transactions. The accompanying financial statements reflect these adjustments.

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, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	A Finding for Recovery was issued against the National Honor Society student activity advisor for monies collected and not accounted for.	Yes	N/A
2003-002	A noncompliance citation was issued under Ohio Rev. Code Section 117.38 for not filing GAAP financial statements.	No	Not Corrected: This issue is repeated in the current audit Schedule of Findings as item 2004-001.
2003-003	A noncompliance citation was issued under Ohio Rev. Code Section 5705.10 for maintaining negative cash fund balances.	Yes	N/A
2003-004	A noncompliance citation was issued under Ohio Rev. Code Section 5705.36 for appropriations exceeding actual resources available for appropriation.	Yes	N/A
2003-005	A noncompliance citation was issued under Ohio Rev. Code Section 5705.38 for not adopting permanent appropriations by the required date.	Yes	N/A
2003-006	A noncompliance citation 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 2004-002.



**Auditor of State
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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
MARCH 1, 2005**