



**SOUTHERN LOCAL SCHOOL DISTRICT  
MEIGS COUNTY  
SINGLE AUDIT  
FOR THE YEAR ENDED JUNE 30, 2005**



**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  
P.O. Box 176  
Racine, Ohio 45771

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Meigs County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Meigs County, as of June 30, 2005, and the respective changes in modified cash financial position and the respective budgetary comparisons for the General Fund, Classroom Facilities Maintenance Fund and Disadvantaged Pupil Impact Aid Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended June 30, 2005, the School District revised its financial presentation comparable to the requirements of Governmental Accounting Standards No. 34, *Basis Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

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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 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. In addition, the School District has forecast an operating deficit of \$402,374 for the year ending June 30, 2006. 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 March 15, 2006, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic 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 basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



**Betty Montgomery**  
Auditor of State

March 15, 2006

## **Southern Local School District, Ohio**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2005*

Unaudited

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The discussion and analysis of the Southern Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for the fiscal year 2005 are as follows:

- Net assets of governmental activities decreased \$583,144.
- General receipts amounted to \$5,696,314 or 78% of all receipts. Program specific cash receipts in the form of charges for services, grants, contributions, and interest accounted for \$1,618,890 or 22% of total receipts of \$7,315,204.
- The School District had \$7,898,348 in disbursements related to governmental activities; only \$1,618,890 of these disbursements were offset by program specific charges for services, grants, contributions, and interest. General receipts of \$5,696,314 were not adequate to provide for these programs.
- The School District's major funds were the General Fund, the Bond Retirement Debt Service Fund, and the Classroom Facilities Maintenance and Disadvantaged Pupils Impact Aid Special Revenue Funds. The General Fund had \$5,041,813 in receipts and \$5,766,944 in disbursements. The General Fund's balance decreased \$151,932. The Bond Retirement Debt Service Fund had \$385,851 in receipts and \$370,912 in disbursements. The Bond Retirement Debt Service Fund's balance increased \$14,939. The School Facilities Maintenance Special Revenue Fund had \$30,256 in receipts and \$18,606 in disbursements. The Classroom Facilities Maintenance Special Revenue Fund increased \$11,650. The Disadvantaged Pupil Impact Aid Special Revenue Fund had \$352,905 in receipts and \$317,465 in disbursements. The Disadvantaged Pupil Impact Aid Special Revenue Fund's balance increased \$40,743.

### **Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Southern Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Assets – Modified Cash Basis and Statement of Activities – Modified Cash Basis provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column.

**Southern Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
Unaudited

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***Reporting the School District as a Whole***

*Statement of Net Assets – Modified Cash Basis and Statement of Activities – Modified Cash Basis*

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, “How did we do financially during fiscal year 2005?” The Statement of Net Assets – Modified Cash Basis and the Statement of Activities – Modified Cash Basis answer this question. These two statements report the School District’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District’s property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets – Modified Cash Basis and the Statement of Activities – Modified Cash Basis, all of the School District’s programs and services are reported as governmental activities including food service operations, instruction, support services, operation of non-instructional services, bond service operations, and extracurricular activities.

***Reporting the School District’s Most Significant Funds***

*Fund Financial Statements*

The analysis of the School District’s major funds begins on page 9. Fund financial reports provide detailed information about the School District’s major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District’s most significant funds. The School District’s major governmental funds are the General Fund, the Bond Retirement Fund, and the Classroom Facilities Maintenance and Disadvantaged Pupil Impact Aid Special Revenue Funds.

***Governmental Funds*** Most of the School District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported on a modified cash basis. The governmental fund statements provide a detailed short-term view of the School District’s general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

**The School District as a Whole**

Recall that the Statement of Net Assets – Modified Cash Basis provides the perspective of the School District as a whole. Table 1 provides a summary of the School District’s net assets for 2005 compared to 2004.



**Southern Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
 Unaudited

Table 1  
 Net Assets - Cash Basis

	Governmental Activities	
	2005	2004
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$520,659	\$1,103,803
<b>Net Assets</b>		
Restricted	\$473,531	\$890,398
Unrestricted	47,128	213,405
<b>Total Net Assets</b>	\$520,659	\$1,103,803

The above table reflects a decrease in net assets of \$583,144. The decrease is a result of step increases in salaries and monies spent out of the Classroom Facilities Capital Projects Fund on renovations to the high school.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005. Since the School District did not prepare financial statements in this format for fiscal year 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

**Southern Local School District, Ohio**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2005*

Unaudited

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Changes in Net Assets	
	Governmental Activities
	<u>2005</u>
<b>Receipts</b>	
Program Cash Receipts	
Charges for Services	\$295,924
Operating Grants, Contributions and Interest	1,314,389
Capital Grants and Contributions	8,577
Total Program Cash Receipts	<u>1,618,890</u>
General Receipts	
Property Taxes	1,706,628
Grants and Entitlements	3,333,879
Proceeds from Solvency Assistance Loan	291,000
Proceeds from Tax Anticipation Note	350,766
Investment Earnings	5,777
Receipts from Sale of Capital Assets	895
Miscellaneous	7,369
Total General Receipts	<u>5,696,314</u>
Total Receipts	<u>7,315,204</u>
<b>Program Disbursements</b>	
Instruction:	
Regular	2,323,424
Special	662,555
Vocational	190,494
Support Services:	
Pupils	114,083
Instructional Staff	216,289
Board of Education	10,298
Administration	874,563
Fiscal	205,996
Operation and Maintenance of Plant	595,891
Pupil Transportation	435,816
Central	16,714
Operation of Non-Instructional Services:	
Food Service Operations	314,048
Other	16,684
Extracurricular Activities	144,762
Capital Outlay	397,779
Principal Retirement	1,205,578
Interest and Fiscal Charges	173,374
Total Disbursements	<u>7,898,348</u>
Increase in Net Assets	(583,144)
Net Assets Beginning of Year	1,103,803
Net Assets End of Year	<u>\$520,659</u>

## Southern Local School District, Ohio

### Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreases as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 23% of revenues for governmental activities for the Southern Local School District in fiscal year 2005. If trends continue as indicated in the School District's Five Year Forecast, the Board of Education will likely have to place an operating levy on the ballot.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services for fiscal year 2005. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements. Since the School District did not prepare financial statements in this format for fiscal year 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

Table 3  
Governmental Activities

	Total Cost of Services	Net Cost of Services
	2005	2005
<b>Program Disbursements</b>		
Instruction:		
Regular	\$2,323,424	\$1,883,885
Special	662,555	177,027
Vocational	190,494	118,934
Support Services:		
Pupils	114,083	41,527
Instructional Staff	216,289	169,741
Board of Education	10,298	10,298
Administration	874,563	809,712
Fiscal	205,996	205,379
Operation and Maintenance of Plant	595,891	577,358
Pupil Transportation	435,816	411,637
Central	16,714	3,828
Operation of Non-Instructional Services		
Food Service	314,048	7,709
Other	16,684	3,821
Extracurricular Activities	144,762	81,871
Capital Outlay	397,779	397,779
Principal Retirement	1,205,578	1,205,578
Interest and Fiscal Charges	173,374	173,374
Total	<u>\$7,898,348</u>	<u>\$6,279,458</u>

**Southern Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
Unaudited

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The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2005, approximately 69% of instruction activities were supported through taxes and other general revenues.

As the table shows, the School District did not receive enough in charges for services and/or operating grants and contributions to support any programs in fiscal year 2005. That is, programs are not currently self-supporting.

**The School District Funds**

The School District's major funds are accounted for using the modified cash basis of accounting. All governmental funds had total receipts of \$6,672,543 and disbursements of \$7,898,348. The General Fund had a decrease in fund balance of \$151,932 due to salary step increases. The Bond Retirement Debt Service Fund had an increase in fund balance of \$14,939. The Classroom Facilities Maintenance Special Revenue Fund had an increase in fund balance of \$11,650. The Disadvantaged Pupil Impact Aid Special Revenue Fund had an increase in fund balance of \$40,743.

***General Fund Budgeting Highlights***

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of 2005, the School District amended its General Fund budget. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis receipts were \$5,041,071, above original estimates of \$4,871,671. The \$169,400 increase was a result of higher property tax, intergovernmental and tuition and fees receipts than anticipated.

The School District's ending unobligated General Fund balance was \$48,082.

**Debt Administration**

***Debt***

At June 30, 2005, the School District had the following debt outstanding.

**Southern Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
 Unaudited

Table 5  
 Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2005	2004
2003 Solvency Loan Assistance	\$0	\$332,500
2004 Solvency Loan Assistance	335,500	671,000
2005 Solvency Loan Assistance	291,000	0
1995 Energy Conservation Note - 5.75%	0	55,000
1995 Asbestos Abatement Loan	88,591	100,403
1998 School Facilities Construction and Improvement Bonds - 3.2%-4.625%	3,370,000	3,490,000
	\$4,085,091	\$4,648,903

See Note 10 for more information regarding debt.

**Current Issues**

Based upon the Five Year Financial Forecast, the School District faces a dwindling ending cash balance. Due to changes in the law which reduces the business tax base and the overall economic climate, the School District will remain in this position for the foreseeable future until new funding can be assured.

Based on the current financial situation, and the uncertainty of funding, the School District will be challenged to maintain the current program and staffing levels. Staff and program reductions may have to be made in the future in order to balance the budget.

The Board of Education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to balance the budget annually.

We continue to conduct business in a fiscally conservative manner in order to ensure the taxpayers that we are prudent with their tax dollars while also providing the best educational programs for our students.

We continually monitor those legislative actions which affect public education, and respond rapidly to adjust our way of doing business to accommodate those changes.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Dennie Hill, Treasurer, at Southern Local School District, P.O. Box 176, Racine, Ohio 45771.

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**Southern Local School District, Ohio**  
*Statement of Net Assets - Modified Cash Basis*  
*June 30, 2005*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$520,659</u>
<b>Net Assets</b>	
Restricted for:	
Debt Service	\$243,307
Capital Projects	13,552
Other Purposes	178,313
Bus Purchase	37,918
Unclaimed Monies	441
Unrestricted	<u>47,128</u>
<i>Total Net Assets</i>	<u>\$520,659</u>

See accompanying notes to the basic financial statements

**Southern Local School District, Ohio**  
*Statement of Activities - Modified Cash Basis*  
*For the Fiscal Year Ended June 30, 2005*

	Program Cash Receipts				Net (Disbursements)
	Cash	Charges for	Operating Grants,	Capital	Receipts and
Disbursements	Services	Contributions	Grants and	Grants and	Changes in
		and Interest	Contributions	Contributions	Net Assets
					Governmental
					Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$2,323,424	\$85,566	\$353,973	\$0	(\$1,883,885)
Special	662,555	0	485,528	0	(177,027)
Vocational	190,494	0	71,560	0	(118,934)
Support Services:					
Pupils	114,083	26,114	46,442	0	(41,527)
Instructional Staff	216,289	2,522	44,026	0	(169,741)
Board of Education	10,298	0	0	0	(10,298)
Administration	874,563	0	64,851	0	(809,712)
Fiscal	205,996	0	617	0	(205,379)
Operation and Maintenance of Plant	595,891	3,771	14,762	0	(577,358)
Pupil Transportation	435,816	0	15,602	8,577	(411,637)
Central	16,714	0	12,886	0	(3,828)
Operation of Non-Instructional Services:					
Food Service Operations	314,048	115,060	191,279	0	(7,709)
Other	16,684	0	12,863	0	(3,821)
Extracurricular Activities	144,762	62,891	0	0	(81,871)
Capital Outlay	397,779	0	0	0	(397,779)
Principal Retirement	1,205,578	0	0	0	(1,205,578)
Interest and Fiscal Charges	173,374	0	0	0	(173,374)
<b>Totals</b>	<b>\$7,898,348</b>	<b>\$295,924</b>	<b>\$1,314,389</b>	<b>\$8,577</b>	<b>(6,279,458)</b>
<b>General Receipts</b>					
Property Taxes Levied for:					
General Purposes					1,326,183
Classroom Facilities Maintenance					27,267
Bond Retirement					353,178
Grants and Entitlements not Restricted to Specific Programs					3,333,879
Proceeds from Solvency Assistance Loan					291,000
Proceeds from Tax Anticipation Note					350,766
Investment Earnings					5,777
Receipts from Sale of Capital Assets					895
Miscellaneous					7,369
<b>Total General Receipts</b>					<b>5,696,314</b>
<b>Change in Net Assets</b>					<b>(583,144)</b>
<b>Net Assets Beginning of Year</b>					<b>1,103,803</b>
<b>Net Assets End of Year</b>					<b>\$520,659</b>

See accompanying notes to the basic financial statements



**Southern Local School District, Ohio**  
*Statement of Modified Cash Basis Assets and Fund Balances*  
*Governmental Funds*  
*June 30, 2005*

	General	Classroom Facilities Maintenance	Disadvantaged Pupil Impact Aid	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$24,197	\$77,345	\$64,714	\$243,307	\$72,737	\$482,300
Restricted Cash and Cash Equivalents	38,359	0	0	0	0	38,359
<i>Total Assets</i>	<u>\$62,556</u>	<u>\$77,345</u>	<u>\$64,714</u>	<u>\$243,307</u>	<u>\$72,737</u>	<u>\$520,659</u>
<b>Fund Balances</b>						
Reserved for Encumbrances	\$14,474	\$672	\$0	\$0	\$9,036	\$24,182
Reserved for Bus Purchase	37,918	0	0	0	0	37,918
Reserved for Unclaimed Monies	441	0	0	0	0	441
Unreserved, Undesignated, Reported in:						
General Fund	9,723	0	0	0	0	9,723
Special Revenue Funds	0	76,673	64,714	0	50,149	191,536
Debt Service Fund	0	0	0	243,307	0	243,307
Capital Projects Funds	0	0	0	0	13,552	13,552
<i>Total Fund Balances</i>	<u>\$62,556</u>	<u>\$77,345</u>	<u>\$64,714</u>	<u>\$243,307</u>	<u>\$72,737</u>	<u>\$520,659</u>

See accompanying notes to the basic financial statements

**Southern Local School District, Ohio**  
*Statement of Cash Receipts, Cash Disbursements and Changes in Modified Cash Basis Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2005*

	General	Classroom Facilities Maintenance	Disadvantaged Pupil Impact Aid	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>						
Taxes	\$1,326,183	\$27,267	\$0	\$353,178	\$0	\$1,706,628
Intergovernmental	3,609,028	2,989	352,905	32,673	646,959	4,644,554
Investment Earnings	4,722	0	0	0	1,095	5,817
Charges for Services	0	0	0	0	115,060	115,060
Tuition and Fees	78,967	0	0	0	6,599	85,566
Extracurricular Activities	3,771	0	0	0	91,527	95,298
Miscellaneous	19,142	0	0	0	478	19,620
<i>Total Receipts</i>	<u>5,041,813</u>	<u>30,256</u>	<u>352,905</u>	<u>385,851</u>	<u>861,718</u>	<u>6,672,543</u>
<b>Disbursements</b>						
Current:						
Instruction:						
Regular	1,945,727	0	237,383	0	140,314	2,323,424
Special	318,344	0	0	0	344,211	662,555
Vocational	189,641	0	0	0	853	190,494
Support Services:						
Pupils	47,354	0	38,955	0	27,774	114,083
Instructional Staff	172,082	0	34,369	0	9,838	216,289
Board of Education	10,298	0	0	0	0	10,298
Administration	786,895	0	6,758	0	75,478	869,131
Fiscal	194,470	0	0	10,726	800	205,996
Operation and Maintenance of Plant	576,731	18,606	0	0	554	595,891
Pupil Transportation	426,017	0	0	0	9,799	435,816
Central	0	0	0	0	16,714	16,714
Operation of Non-Instructional Services	0	0	0	0	330,732	330,732
Extracurricular Activities	75,187	0	0	0	69,575	144,762
Capital Outlay	0	0	0	0	397,779	397,779
Debt Service:						
Principal Retirement	1,018,766	0	0	186,812	0	1,205,578
Interest and Fiscal Charges	5,432	0	0	173,374	0	178,806
<i>Total Disbursements</i>	<u>5,766,944</u>	<u>18,606</u>	<u>317,465</u>	<u>370,912</u>	<u>1,424,421</u>	<u>7,898,348</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(725,131)</u>	<u>11,650</u>	<u>35,440</u>	<u>14,939</u>	<u>(562,703)</u>	<u>(1,225,805)</u>
<b>Other Financing Sources (Uses)</b>						
Sale of Capital Assets	0	0	0	0	895	895
Proceeds from Solvency Assistance Loan	291,000	0	0	0	0	291,000
Proceeds from Tax Anticipation Note	350,766	0	0	0	0	350,766
Transfers In	0	0	3,397	0	8,263	11,660
Advances In	0	0	1,906	0	55,001	56,907
Transfers Out	(11,660)	0	0	0	0	(11,660)
Advances Out	(56,907)	0	0	0	0	(56,907)
<i>Total Other Financing Sources (Uses)</i>	<u>573,199</u>	<u>0</u>	<u>5,303</u>	<u>0</u>	<u>64,159</u>	<u>642,661</u>
<i>Net Change in Fund Balance</i>	<u>(151,932)</u>	<u>11,650</u>	<u>40,743</u>	<u>14,939</u>	<u>(498,544)</u>	<u>(583,144)</u>
<i>Fund Balances Beginning of Year</i>	<u>214,488</u>	<u>65,695</u>	<u>23,971</u>	<u>228,368</u>	<u>571,281</u>	<u>1,103,803</u>
<i>Fund Balances End of Year</i>	<u>\$62,556</u>	<u>\$77,345</u>	<u>\$64,714</u>	<u>\$243,307</u>	<u>\$72,737</u>	<u>\$520,659</u>

See accompanying notes to the basic financial statements

**Southern Local School District, Ohio**  
*Statement of Cash Receipts, Cash Disbursements and Changes  
in Cash Basis Fund Balance - Budget and Actual (Budget Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Taxes	\$1,308,575	\$1,326,183	\$1,326,183	\$0
Intergovernmental	3,512,704	3,609,028	3,609,028	0
Investment Earnings	2,100	4,296	4,722	426
Tuition and Fees	6,947	78,967	78,967	0
Extracurricular	1,345	3,771	3,771	0
Miscellaneous	40,000	18,400	18,400	0
<i>Total Receipts</i>	4,871,671	5,040,645	5,041,071	426
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	1,744,073	1,800,743	1,945,872	(145,129)
Special	314,114	314,114	318,344	(4,230)
Vocational	177,056	177,056	189,791	(12,735)
Support Services:				
Pupils	48,333	48,333	47,416	917
Instructional Staff	180,036	183,036	172,082	10,954
Board of Education	9,840	12,840	10,298	2,542
Administration	769,209	787,709	790,101	(2,392)
Fiscal	195,801	198,801	195,150	3,651
Operation and Maintenance of Plant	523,563	546,272	586,320	(40,048)
Pupil Transportation	425,489	427,489	426,659	830
Extracurricular Activities	19,600	78,600	75,187	3,413
Debt Service:				
Principal Retirement	332,500	667,500	1,018,766	(351,266)
Interest and Fiscal Charges	0	0	5,432	(5,432)
<i>Total Disbursements</i>	4,739,614	5,242,493	5,781,418	(538,925)
<i>Excess of Receipts Over (Under) Disbursements</i>	132,057	(201,848)	(740,347)	(538,499)
<b>Other Financing Sources (Uses)</b>				
Refund of Prior Year Disbursements	0	742	742	0
Proceeds from Solvency Assistance Loan	0	291,000	291,000	0
Proceeds from Tax Anticipation Note	0	350,766	350,766	0
Transfers Out	0	0	(11,660)	(11,660)
Advances Out	0	0	(56,907)	(56,907)
<i>Total Other Financing Sources (Uses)</i>	0	642,508	573,941	(68,567)
<i>Net Change in Fund Balance</i>	132,057	440,660	(166,406)	(607,066)
<i>Fund Balance Beginning of Year</i>	190,826	190,826	190,826	0
Prior Year Encumbrances Appropriated	23,662	23,662	23,662	0
<i>Fund Balance End of Year</i>	\$346,545	\$655,148	\$48,082	(\$607,066)

See accompanying notes to the basic financial statements

**Southern Local School District, Ohio**

*Statement of Cash Receipts, Cash Disbursements and Changes  
in Cash Basis Fund Balance - Budget and Actual (Budget Basis)  
Classroom Facilities Maintenance Special Revenue Fund  
For the Fiscal Year Ended June 30, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Taxes	\$28,050	\$27,267	\$27,267	\$0
Intergovernmental	5,915	3,015	2,989	(26)
<i>Total Receipts</i>	33,965	30,282	30,256	(26)
<b>Disbursements</b>				
Current:				
Support Services:				
Operation and Maintenance of Plant	12,950	12,950	19,278	(6,328)
<i>Excess of Receipts Over Disbursements</i>	21,015	17,332	10,978	(6,354)
<b>Other Financing Sources</b>				
Transfers In	0	35,000	0	(35,000)
<i>Net Change in Fund Balance</i>	21,015	52,332	10,978	(41,354)
<i>Fund Balance Beginning of Year</i>	62,245	62,245	62,245	0
Prior Year Encumbrances Appropriated	3,450	3,450	3,450	0
<i>Fund Balance End of Year</i>	<u>\$86,710</u>	<u>\$118,027</u>	<u>\$76,673</u>	<u>(\$41,354)</u>

See accompanying notes to the basic financial statements

**Southern Local School District, Ohio**

*Statement of Cash Receipts, Cash Disbursements and Changes  
in Cash Basis Fund Balance - Budget and Actual (Budget Basis)  
Disadvantaged Pupil Impact Aid Special Revenue Fund  
For the Fiscal Year Ended June 30, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Intergovernmental	\$351,354	\$352,905	\$352,905	\$0
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	265,690	265,690	237,383	28,307
Support Services:				
Pupils	44,225	44,225	38,955	5,270
Instructional Staff	37,124	37,124	34,369	2,755
Administration	7,643	7,643	6,758	885
<i>Total Disbursements</i>	<u>354,682</u>	<u>354,682</u>	<u>317,465</u>	<u>37,217</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(3,328)</u>	<u>(1,777)</u>	<u>35,440</u>	<u>37,217</u>
<b>Other Financing Sources</b>				
Transfers In	0	3,397	3,397	0
Advances In	0	1,906	1,906	0
<i>Total Other Financing Sources</i>	<u>0</u>	<u>5,303</u>	<u>5,303</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(3,328)</u>	<u>3,526</u>	<u>40,743</u>	<u>37,217</u>
<i>Fund Balance Beginning of Year</i>	<u>23,971</u>	<u>23,971</u>	<u>23,971</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$20,643</u>	<u>\$27,497</u>	<u>\$64,714</u>	<u>\$37,217</u>

See accompanying notes to the basic financial statements

**Southern Local School District, Ohio**  
*Statement of Fiduciary Net Assets - Modified Cash Basis*  
*Agency Fund*  
*June 30, 2005*

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<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$14,434</u>
<b>Net Assets</b>	
Restricted for Students	<u>\$14,434</u>

See accompanying notes to the basic financial statements

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Note 1 - Reporting Entity**

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 61 certificated employees and 33 classified employees who provide services to 745 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 Commission's primary charge is to develop, adopt and implement a financial recovery plan. The original recovery plan was adopted on March 21, 2000. State law requires the plan to be updated annually. The last update was approved on October 17, 2003, for the fiscal year ending June 30, 2004. The update included staff reductions and replacements with an estimated savings of \$265,000, the elimination of the transfer from the General Fund to the Food Service Fund, and certain other changes. Although lunch prices were increased to help eliminate the transfer, an increase in operating expenses is forecasted to result in a \$24,000 transfer from the General Fund to the Food Service Fund. The plan also identified the elimination of the restrictions on the use of State parity aid in the amount of \$150,000. The Board and the Commission have not yet taken any action to revise the recovery plan for fiscal years 2006 and beyond.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

**A. Primary Government**

The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Southern Local School District, this includes general operations, food service, and student related activities of the School District.

**B. Component Units**

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 organization's 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 organization's 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. The School District is also financially accountable for any 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. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District and are significant in amount to the School District. There are no component units of the School District.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**C. Jointly Governed Organizations and Insurance Purchasing Pool**

The School District participates in three jointly governed organizations and an insurance purchasing pool. These organizations are the Southeastern Ohio Voluntary Education Cooperative, the Coalition of Rural and Appalachian Schools, South Eastern Ohio Special Education Regional Resource Center, and the Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 13 and 14 to the basic financial statements.

**Note 2 - Summary of Significant Accounting Policies**

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

**A. Basis of Presentation**

The School District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The School District has no business-type activities.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the School District's general receipts.



**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Fund Financial Statements**

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the fund's principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating. The School District has no proprietary funds.

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided into two categories: governmental and fiduciary.

**Governmental Funds**

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g., grants), and other nonexchange transactions as governmental funds. The School District's major funds are the General Fund, the Classroom Facilities Maintenance Special Revenue Fund, the Disadvantaged Pupils Impact Aid Special Revenue Fund, and the Bond Retirement Debt Service Fund.

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

**Classroom Facilities Maintenance** - The Classroom Facilities Maintenance Fund is used account for the proceeds of a levy for maintenance costs relating to the new elementary school and an addition to the high school.

**Disadvantaged Pupils Impact Aid** - The Disadvantaged Pupils Impact Aid Fund is used to account for a percentage of State monies provided in support of academic and enrichment programs focusing on children from families qualifying for aid to dependent children.

**Bond Retirement** - The Bond Retirement Fund provides for the retirement of serial bonds and short term loans. All revenue derived from general or special levies, either within or exceeding the ten-mill limitation, which is levied for debt charges on bonds or loans, shall be paid into this fund.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Fiduciary Funds**

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. Agency funds are custodial in nature. The School District's agency fund accounts for various student-managed activities.

C. Basis of Accounting

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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E. Cash and Investments

To improve cash management, cash received by the School District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents”.

Investments of the School District’s cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2005 was \$4,722, which included \$4,200 assigned from other School District funds.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the purchase of buses and for unclaimed monies.

G. Inventory and Prepaid Items

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Interfund Receivables/Payables

The School District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

J. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District’s modified cash basis of accounting.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**K. Employer Contributions to Cost-Sharing Pension Plans**

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**L. Long-Term Obligations**

The School District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither other financing source nor capital outlay are reported at inception. Lease payments are reported when paid.

**M. Net Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide statement of net assets reports \$473,531 of restricted net assets, of which \$321,093 are restricted by enabling legislation.

**N. Fund Balance Reserves**

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, bus purchase, and unclaimed monies.

Under Ohio law, unclaimed monies must be held for five years before it becomes available for appropriation. Monies not yet held for the five year period are presented as reserved.

**O. Interfund Transactions**

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Note 3 – Change in Basis of Accounting**

Last year, the School District reported fund financial statements by fund type using the cash basis of accounting. In implementing the other comprehensive basis of accounting described in Note 2, the fund financial statements now present each major fund in a separate column with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type.

**Note 4 - Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statements of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balance – Budget and Actual (Budget Basis) presented for the General Fund, the Classroom Facilities Special Revenue Fund, and the Disadvantage Pupils Impact Aid Special Revenue Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The difference between the budgetary basis and the modified cash basis is outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis).

The encumbrances outstanding at fiscal year end (budgetary basis) amounted to:

General	\$14,474
Classroom Facilities Maintenance	672

**Note 5 – Deposits and Investments**

Monies held by the School District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active 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 has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim 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.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

### **Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$523,303 of the School District's bank balance of \$627,173 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

**Note 6 - Property Taxes**

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax receipts received in calendar year 2005 represent the collection of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar year 2005 represent the collection of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien on December 31, 2003, were levied after April 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in calendar year 2005 (other than public utility property) represent the collection of calendar year 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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 counties by June 30, 2004, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	2004 Second Half Collections		2005 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$48,732,620	75.85%	\$54,342,570	78.28%
Public Utility Personal	12,736,740	19.82%	12,964,890	18.67%
Tangible Personal	2,780,050	4.33%	2,119,740	3.05%
	<u>\$64,249,410</u>	<u>100.00%</u>	<u>\$69,427,200</u>	<u>100.00%</u>
Tax Rate per \$1,000 of assessed valuation		\$32.39		\$31.89

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Note 7 - Risk Management**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with various companies for the following insurance coverage:

Coverage provided by The Netherlands Insurance Company is as follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$19,847,634
Public Employee Dishonesty	100,000
Automobile Liability (\$500 Comprehensive/\$250 collision)	1,000,000
Uninsured Motorists (No deductible)	1,000,000
General Liability	
Per occurrence	1,000,000
Medical Expense (per person)	15,000
Total per year	2,000,000
Sexual Misconduct and Molestation	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (Program), an insurance purchasing pool. The Program is intended to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Program. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Program. Each member pays its workers' compensation premium to the State based on the rate for the Program rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Program. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Program. Participation in the Program is limited to participants that can meet the Program's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the Program.

**Note 8 - Defined Benefit Pension Plans**

**A. 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 website at [www.strsoh.org](http://www.strsoh.org).



**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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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.

For the fiscal year ended June 30, 2005, 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 2004, the portion 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 the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003, were \$310,983, \$332,959, and \$232,690, respectively; 83.71 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

Contributions to the DC and Combined Plans for fiscal year 2005 were \$3,915 made by the School District and \$6,223 made by the plan members.

**B. 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 43215-3476 or by calling (614) 222-5853.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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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 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board.

The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$75,634 \$66,289, and \$40,660, respectively; 51.68 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

**Note 9 - Postemployment 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.

STRS retirees who participated in the DB or Combined plans and their 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. All 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, 2005, 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 \$23,922 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004 (latest information available), 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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2005 fiscal year, the School District paid \$35,209 to fund health care benefits, including the surcharge.

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 (latest information available), 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.

**Note 10 – Long-Term Obligations**

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

<b>Governmental Activities:</b>	Principal Outstanding 6/30/04	Additions	Deductions	Principal Outstanding 6/30/05	Amounts Due Within One Year
Solvency Assistance Loans - 0%					
2003 Solvency Assistance	\$332,500	\$0	\$332,500	\$0	\$0
2004 Solvency Assistance	671,000	0	335,500	335,500	335,500
2005 Solvency Assistance	<u>0</u>	<u>291,000</u>	<u>0</u>	<u>291,000</u>	<u>145,500</u>
Total Solvency Assistance Loans	<u>1,003,500</u>	<u>291,000</u>	<u>668,000</u>	<u>626,500</u>	<u>481,000</u>
1994 Energy Conservation Bonds - 5.75%	55,000	0	55,000	0	0
1993 Asbestos Abatement Loan - 0%	100,403	0	11,812	88,591	11,812
1998 Classroom Facilities Construction and Improvement Serial and Term Bonds - 3.2%-4.625%	3,490,000	0	120,000	3,370,000	125,000
2005 Tax Anticipation Note	<u>0</u>	<u>350,766</u>	<u>350,766</u>	<u>0</u>	<u>0</u>
Total Long Term Obligations	<u><u>\$4,648,903</u></u>	<u><u>\$641,766</u></u>	<u><u>\$1,205,578</u></u>	<u><u>\$4,085,091</u></u>	<u><u>\$617,812</u></u>

**2003 Solvency Assistance Loan** - 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 was retired through bi-monthly deductions from the School District's State Foundation Settlements in the General Fund.

**2004 Solvency Assistance Loan** - 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 2005 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.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

**2005 Solvency Assistance Loan** - On March 1, 2005, the School District obtained a loan, in the amount of \$291,000, 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 2005 and the final payment due in June 2007. This loan is being retired through bi-monthly deductions from the School District's State Foundation Settlements in the General Fund.

**Energy Conservation Bonds** - On August 15, 1994, the School District issued \$430,000 in unvoted general obligation bonds for 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 were retired through the Bond Retirement Debt Service Fund.

**Asbestos Abatement 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.

**Classroom Facilities Construction and Improvement Bonds** - On December 1, 1998, the School District issued \$4,042,000 in voted general obligation bonds for building a new elementary and an addition to the high school. 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.

**Tax Anticipation Note** - On February 15, 2005, the School District issued a tax anticipation note in the amount of \$350,766. The note was paid off during the fiscal year through the General Fund.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2005, were as follows:

Fiscal Year Ending June 30	Asbestos Abatement Loan	2005 Solvency Assistance Loan	2004 Solvency Assistance Loan	Classroom Facilities Construction and Improvement Bonds	Total
2006	\$11,812	\$145,500	\$335,500	\$290,464	\$783,276
2007	11,812	145,500	0	290,426	447,738
2008	11,812	0	0	290,058	301,870
2009	11,812	0	0	285,764	297,576
2010	11,813	0	0	290,771	302,584
2011-2015	29,530	0	0	1,453,594	1,483,124
2016-2020	0	0	0	1,442,672	1,442,672
2021-2022	0	0	0	575,669	575,669
Total	88,591	291,000	335,500	4,919,418	5,634,509
Less Interest	0	0	0	(1,549,418)	(1,549,418)
	<u>\$88,591</u>	<u>\$291,000</u>	<u>\$335,500</u>	<u>\$3,370,000</u>	<u>\$4,085,091</u>

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

The School District's overall debt margin was \$69,427 with an unvoted debt margin of \$2,878,448 at June 30, 2005.

**Note 11 - Set Aside Requirements**

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 the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2005.

	Textbook	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2004	\$9,819	(\$8,623,701)
Offsets	0	(27,267)
Qualifying Disbursements	(87,594)	(28,181)
Set-aside Reserve Balance as of June 30, 2005	(\$77,775)	(\$8,679,149)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$77,775)	(\$8,679,149)

ORC 3315.17 (B) allows a School District that is in fiscal emergency to deposit no money into their textbook and capital set asides.

The School District had qualifying cash disbursements during the fiscal year that reduced the textbooks and capital set aside amounts below zero. This amount may be used to reduce the set aside requirement in future fiscal years.

**Note 12 - Interfund Transfers**

During fiscal year 2005, the General Fund transferred \$8,263 to the Food Service Special Revenue Fund to subsidize food service operations and \$3,397 to the Disadvantaged Pupils Impact Aid Special Revenue Fund to help cover additional disbursements not covered by state aid.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Note 13 - 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. During fiscal year 2005, the School District paid \$15,450 to SEOVEC. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, 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. The School District's membership fee was \$300 for fiscal year 2005.

**C. South Eastern Ohio Special Education Regional Resource Center (SEOSERRC)**

SEOSERRC is a special education regional resource center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. SEOSERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, and representatives of county boards of MR/DD, Ohio University, and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2005, the School District paid \$2,483 to SEOSERRC. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

**Note 14 – Insurance Purchasing Pool**

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.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Note 15 - Contingent Liabilities**

Amounts grantor agencies pay to the School District are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

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**SOUTHERN LOCAL SCHOOL DISTRICT  
MEIGS COUNTY**

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

<b>FEDERAL GRANTOR</b> <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	10.550	N/A	\$	\$ 13,725	\$	\$ 13,725
School Breakfast Program	10.553	05PU-2004 05PU-2005	8,269 50,644		8,269 50,644	
Total School Breakfast Program			58,913	0	58,913	0
National School Lunch Program	10.555	LLP4-2004 LLP4-2005	17,140 105,758		17,140 105,758	
Total National School Lunch Program			122,898	0	122,898	0
Total Nutrition Cluster			181,811	13,725	181,811	13,725
Team Nutrition Grants	10.574	TWSU-2004			10,000	
Total United States Department of Agriculture			181,811	13,725	191,811	13,725
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	C1S1-2004 C1S1-2005	(12,956) 216,769		26,802 237,375	
Total Title I Grants to Local Educational Agencies			203,813	0	264,177	0
Special Education - Grants to States	84.027	6BSF-2004 6BSF-2005	0 136,921		15,272 149,370	
Total Special Education - Grants to States			136,921	0	164,642	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DRS1-2004 DRS1-2005	(5,531) 6,210		0 2,391	
Total Safe and Drug-Free Schools and Communities - State Grants			679	0	2,391	0
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	G2S2-2001	(3,302)		0	
State Grants for Innovative Programs	84.298	C2S1-2004 C2S1-2005	(3,102) 6,485		0 6,554	
Total State Grants for Innovative Programs			3,383	0	6,554	0
Education Technology State Grants	84.318	TJS1-2004 TJS1-2005	(3,072) 4,811		0 2,176	
Total Education Technology State Grants			1,739	0	2,176	0
Rural Education	84.358	RUS1-2004 RUS1-2005	6,806 10,484		6,806 11,907	
Total Rural Education			17,290	0	18,713	0
Improving Teacher Quality State Grants	84.367	TRS1-2004 TRS1-2005	5,399 54,173		22,450 60,882	
Total Improving Teacher Quality State Grants			59,572	0	83,332	0
Total United States Department of Education			420,095	0	541,985	0
<b>UNITED STATES DEPARTMENT OF HOMELAND SECURITY</b>						
<i>Passed through the Ohio Emergency Management Agency:</i>						
Public Assistance Grants	97.036	105-05A93	2,379		2,379	
Total United States Department of Homeland Security			2,379	0	2,379	0
<b>Total Federal Awards Receipts and Expenditures</b>			<b>\$ 604,285</b>	<b>\$ 13,725</b>	<b>\$ 736,175</b>	<b>\$ 13,725</b>

*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, 2005**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – CHILD NUTRITION CLUSTER**

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

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

**NOTE C – TRANSFERS AND REFUNDS**

During fiscal year 2005, the Ohio Department of Education (ODE) authorized the School District to carryover monies from the prior fiscal year to the current fiscal year. Authorized 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. Also during 2005, the School District refunded to the Ohio Department of Education monies that were not expended during the period of availability. Refunds to the Ohio Department of Education are shown as a reduction of federal revenue in the accompanying Schedule. A detailed listing of the transfers/carryovers and refund are as follows:

CFDA Number	Program Title	Pass- Through Entity Number	Transfers Out	Transfers In
84.010	Title I Grants to Local Educational Agencies	C1S1-2004	\$ 12,956	
84.010	Title I Grants to Local Educational Agencies	C1S1-2005		\$ 12,956
84.186	Safe and Drug-Free Schools and Communities	DRS1-2004	5,531	
84.186	Safe and Drug-Free Schools and Communities	DRS1-2005		5,531
84.298	State Grants for Innovative Programs	C2S1-2004	3,102	
84.298	State Grants for Innovative Programs	C2S1-2005		3,102
84.318	Education Technology State Grants	TJS1-2004	4,104	
84.318	Education Technology State Grants	TJS1-2005		4,104
Totals			<u>\$ 25,693</u>	<u>\$ 25,693</u>



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Southern Local School District  
Meigs County  
P.O. Box 176  
Racine, Ohio 45771

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Meigs County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 15, 2006, wherein we noted the School District uses a comprehensive basis of accounting other than 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 the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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. In a separate letter to the School District's management dated March 15, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the School District's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2005-001 and 2005-002.

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Southern Local School District  
Meigs County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies and pass-through entities. It is not intended for 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

March 15, 2006



**Auditor of State  
Betty Montgomery**

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

Southern Local School District  
Meigs County  
P.O. Box 176  
Racine, Ohio 45771

To the Board of Education:

We have audited the compliance of 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 apply to its major federal program for the year ended June 30, 2005. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 apply to its major federal program for the year ended June 30, 2005. In a separate letter to the School District's management dated March 15, 2006, we reported an other matter related to federal noncompliance not requiring inclusion in this report.

**Internal Control Over Compliance**

The School District's management 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 directly and materially affect a major federal program 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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Southern Local School District  
Meigs County  
Independent Accountants' Report on Compliance with Requirements Applicable  
To Each Major Federal Program and on Internal Control Over Compliance in  
Accordance with OMB Circular A-133

Our consideration of the internal controls over compliance would not necessarily disclose all matters in the internal controls that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulation, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies and pass-through entities. It is not intended for 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

March 15, 2006

**SOUTHERN LOCAL SCHOOL DISTRICT  
MEIGS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
FOR THE YEAR ENDED JUNE 30, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

**FINDING NUMBER 2005-001**

**Noncompliance Citation**

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. Cash-basis entities must file annual reports with the Auditor of State within 60 days of the fiscal year end. GAAP-basis entities must file annual reports within 150 days. 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  
JUNE 30, 2005  
(Continued)**

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

**FINDING NUMBER 2005-001 (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 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, and that this report be filed with the Auditor of State within 150 days of the School District's fiscal year end.

**FINDING NUMBER 2005-002**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from expending money unless it has been appropriated.

Budgetary expenditures (actual expenditures plus encumbrances) exceeded appropriation authority at June 30, 2005, as follows:

Funds	Appropriation Authority	Actual Expenditures	Variance
General	\$ 4,407,114	\$ 5,180,470	\$ (773,356)
Classroom Facility Maintenance	12,950	19,278	(6,328)
Athletic	68,939	72,236	(3,297)
School Net	2,266	4,810	(2,544)
Career Technical and Adult Education	0	853	(853)
Title V	3,383	6,826	(3,443)
Title II	71,088	83,332	(12,244)
Bond Retirement	706,420	1,391,195	(684,775)
Permanent Improvement	0	35,300	(35,300)

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

We recommend the School District Treasurer 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  
JUNE 30, 2005  
(Continued)**

**3. FINDINGS FOR FEDERAL AWARDS**

None.

**SOUTHERN LOCAL SCHOOL DISTRICT  
MEIGS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 §.315(b)  
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2004-001	A noncompliance citation was issued under Ohio Admin. Code Section 117-02-03(B) as a result of the School District not filing its annual financial report in accordance with generally accepted accounting principles.	No	Not Corrected:  This item is repeated in the current audit Schedule of Findings as item 2005-001.
2004-002	A noncompliance citation was issued for Ohio Rev. Code Section 5705.41(B) as a result of expenditures exceeding total appropriations.	No	Partially Corrected:  This item is repeated in the current audit Schedule of Findings as item 2005-002.
2004-003	A finding for recovery – repaid under audit was issued for monies due but not collected in the amount of \$629.	Yes	N/A
2004-004	A finding for recovery was issued for monies due but not collected in the amount of \$128.	Yes	N/A
2004-005	A noncompliance citation was issued for Ohio Rev. Code Sections 5705.14-5705.16 as a result of transfers being made without the approval of the Court of Common Pleas or the Tax Commissioner.	Yes	N/A



**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  
MAY 4, 2006**