



Mary Taylor, CPA
Auditor of State

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Southern Local School District
Columbiana County
38095 State Route 39 East
Salineville, Ohio 43945

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, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Columbiana County, Ohio, as of June 30, 2010, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2010, on our consideration of the 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.

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Accounting principles generally accepted in the United States of America require this presentation to include Management's Discussion and Analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with managements' responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us this sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. The federal awards schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Mary Taylor, CPA
Auditor of State

December 27, 2010

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The management discussion and analysis of the Southern Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2010 are as follows:

- In total, net assets of governmental activities decreased \$186,907, which represents a 1.67% decrease from 2009.
- General revenues accounted for \$8,290,322 in revenue or 81.23% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,915,901 or 18.77% of total revenues of \$10,206,223.
- The District had \$10,393,130 in expenses related to governmental activities; \$1,915,901 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,290,322 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and bond retirement fund. The general fund had \$8,479,529 in revenues and \$8,733,029 in expenditures and other financing uses. During fiscal year 2010 the general fund's fund balance decreased \$253,500 from \$232,528 to a deficit of \$20,972.
- The District's bond retirement fund had \$241,416 in revenues and \$243,000 in expenditures. During fiscal year 2010, the bond retirement fund's fund balance decreased \$1,584 from \$427,054 to \$425,470.

Using these Basic Financial Statements

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 District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *statement of net assets* and *statement of activities* provide information about the activities of the whole District, presenting both an aggregate view of the 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 District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and bond retirement fund are by far the most significant funds, and the only governmental funds reported as major funds.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2010?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the 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 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 and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and bond retirement fund.

Governmental Funds

Most of the 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 year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government 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 relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical and dental self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate statement of fiduciary net assets on page 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 24-52 of this report.

The District as a Whole

The table below provides a summary of the District's net assets at June 30, 2010 and June 30, 2009.

	Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
<u>Assets</u>		
Current and other assets	\$ 3,918,503	\$ 3,588,155
Capital assets, net	<u>13,013,770</u>	<u>13,532,243</u>
Total assets	<u>16,932,273</u>	<u>17,120,398</u>
<u>Liabilities</u>		
Current liabilities	2,748,369	2,646,754
Long-term liabilities	<u>3,192,066</u>	<u>3,294,899</u>
Total liabilities	<u>5,940,435</u>	<u>5,941,653</u>
<u>Net assets</u>		
Invested in capital assets, net of related debt	10,363,494	10,834,205
Restricted	896,193	760,319
Unrestricted (deficit)	<u>(267,849)</u>	<u>(415,779)</u>
Total net assets	<u>\$ 10,991,838</u>	<u>\$ 11,178,745</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the District's assets exceeded liabilities by \$10,991,838. Of this total, \$896,193 is restricted in use.

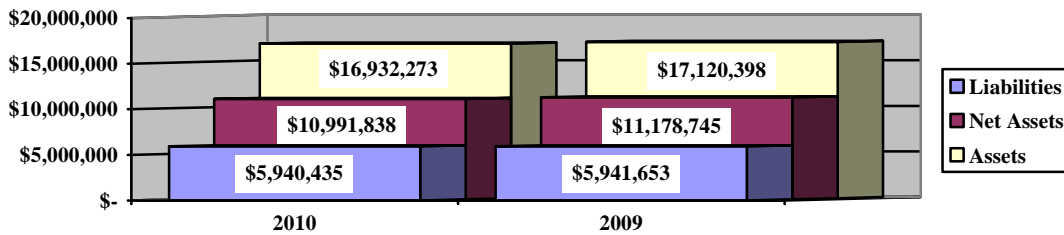
**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

At year-end, capital assets represented 76.91% of total assets. Capital assets include land, land improvements, buildings and improvements, infrastructure, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2010, were \$10,363,494. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

The graph below presents the District's governmental activities assets, liabilities and net assets at June 30, 2010 and June 30, 2009.

Governmental Activities



The table below shows the change in net assets for fiscal year 2010 and 2009.

Change in Net Assets

	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 634,248	\$ 640,655
Operating grants and contributions	1,281,653	1,498,489
Capital grants and contributions	-	19,988
General revenues:		
Property taxes	1,884,287	1,808,186
Grants and entitlements	6,355,757	6,136,246
Investment earnings	3,746	9,554
Other	<u>46,532</u>	<u>22,178</u>
Total revenues	<u>10,206,223</u>	<u>10,135,296</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Change in Net Assets

	Governmental Activities 2010	Governmental Activities 2009
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,789,838	\$ 3,760,591
Special	955,068	1,284,638
Vocational	263,727	235,277
Other	4,880	1,336
Support services:		
Pupil	382,966	348,561
Instructional staff	343,693	252,362
Board of education	1,276,588	1,277,910
Administration	660,235	705,377
Fiscal	236,080	220,777
Business	55,845	49,972
Operations and maintenance	957,276	467,611
Pupil transportation	653,713	997,766
Operation of non-instructional services:		
Food service operations	384,860	443,364
Operations of other non-instructional services	27,784	11,465
Extracurricular activities	245,230	240,001
Interest and fiscal charges	<u>155,347</u>	<u>163,251</u>
Total expenses	<u>10,393,130</u>	<u>10,460,259</u>
Change in net assets	<u>(186,907)</u>	<u>(324,963)</u>
Net assets at beginning of year	<u>11,178,745</u>	<u>11,503,708</u>
Net assets at end of year	<u>\$ 10,991,838</u>	<u>\$ 11,178,745</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$186,907. Total governmental expenses of \$10,393,130 were offset by program revenues of \$1,915,901 and general revenues of \$8,290,322. Program revenues supported 18.43% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 80.74% of total governmental revenue.

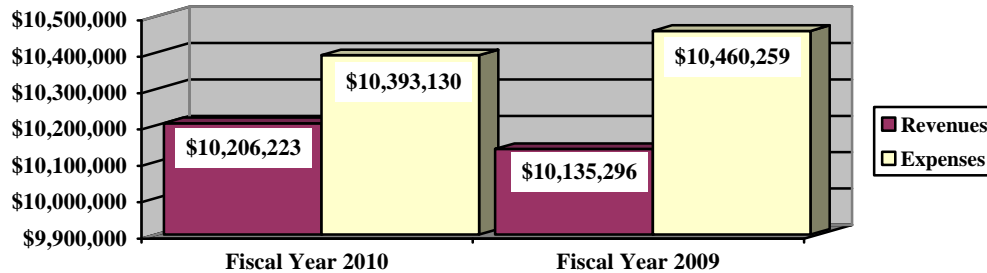
The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,013,513 or 48.24% of total governmental expenses for fiscal year 2010.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The graph below presents the District's governmental activities revenues and expenses for fiscal year 2010 and 2009.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>	Total Cost of Services <u>2009</u>	Net Cost of Services <u>2009</u>
Program expenses				
Instruction:				
Regular	\$ 3,789,838	\$ 3,367,638	\$ 3,760,591	\$ 3,632,664
Special	955,068	486,458	1,284,638	216,104
Vocational	263,727	231,337	235,277	203,128
Other	4,880	4,880	1,336	1,336
Support services:				
Pupil	382,966	382,966	348,561	345,676
Instructional staff	343,693	245,530	252,362	182,289
Board of education	1,276,588	936,560	1,277,910	967,162
Administration	660,235	651,968	705,377	701,695
Fiscal	236,080	236,080	220,777	220,777
Business	55,845	55,845	49,972	49,972
Operations and maintenance	957,276	949,823	467,611	461,611
Pupil transportation	653,713	652,823	997,766	973,961
Food service operations	384,860	(38,290)	443,364	44,341
Operations of non-instructional services	27,784	(1,878)	11,465	(2,697)
Extracurricular activities	245,230	158,616	240,001	139,857
Interest and fiscal charges	155,347	155,347	163,251	163,251
Total expenses	<u>\$ 10,393,130</u>	<u>\$ 8,477,229</u>	<u>\$ 10,460,259</u>	<u>\$ 8,301,127</u>

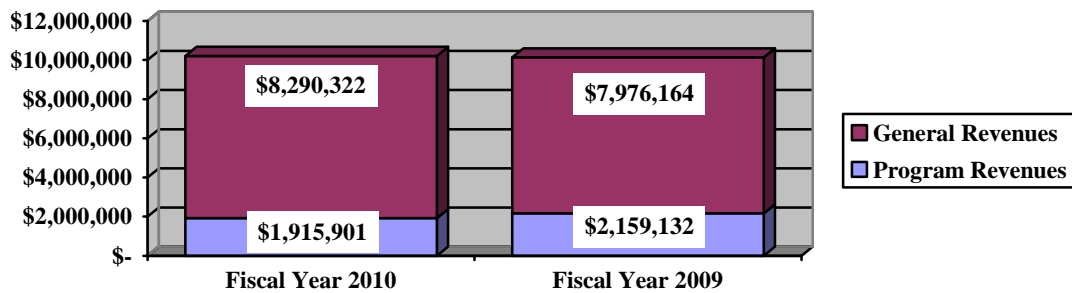
**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, 81.59% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 81.43%. The District's taxpayers and unrestricted grants and entitlements from the State are by far the primary support for the District's students.

The graph below presents the District's governmental activities revenues for fiscal year 2010 and 2009.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$737,072, which is less than last year's total of \$970,097. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	Fund Balance (deficit) <u>June 30, 2010</u>	Fund Balance <u>June 30, 2009</u>	Increase (Decrease)	Percentage <u>Change</u>
General	\$ (20,972)	\$ 232,528	\$ (253,500)	(109.02) %
Bond Retirement	425,470	427,054	(1,584)	(0.37) %
Other Governmental	<u>332,574</u>	<u>310,515</u>	<u>22,059</u>	7.10 %
Total	<u>\$ 737,072</u>	<u>\$ 970,097</u>	<u>\$ (233,025)</u>	(24.02) %

General Fund

The District's general fund balance decreased \$253,500. The decrease in fund balance can be attributed to revenues and other financing sources of \$8,479,529 being less than expenditures and other financing uses of \$8,733,029. Expenditures and other financing uses exceed revenues for fiscal year 2010 by \$253,500. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

	2010 <u>Amount</u>	2009 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 1,569,984	\$ 1,551,756	\$ 18,228	1.17 %
Tuition	359,620	343,438	16,182	4.71 %
Earnings on investments	1,091	7,774	(6,683)	(85.97) %
Intergovernmental	6,394,829	6,657,789	(262,960)	(3.95) %
Other revenues	<u>108,298</u>	<u>91,621</u>	<u>16,677</u>	18.20 %
Total	<u>\$ 8,433,822</u>	<u>\$ 8,652,378</u>	<u>\$ (218,556)</u>	(2.53) %
<u>Expenditures</u>				
Instruction	\$ 4,011,694	\$ 4,120,002	\$ (108,308)	(2.63) %
Support services	4,471,032	4,442,942	28,090	0.63 %
Capital outlay	43,707	-	43,707	- %
Extracurricular activities	134,165	126,128	8,037	6.37 %
Debt service	<u>12,431</u>	<u>10,706</u>	<u>1,725</u>	16.11 %
Total	<u>\$ 8,673,029</u>	<u>\$ 8,699,778</u>	<u>\$ (26,749)</u>	(0.31) %

The increase in tuition revenue of \$18,228 is due to an increase in open enrollment revenue received during the fiscal year. Earnings on investments decreased \$6,683 due to decreased interest rates during the fiscal year. The District's State foundation revenues were decreased resulting in a decrease in intergovernmental revenue in the General Fund. However, the District received State Fiscal Stabilization Funds (SFSF) as part of the American Recovery and Reinvestment Act (ARRA) in the non-major governmental funds that resulted in overall intergovernmental revenues remaining relatively unchanged from fiscal year 2009. The decrease in instruction expenditures is primarily due to the District's implementation of cost saving measures.

Bond Retirement Fund

The District's bond retirement fund balance decreased \$1,584 from \$427,054 to \$425,470 at June 30, 2010. The decrease in fund balance can be attributed to expenditures of \$243,000 being greater than revenues of \$241,416.

General Fund Budgeting Highlights

The 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 fiscal 2010, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$8,926,098 and final budgeted revenues and other financing sources were \$8,571,747. Actual revenues and other financing sources for fiscal 2010 were \$8,571,833, which represents an increase of \$86 over final budgeted revenues and other financing sources.

General fund original appropriations (appropriated expenditures including other financing uses) were \$8,742,091. General fund final appropriations (appropriated expenditures including other financing uses) were \$8,681,038. The actual budget basis expenditures and other financing uses for fiscal year 2010 totaled \$8,681,038, which was the same as the final budgeted appropriations.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the District had \$13,013,770 invested in land, land improvements, buildings and improvements, furniture and equipment, infrastructure and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2010 balances compared to June 30, 2009:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2010	2009
Land	\$ 84,670	\$ 84,670
Land improvements	383,102	472,636
Building and improvements	11,920,779	12,410,251
Furniture and equipment	199,650	153,363
Infrastructure	94,403	118,880
Vehicles	331,166	292,443
Total	\$ 13,013,770	\$ 13,532,243

The overall decrease in capital assets of \$518,473 is due to depreciation expense of \$883,488 and disposals of \$21,522 (net of accumulated depreciation) exceeding capital outlays of \$386,537 during the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2010, the District had \$2,721,591 in general obligation bonds, capital lease obligations, and lease purchase obligations outstanding. Of this total, \$171,659 is due within one year and \$2,549,932 is due in greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2010	2009
General obligation bonds	\$ 2,531,017	\$ 2,622,266
Capital lease obligations	37,577	3,510
Lease purchase obligations	152,997	186,395
Total	\$ 2,721,591	\$ 2,812,171

At June 30, 2010, the District's overall legal debt margin was \$5,188,326, and an unvoted debt margin of \$79,595.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Current Financial Related Activities

The District faces many challenges in the future. As the preceding information shows, the District relies heavily upon grants and entitlements and property taxes. Since future grant and entitlement revenue is expected to decrease, the reliance upon local taxes is increasingly important. The District may also face a situation where an operating levy may have to be passed by District voters in the near future in order for the District to obtain the necessary funds to meet its operating expenses.

The District completed a 14 million dollar project that closed two schools and housed all their students at one site. The OSFC does not allow for administrative offices, so the current offices are located behind the new school building in a doublewide trailer. The Board has been setting aside money into a construction account to accommodate any extra money that the building project may have needed. The Board continued to set aside the money, even though the school project was finished, and now has enough to purchase a modular unit for the administrative offices. The new administrative offices should be in place by the first of the year, and will be located in front of the football field next to the entrance gate.

The last challenge facing the District is the future of State funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. At this time, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

The District has anticipated a lower increase in funding due to declining enrollment in future State revenue. The District loses over 170 students to open enrollment and it could lose more in the future to digital and community schools. When these students leave, the State funding is also decreased. The District's main challenge is how to stop this declining enrollment. With decreased State funding, cost cutting measures are inevitable unless other revenue sources become available (i.e.: operating tax levy).

The District's system of budgeting and internal controls is well regarded. All of the District's financial abilities will be needed to meet the financial challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Doreen Marshall, Treasurer, Southern Local School District, 38095 State Route 39, Salineville, Ohio 43945.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 1,729,937
Cash with fiscal agent	208,482
Receivables:	
Taxes	1,852,313
Intergovernmental	52,332
Prepayments	387
Materials and supplies inventory.	8,674
Loans receivable.	1,526
Unamortized bond issue costs	64,852
Capital assets:	
Land.	84,670
Depreciable capital assets, net.	12,929,100
Capital assets, net	13,013,770
 Total assets.	 16,932,273
 Liabilities:	
Accounts payable.	9,315
Accrued wages and benefits	699,263
Pension obligation payable.	176,796
Intergovernmental payable	22,316
Accrued interest payable	4,576
Claims payable.	173,990
Unearned revenue	1,662,113
Long-term liabilities:	
Due within one year.	219,406
Due in more than one year	2,972,660
 Total liabilities	 5,940,435
 Net Assets:	
Invested in capital assets, net of related debt.	10,363,494
Restricted for:	
Capital projects	241,212
Debt service.	454,197
Federally funded programs	171,487
Public school support	8,168
Student activities	4,116
Other purposes	17,013
Unrestricted (deficit)	(267,849)
 Total net assets	 \$ 10,991,838

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 3,789,838	\$ 88,585	\$ 333,615	\$ (3,367,638)
Special	955,068	-	468,610	(486,458)
Vocational	263,727	-	32,390	(231,337)
Other	4,880	-	-	(4,880)
Support services:				
Pupil	382,966	-	-	(382,966)
Instructional staff	343,693	-	98,163	(245,530)
Board of education	1,276,588	338,502	-	(938,086)
Administration	660,235	-	8,267	(651,968)
Fiscal	236,080	-	-	(236,080)
Business	55,845	-	-	(55,845)
Operations and maintenance	957,276	-	7,453	(949,823)
Pupil transportation	653,713	-	890	(652,823)
Operation of non-instructional services:				
Food service operations	384,860	120,547	302,603	38,290
Other non-instructional services	27,784	-	29,662	1,878
Extracurricular activities	245,230	86,614	-	(158,616)
Interest and fiscal charges	155,347	-	-	(155,347)
Total governmental activities	\$ 10,393,130	\$ 634,248	\$ 1,281,653	(8,477,229)
 General Revenues:				
Property taxes levied for:				
General purposes				1,628,816
Debt service				211,360
Capital projects				44,111
Grants and entitlements not restricted to specific programs				6,355,757
Investment earnings				3,746
Miscellaneous				46,532
Total general revenues				8,290,322
Change in net assets				(186,907)
Net assets at beginning of year				11,178,745
Net assets at end of year				\$ 10,991,838

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 732,132	\$ 421,191	\$ 551,817	\$ 1,705,140
Receivables:				
Taxes.	1,581,337	240,826	30,150	1,852,313
Intergovernmental	-	-	52,332	52,332
Interfund loans.	1,131	-	-	1,131
Loans.	1,526	-	-	1,526
Prepayments.	387	-	-	387
Materials and supplies inventory.	-	-	8,674	8,674
Restricted assets:				
Equity in pooled cash and cash equivalents	24,797	-	-	24,797
Total assets	<u>\$ 2,341,310</u>	<u>\$ 662,017</u>	<u>\$ 642,973</u>	<u>\$ 3,646,300</u>
Liabilities:				
Accounts payable	\$ 7,117	\$ -	\$ 2,198	\$ 9,315
Accrued wages and benefits.	588,403	-	110,860	699,263
Compensated absences payable	40,639	-	-	40,639
Pension obligation payable	153,815	-	22,981	176,796
Intergovernmental payable	19,384	-	2,932	22,316
Interfund loans payable.	-	-	1,131	1,131
Deferred revenue	226,862	33,303	37,490	297,655
Unearned revenue.	1,326,062	203,244	132,807	1,662,113
Total liabilities.	<u>2,362,282</u>	<u>236,547</u>	<u>310,399</u>	<u>2,909,228</u>
Fund Balances:				
Reserved for encumbrances	4,412	-	67,832	72,244
Reserved for materials and supplies inventory	-	-	8,674	8,674
Reserved for prepayments.	387	-	-	387
Reserved for property tax unavailable for appropriation	28,413	4,279	523	33,215
Reserved for BWC refunds.	24,797	-	-	24,797
Reserved for debt service	-	421,191	-	421,191
Unreserved, undesignated (deficit), reported in:				
General fund.	(78,981)	-	-	(78,981)
Special revenue funds	-	-	19,014	19,014
Capital projects funds	-	-	236,531	236,531
Total fund balances (deficit)	<u>(20,972)</u>	<u>425,470</u>	<u>332,574</u>	<u>737,072</u>
Total liabilities and fund balances	<u>\$ 2,341,310</u>	<u>\$ 662,017</u>	<u>\$ 642,973</u>	<u>\$ 3,646,300</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010

Total governmental fund balances		\$	737,072
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			13,013,770
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	264,323	
Intergovernmental receivable		33,332	
Total			297,655
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			34,492
Unamortized bond issuance costs are not recognized in the funds.			64,852
Unamortized premiums on bond issuances are not recognized in the funds.			(155,983)
Unamortized deferred charges on refundings are not recognized in the funds.			96,944
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(4,576)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences payable		370,797	
Capital lease obligation payable		37,577	
Lease purchase obligation payable		152,997	
General obligation bonds payable		2,531,017	
Total			(3,092,388)
Net assets of governmental activities		\$	10,991,838

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 1,569,984	\$ 202,738	\$ 44,111	\$ 1,816,833
Tuition	359,620	-	-	359,620
Charges for services	-	-	120,547	120,547
Earnings on investments	1,091	-	-	1,091
Extracurricular	-	-	86,614	86,614
Contract services	67,468	-	-	67,468
Other local revenues	40,830	-	5,702	46,532
Intergovernmental - State	6,394,829	38,678	27,190	6,460,697
Intergovernmental - Federal	-	-	1,151,740	1,151,740
Total revenues	<u>8,433,822</u>	<u>241,416</u>	<u>1,435,904</u>	<u>10,111,142</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,244,568	-	201,154	3,445,722
Special	498,955	-	527,375	1,026,330
Vocational	263,291	-	-	263,291
Other	4,880	-	-	4,880
Support services:				
Pupil	395,694	-	59	395,753
Instructional staff	248,358	-	112,099	360,457
Board of education	1,279,583	-	-	1,279,583
Administration	709,851	-	15,504	725,355
Fiscal	230,214	5,722	723	236,659
Business	55,845	-	-	55,845
Operations and maintenance	813,129	-	44,421	857,550
Pupil transportation	738,358	-	-	738,358
Operation of non-instructional services:				
Food service operations	-	-	386,030	386,030
Other non-instructional services	-	-	45,720	45,720
Extracurricular activities	134,165	-	97,110	231,275
Capital outlay	43,707	-	-	43,707
Debt service:				
Principal retirement	9,640	140,000	33,398	183,038
Interest and fiscal charges	2,791	97,278	10,252	110,321
Total expenditures	<u>8,673,029</u>	<u>243,000</u>	<u>1,473,845</u>	<u>10,389,874</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(239,207)</u>	<u>(1,584)</u>	<u>(37,941)</u>	<u>(278,732)</u>
Other financing sources (uses):				
Sale of capital assets	2,000	-	-	2,000
Transfers in	-	-	60,000	60,000
Transfers (out)	(60,000)	-	-	(60,000)
Capital lease transaction	43,707	-	-	43,707
Total other financing sources (uses)	<u>(14,293)</u>	<u>-</u>	<u>60,000</u>	<u>45,707</u>
Net change in fund balances	(253,500)	(1,584)	22,059	(233,025)
Fund balances at beginning of year	<u>232,528</u>	<u>427,054</u>	<u>310,515</u>	<u>970,097</u>
Fund balances (deficit) at end of year	<u>\$ (20,972)</u>	<u>\$ 425,470</u>	<u>\$ 332,574</u>	<u>\$ 737,072</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds	\$	(233,025)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Additions	\$ 386,537	
Depreciation expense	<u>(883,488)</u>	
Total		(496,951)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(21,522)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	68,519	
Intergovernmental	<u>23,907</u>	
Total		92,426
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		183,038
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due. The following items resulted in additional interest being recorded in the statement of activities:		
Accrued interest payable	4,127	
Accreted interest	(48,751)	
Amortization of deferred charges	(6,724)	
Amortization of bond premium	10,820	
Amortization of bond issuance costs	<u>(4,498)</u>	
Total		(45,026)
Proceeds of capital lease transactions are recorded as other financing sources in the funds, however, in the statement of activities, they are not reported as other financing sources as they increase the liabilities on the statement of net assets.		
		(43,707)
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		34,425
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		<u>343,435</u>
Change in net assets of governmental activities	\$	<u>(186,907)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 1,567,564	\$ 1,505,334	\$ 1,614,938	\$ 109,604
Tuition.	339,843	326,352	359,619	33,267
Earnings on investments	8,164	7,840	1,091	(6,749)
Contract services.	73,480	70,563	67,468	(3,095)
Other local revenues	20,411	19,601	40,866	21,265
Intergovernmental - State	6,839,279	6,567,770	6,401,898	(165,872)
Total revenues	<u>8,848,741</u>	<u>8,497,460</u>	<u>8,485,880</u>	<u>(11,580)</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,230,837	3,219,418	3,219,418	-
Special.	694,800	499,926	499,926	-
Vocational.	267,880	271,812	271,812	-
Other.	1,200	4,876	4,876	-
Support services:				
Pupil.	338,000	394,719	394,719	-
Instructional staff	161,300	246,156	246,156	-
Board of education	1,271,200	1,277,372	1,277,372	-
Administration.	734,396	713,419	713,419	-
Fiscal	232,740	230,162	230,162	-
Business	52,000	64,707	64,707	-
Operations and maintenance.	810,620	828,688	828,688	-
Pupil transportation	752,668	733,219	733,219	-
Extracurricular activities.	134,450	133,907	133,907	-
Total expenditures	<u>8,682,091</u>	<u>8,618,381</u>	<u>8,618,381</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>166,650</u>	<u>(120,921)</u>	<u>(132,501)</u>	<u>(11,580)</u>
Other financing sources (uses):				
Refund of prior year's expenditures	816	784	-	(784)
Transfers (out).	(60,000)	(60,000)	(60,000)	-
Advances in.	76,541	73,503	83,953	10,450
Advances (out)	-	(2,657)	(2,657)	-
Sale of capital assets	-	-	2,000	2,000
Total other financing sources (uses)	<u>17,357</u>	<u>11,630</u>	<u>23,296</u>	<u>11,666</u>
Net change in fund balance	184,007	(109,291)	(109,205)	86
Fund balance at beginning of year	846,395	846,395	846,395	-
Prior year encumbrances appropriated	15,277	15,277	15,277	-
Fund balance at end of year	<u>\$ 1,045,679</u>	<u>\$ 752,381</u>	<u>\$ 752,467</u>	<u>\$ 86</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Cash with fiscal agent	\$ 208,482
Total assets.	<u>208,482</u>
Liabilities:	
Claims payable	<u>173,990</u>
Total liabilities	<u>173,990</u>
Net assets:	
Unrestricted.	<u>34,492</u>
Total net assets	<u>\$ 34,492</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 1,905,999
Total operating revenues	<u>1,905,999</u>
Operating expenses:	
Purchased services.	262,408
Claims	<u>1,303,551</u>
Total operating expenses.	<u>1,565,959</u>
Operating income	<u>340,040</u>
Nonoperating revenues:	
Interest revenue	<u>3,395</u>
Total nonoperating revenues.	<u>3,395</u>
Change in net assets.	343,435
Net assets (deficit) at beginning of year.	<u>(308,943)</u>
Net assets at end of year.	<u><u>\$ 34,492</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 1,905,999
Cash payments for purchased services	(262,408)
Cash payments for claims	<u>(1,278,052)</u>
Net cash provided by operating activities	<u>365,539</u>
Cash flows from noncapital financing activities:	
Cash payments for interfund loans	<u>(160,452)</u>
Net cash used in noncapital financing activities	<u>(160,452)</u>
Cash flows from investing activities:	
Interest received	<u>3,395</u>
Net cash provided by investing activities	<u>3,395</u>
Net increase in cash with fiscal agent	208,482
Cash with fiscal agent at beginning of year	-
Cash with fiscal agent at end of year	<u><u>\$ 208,482</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 340,040
Changes in assets and liabilities:	
Increase in claims payable	<u>25,499</u>
Net cash provided by operating activities	<u><u>\$ 365,539</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2010

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 27,683
Total assets.	<u>\$ 27,683</u>
Liabilities:	
Loans payable	\$ 1,526
Due to students	<u>26,157</u>
Total liabilities	<u>\$ 27,683</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

Southern Local School District (the “District”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District ranks as the 518th largest by total enrollment among the 905 public school districts and community schools in the State. The District operates under a locally-elected five-member Board form of government. Each member is elected to a four-year term. The District provides educational services as authorized by its charter and further mandated by State and/or Federal agencies. The Board of Education controls the District's 4 instructional/support facilities staffed by 42 classified employees and 70 certified employees who provide services to 907 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided it does not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units”. The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Ohio Mid-Eastern Regional Educational Services Agency (OME-RESA)

OME-RESA is a not-for-profit computer service organization whose primary function is to provide information technology services to its member school districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by the OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records and test scoring.

The OME-RESA is one of 23 regional service organizations serving over 600 public school districts in the State of Ohio that make up the Ohio Educational Computer Network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code and their member school districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio school districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

The District is a member of the OME-RESA Health Benefits Program, a partially self-insured consortium of public employers in Ohio. The consortium has over 100 member organizations participating. Monthly accruals are paid to a custodian bank, U.S. Bank, acting as trustee on behalf of the fiscal agent. The trustees disburse payments to vendors for services rendered and to satisfy claim reimbursements for covered plan participants.

The OME-RESA is located at 2023 Sunset Blvd., Steubenville, Ohio 43952. The Jefferson County Educational Service Center is one of OME-RESA's member districts and acts in the capacity of fiscal agent for OME-RESA.

Columbiana County Career and Technical Center - The Columbiana County Career and Technical Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected Boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Columbiana County Career Center, Treasurer, 9364 State Route 45, Lisbon, Ohio 44432.

PUBLIC ENTITY RISK POOL

Ohio Association of School Business Officials

The District participates in a group rating plan (GRP) for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniservice Inc. provides administrative, cost control and actuarial services to the GRP. Each year, the District pays an enrollment fee to the GRP to cover the costs of administering the program.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

INSURANCE PURCHASING POOLS

Ohio Mid-Eastern Regional Education Services Agency

The District is a participant with several other school districts in an insurance purchasing pool to operate the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA). OME-RESA was formed for the purpose of providing medical/surgical, dental and vision insurance. OME-RESA is governed by a Board of Directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board.

Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority Board (SORSA), an insurance purchasing pool. SORSA's business affairs are conducted by a nine member Board of directors consisting of a President, Vice President, Secretary, Treasurer and five delegates. SORSA was created to provide joint self-insurance coverage and to assist members to prevent and reduce losses and injuries to the District's property and person. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a nonprofit corporation under provisions of Ohio Revised Code 2744.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

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 for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond retirement fund - The bond retirement fund is used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources when the government is obligated in some manner for payment.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; (b) grants and other resources whose use is restricted to a particular purpose; and (c) food service operations.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal service fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical/surgical and dental benefits to employees.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. 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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange Transactions - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6).

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period, including delinquent property taxes due at June 30, 2010, are recorded as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities used during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2010 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Columbiana County Budget Commission for tax rate determination.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificates of estimated resources issued for fiscal year 2010.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary comparison statements at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2010, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The District has invested funds in STAR Ohio during fiscal year 2010. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2010.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$1,091, which includes \$627 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2010, the District maintained its capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Infrastructure	50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

I. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund loans receivable/payable”. These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, employees age fifty or greater with ten years of service or any age with twenty years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave has been calculated using pay rates in effect at June 30, 2010 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, BWC refunds, debt service and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted for food service operations.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

O. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish reserves for BWC refunds. These reserves are required by State statute. A schedule of statutory reserves is presented in Note 17.

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods 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 revenues/expenses in proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2010, the District had no extraordinary or special items.

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the District.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the District.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Major Fund</u>	<u>Deficit</u>
General	\$ 20,972
<u>Nonmajor governmental funds</u>	
Poverty aid	6
IDEA Part-B	100,391
Title I, Disadvantaged Children	7,887

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances are the result of adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current 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.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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 District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash with Fiscal Agent

The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposits, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2010, was \$208,482.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all District deposits was \$1,636,146. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", \$1,411,199 of the District's bank balance of \$1,661,199 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

As of June 30, 2010, the District had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	Investment Maturity <u>6 months or less</u>
STAR Ohio	<u>\$ 121,474</u>	<u>\$ 121,474</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 121,474</u>	<u>100.00</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,636,146
Investments	121,474
Cash with fiscal agent	<u>208,482</u>
Total	<u>\$ 1,966,102</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 1,938,419
Agency fund	<u>27,683</u>
Total	<u>\$ 1,966,102</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2010 as reported on the fund statements consist of the following individual interfund loans receivable and payable.

<u>Receivable fund</u>	<u>Payable funds</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 1,131

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore no internal balances at June 30, 2010 are reported on the statement of net assets.

- B.** Interfund transfers for the year ended June 30, 2010, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:	<u>Amount</u>
General	<u>\$ 60,000</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- C. Loans between governmental funds and the agency fund are reported as “loans receivable/payable” on the financial statements. The District had the following loan outstanding at fiscal year end:

<u>Loan from</u>	<u>Loan to</u>	<u>Amount</u>
General	Agency	\$ 1,526

This loan is expected to be repaid in the subsequent year as resources become available in the agency fund.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, 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 revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, 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 revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. 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 District prior to June 30.

The District receives property taxes from Columbiana, Jefferson, and Carroll Counties. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available as an advance at June 30, 2010 was \$28,413 in the general fund and \$4,279 in the bond retirement fund and \$523 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2009 was \$73,366 in the general fund and \$10,450 in the bond retirement fund and \$1,318 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 6 - PROPERTY TAXES – (Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2010 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been deferred.

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 75,877,290	92.40	\$ 73,950,560	92.58
Public utility personal	5,829,630	7.10	5,655,820	7.08
Tangible personal property	<u>409,674</u>	<u>0.50</u>	<u>273,663</u>	<u>0.34</u>
Total	<u>\$ 82,116,594</u>	<u>100.00</u>	<u>\$ 79,880,043</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$42.64		\$39.44

NOTE 7 - RECEIVABLES

Receivables at June 30, 2010 consisted of taxes, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Taxes	\$ 1,852,313
Intergovernmental	<u>52,332</u>
Total	<u>\$ 1,904,645</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance <u>06/30/09</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/10</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 84,670	\$ -	\$ -	\$ 84,670
Total capital assets, not being depreciated	<u>84,670</u>	<u>-</u>	<u>-</u>	<u>84,670</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	715,401	-	-	715,401
Buildings and improvements	16,413,901	-	(19,002)	16,394,899
Furniture and equipment	411,644	86,020	(74,469)	423,195
Infrastructure	139,856	-	-	139,856
Vehicles	893,357	300,517	(179,218)	1,014,656
Total capital assets, being depreciated	<u>18,574,159</u>	<u>386,537</u>	<u>(272,689)</u>	<u>18,688,007</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(242,765)	(89,534)	-	(332,299)
Buildings and improvements	(4,003,650)	(473,130)	2,660	(4,474,120)
Furniture and equipment	(258,281)	(34,553)	69,289	(223,545)
Infrastructure	(20,976)	(24,477)	-	(45,453)
Vehicles	(600,914)	(261,794)	179,218	(683,490)
Total accumulated depreciation	<u>(5,126,586)</u>	<u>(883,488)</u>	<u>251,167</u>	<u>(5,758,907)</u>
Governmental activities capital assets, net	<u>\$ 13,532,243</u>	<u>\$ (496,951)</u>	<u>\$ (21,522)</u>	<u>\$ 13,013,770</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 534,291
<u>Support services:</u>	
Instructional staff	3,485
Board of education	3,735
Administration	5,754
Operations and maintenance	54,063
Pupil transportation	264,096
Food service operations	4,431
Extracurricular activities	<u>13,633</u>
Total depreciation expense	<u>\$ 883,488</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

- A. In a prior year and in the current year, the District entered into a capital lease for the acquisition of copiers. These leases met the criteria of a capital lease as defined by FASB Statement No. 13, “Accounting for Leases”, which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term. At inception, the lease was accounted for as an other financing source and a capital outlay expenditure in the general fund. Capital lease payments have been reclassified and shown as debt service expenditures in the general fund. These expenditures will be reflected as function expenditures on a budgetary basis. The general capital assets acquired by this capital lease have been capitalized in the governmental activities on the statement of net assets in the amount of \$87,729, which is equal to the present value of the future minimum lease payments as of the date of their inception. Accumulated depreciation as of June 30, 2010 was \$43,989, leaving a current book value of \$43,740. A corresponding liability has been recorded in the governmental activities on the statement of net assets. Principal payments made during fiscal year 2010 totaled \$9,640.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2010.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 10,635
2012	10,635
2013	10,635
2014	10,634
2015	<u>1,772</u>
Total minimum lease payments	<u>44,311</u>
Less: amount representing interest	<u>(6,734)</u>
Present value of minimum lease payments	<u>\$ 37,577</u>

- B. During fiscal year 2006, the District entered into lease-purchase agreement with the Lease Servicing Center Inc. to finance roof construction and improvements throughout the District. The source of revenue to fund the principal and interest payments is derived from general operating revenues of the District.

Capital assets consisting of building improvements have been capitalized in the amount of \$330,500. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2009 was \$82,625, leaving a current book value of \$247,875. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2010 totaled \$33,398 paid by the building fund, a nonmajor governmental fund.

A liability in the amount of the present value of minimum lease payments has been recorded in the governmental activities of the District.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE – (Continued)

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2010.

Fiscal Year Ending June 30	Amount
2011	\$ 43,650
2012	43,649
2013	43,649
2014	43,649
Total	174,597
Less: amount representing interest	(21,600)
Present value of minimum lease payments	\$ 152,997

NOTE 10 - LONG-TERM OBLIGATIONS

A. During fiscal year 2010, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding 06/30/09	Additions	Reductions	Balance Outstanding 06/30/10	Amounts Due in One Year
Governmental activities:					
General obligation bonds - Series 2001					
Capital appreciation	\$ 35,000	\$ -	\$ (19,335)	\$ 15,665	\$ 15,665
Accreted interest	152,368	31,141	(95,665)	87,844	87,844
Refunding bonds - Series 2007					
Current interest	2,345,000	-	(25,000)	2,320,000	25,000
Capital appreciation	64,998	-	-	64,998	-
Accreted interest	24,900	17,610	-	42,510	-
Total general obligation bonds	2,622,266	48,751	(140,000)	2,531,017	128,509
Compensated absences	419,593	-	(8,157)	411,436	47,747
Capital lease obligation	3,510	43,707	(9,640)	37,577	7,915
Lease purchase obligation	186,395	-	(33,398)	152,997	35,235
Total	\$ 3,231,764	\$ 92,458	\$ (191,195)	\$ 3,133,027	\$ 219,406
Add: Unamortized premium on refunding				155,983	
Less: Unamortized deferred charge on refunding				(96,944)	
Total on statement of net assets				\$ 3,192,066	

Compensated absences: Compensated absences will be paid from the fund from which the employee' salaries are paid, which, for the District, is primarily the general fund.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Series 2001 general obligation bonds: On June 1, 2001, the District issued general obligation bonds to provide funds for renovations and additions to the existing junior-senior high school to house grades K-12, abandonment of the primary and intermediate school buildings, and demolition of the modular classrooms at the primary and junior-senior high school buildings (hereinafter called "Construction Project"). These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for on the statement of net assets. Payments of principal and interest relating to this bond are recorded as an expenditure in the bond retirement fund. The source of payment is derived from a current 3.71 mils bonded debt tax levy.

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC).

In conjunction with the 3.71 mils which support the bond issue, the District also passed in fiscal 2001 a .5 mil levy to ultimately fund the maintenance costs of the new facilities. Tax revenue from this levy has been reported in the nonmajor governmental funds.

This issue is comprised of both current interest bonds, par value \$3,057,000, and capital appreciation bonds, par value \$15,665. The interest rates on the current interest bonds range from 4.00% to 5.25%. The capital appreciation bonds mature on December 1, 2010 (stated interest 22.20%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$115,000. As of June 30, 2010, \$87,844 of accreted interest on the capital appreciation bonds has been included in long-term liabilities on the statement of net assets.

During fiscal year 2008, a portion of the Series 2001 general obligation bonds were refunded in the amount of \$2,465,000. The remaining balance of the Series 2001 current interest bonds matures December 1, 2010. Payments of principal and interest relating to these liabilities are recorded as expenditures in the bond retirement fund.

Series 2007 Refunding General Obligation Bonds: On August 21, 2007, the District issued general obligation bonds (Series 2007 refunding bonds) to advance refund the callable portion (\$2,465,000) of the Series 2001 general obligation bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

The refunding issue is comprised of both current interest bonds, par value \$2,400,000 and capital appreciation bonds par value \$64,998. The interest rates on the current interest bonds range from 3.75% - 4.35%. The capital appreciation bonds mature on December 1, 2016 and December 1, 2017 (stated interest rates 18.783%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds maturing December 1, 2016 and December 1, 2017 is \$375,000. Total accreted interest of \$42,510 has been included in the statement of net assets at June 30, 2010.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2024.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE – (Continued)

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2010.

Fiscal Year Ending June 30	Amount
2011	\$ 43,650
2012	43,649
2013	43,649
2014	43,649
Total	174,597
Less: amount representing interest	(21,600)
Present value of minimum lease payments	\$ 152,997

NOTE 10 - LONG-TERM OBLIGATIONS

A. During fiscal year 2010, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding 06/30/09	Additions	Reductions	Balance Outstanding 06/30/10	Amounts Due in One Year
Governmental activities:					
General obligation bonds - Series 2001					
Capital appreciation	\$ 35,000	\$ -	\$ (19,335)	\$ 15,665	\$ 15,665
Accreted interest	152,368	31,141	(95,665)	87,844	87,844
Refunding bonds - Series 2007					
Current interest	2,345,000	-	(25,000)	2,320,000	25,000
Capital appreciation	64,998	-	-	64,998	-
Accreted interest	24,900	17,610	-	42,510	-
Total general obligation bonds	2,622,266	48,751	(140,000)	2,531,017	128,509
Compensated absences	419,593	-	(8,157)	411,436	47,747
Capital lease obligation	3,510	43,707	(9,640)	37,577	7,915
Lease purchase obligation	186,395	-	(33,398)	152,997	35,235
Total	\$ 3,231,764	\$ 92,458	\$ (191,195)	\$ 3,133,027	\$ 219,406
Add: Unamortized premium on refunding				155,983	
Less: Unamortized deferred charge on refunding				(96,944)	
Total on statement of net assets				\$ 3,192,066	

Compensated absences: Compensated absences will be paid from the fund from which the employee' salaries are paid, which, for the District, is primarily the general fund.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn 5 to 25 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment.

Principals, teachers, aides, secretaries, bus drivers and cafeteria workers do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to the number of annual work days per contract plus 90 days, not to exceed 300 days for certified employees and 280 for non-certified employees. Upon retirement, certified employees are paid for one-fourth of their total sick leave accumulation, up to their maximum accumulation, and classified employees are paid for one-fourth of their total sick leave accumulation, up to their maximum accumulation.

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees through Fort Dearborn Life Insurance Company. Each full-time employee receives \$20,000 in coverage.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The 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. For fiscal year 2010, the District contracted with Schools of Risk Sharing Authority (SORSA) for property, boiler and inland marine insurance. This risk policy has a \$1,000 deductible.

General liability is protected by Schools of Risk Sharing Authority (SORSA) with a \$1,000,000 single occurrence limit and \$5,000,000 aggregate and no deductible. Vehicles, including school buses, are covered by Schools of Risk Sharing Authority (SORSA) and hold a \$1,000 deductible for comprehensive and collision. There is a \$1,000,000 combined single limit of liability.

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

B. Workers' Compensation Plan

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan, an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. Participants in the Plan are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the State based on the rate for its Plan tier rather than its individual rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Sheakley UniService, Inc. provides administrative, cost control, assistance with safety programs, and actuarial services to the Plan.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 12 - RISK MANAGEMENT – (Continued)

C. Medical, Vision, Dental and Prescription Insurance

Medical, vision, dental and prescription insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of several Districts within the Eastern Region, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District’s behalf. The claims liability of \$173,990 reported in the internal service fund at June 30, 2010, is based on an estimate provided by Professional Risk Management (the third party administrator) and the requirements of GASB Statement No. 10, “Accounting and Financial Reporting for Risk Financing and Related Insurance Issues”, as amended by GASB Statement No. 30, “Risk Financing Omnibus”, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims.

Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2010	\$ 148,491	\$ 1,303,551	\$ (1,278,052)	\$ 173,990
2009	78,705	1,756,989	(1,687,203)	148,491

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.74 percent and .04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District’s required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$122,512, \$82,777 and \$82,996, respectively; 47.19 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 13 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$439,066, \$416,403 and \$404,420, respectively; 82.97 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$4,769 made by the District and \$3,406 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$17,781, \$55,528 and \$51,060, respectively; 47.19 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$7,286, \$6,830 and \$5,980, respectively; 47.19 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$33,774, \$32,031 and \$31,109, respectively; 82.97 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenues, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis); and,
- (d) Advance-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (109,205)
Net adjustment for revenue accruals	(52,058)
Net adjustment for expenditure accruals	(59,110)
Net adjustment for other financing sources and uses	(37,589)
Adjustment for encumbrances	<u>4,462</u>
GAAP basis	<u>\$ (253,500)</u>

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is not involved in material litigation as either plaintiff or defendant.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 17 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2010, the reserve activity was as follows:

	Textbooks Instructional/ Materials	Capital Maintenance	BWC Refunds
Set-aside balance as of June 30, 2009	\$ (354,926)	\$ -	\$ 24,797
Current year set-aside requirement	156,466	156,466	-
Current year offsets	-	(184,906)	-
Qualifying disbursements	<u>(119,826)</u>	<u>(66,189)</u>	<u>-</u>
Total	<u>\$ (318,286)</u>	<u>\$ (94,629)</u>	<u>\$ 24,797</u>
Balance carried forward to fiscal year 2011	<u>\$ (318,286)</u>	<u>\$ -</u>	<u>\$ 24,797</u>
A schedule of the restricted assets at June 30, 2010 follows:			
Amounts restricted for BWC refund	<u>\$ 24,797</u>		
Total restricted assets	<u>\$ 24,797</u>		

The District had qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbooks/instructional materials reserve. These extra amounts may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to the next fiscal year. The capital acquisition reserve had current year qualifying disbursements and offsets in excess of the current year set-aside requirement. This amount may not be carried forward to future years.

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SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY
FEDERAL AWARDS EXPENDITURE SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF Agriculture				
<i>Passed Through Ohio Department of Education:</i>				
<u>Child Nutrition Cluster:</u>				
Non-Cash Assistance:				
Commodities	03-PU-10	10.550	\$51,500	\$51,500
Cash Assistance:				
School Breakfast Program	05-PU-10	10.553	55,805	55,805
National School Lunch Program	04-PU-10	10.555	214,057	214,057
Subtotal Cash Assistance			269,862	269,862
Total Child Nutrition Cluster (Cash and Non-Cash)			321,362	321,362
Cafeteria Equipment Assistance	2010	10.579	5,365	5,365
Total U.S. Department of Agriculture			<u>326,727</u>	<u>326,727</u>
U.S. DEPARTMENT OF Education				
<i>Passed Through Ohio Department of Education</i>				
<u>Title I, Part A Cluster:</u>				
Title I Grants to Local Educational Agencies	C1-S1-2009	84.010	67,538	64,067
Title I School Improvement Program	C1-S1-2009		49,181	49,183
Title I Grants to Local Educational Agencies	C1-S1-2010		255,718	234,755
Title I Neglected Grant	C1-S1-2010		18,084	7,276
Subtotal Title I Grants to Local Educational Agencies			390,521	355,281
Title I Grants to Local Educational Agencies, Recovery Act	2010	84.389	87,063	84,027
Total Title I, Part A Cluster			477,584	439,308
<u>Educational Technology State Grants Cluster:</u>				
Education Technology State Grants	TJ-2010	84.318	23,159	21,754
Education Technology State Grants, Recovery Act		84.386	7,586	3,316
Total Educational Technology State Grants Cluster			30,745	25,070
<u>State Fiscal Stabilization Fund Cluster:</u>				
State Fiscal Stabilization Fund (SFSF) - Education				
State Grants, Recovery Act		84.394	397,067	215,877
Total State Fiscal Stabilization Fund Cluster			397,067	215,877
<u>Special Education Cluster (IDEA)</u>				
Special Education - Grants to States (IDEA, Part B), Recovery Act				
Total Special Education Cluster (IDEA)	6B-SF-10	84.391	100,659	93,316
Safe and Drug Free Schools Grant	DR-2010	84.186	4,199	4,003
Total Safe and Drug Free Schools Grant			4,199	4,003
Title II Part A Improving Teacher Quality Grant	TR-2009	84.367	24,493	29,324
	TR-2010		50,805	46,295
Total Title II Part A Grant			75,298	75,619
Total U.S. Department of Education			<u>1,085,552</u>	<u>853,193</u>
Total Federal Awards			<u>\$1,412,279</u>	<u>\$1,179,920</u>

The accompanying notes are an integral part of this schedule.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURE SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditure Schedule (the Schedule) reports the Southern Local School District (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Mary Taylor, CPA

Auditor of State

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

Southern Local School District
Columbiana County
38095 State Route 39 East
Salineville, Ohio 43945

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 the Southern Local School District, Columbiana County, (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 27, 2010. 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 District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the District's 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated December 27, 2010.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the audit committee, the Board of Education, and federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 27, 2010



Mary Taylor, CPA

Auditor of State

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

Southern Local School District
Columbiana County
38095 State Route 39 East
Salineville, Ohio 43945

To the Board of Education:

Compliance

We have audited the compliance of the Southern Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Southern Local School District's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The 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 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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 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 District's compliance with those requirements.

In our opinion, the Southern Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the 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 opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated December 27, 2010.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, others within the District, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 27, 2010

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs:	Title I CFDA # 84.010, 84.389 Special Education Cluster CFDA # 84.391 State Fiscal Stabilization Fund CFDA # 84.394
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2010-001

Noncompliance Finding

Ohio Revised Code Section 5705.41(D) provides that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively of the Ohio Revised Code.

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

If the amount involved is less than \$3,000 the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the Board of Education if such expenditure is otherwise valid.

- 2. Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not be, limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
- 3. Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line item appropriation in a specified fund upon certification of the Treasurer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket may be outstanding a particular time for any line item appropriation.

The District did not certify the amount against the applicable appropriation accounts for 17% of tested expenditures. The District did not utilize the certification exceptions described above for those expenditures lacking prior certification.

Failure to certify the availability of funds and encumber appropriations could result in overspending and negative cash balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, the Treasurer should certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

The District should certify purchases to which Ohio Revised Code Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language which Ohio Revised Code Section 5705.41(D) requires authorizing disbursements. The Treasurer should sign the certification at the time the District incurs a commitment, and only when the requirements of Ohio Revised Code Section 5705.41(D) are satisfied. The Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response: The Treasurer will make every attempt to correct this procedure.

3. FINDINGS FOR FEDERAL AWARDS

None

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**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	Ohio Revised Code Section 5705.41(D) Disbursements were not properly certified.	No	Reissued again as Finding Number 2010-001.
2009-002	2 CFR Part 225 Appendix B Sections 8h(3) and 8h(4) Semi-annual certifications and time and effort logs were not completed properly nor on a timely basis.	No	Reissued in the Management Letter.

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Dave Yost • Auditor of State

SOUTHERN LOCAL SCHOOL DISTRICT

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 29, 2011**