



Rea & associates *a brighter way*

Southern Local School District Columbiana County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2014



Dave Yost • Auditor of State

Board of Education
Southern Local School District
38095 State Road 39 East
Salineville, Ohio 43945

We have reviewed the *Independent Auditor's Report* of the Southern Local School District, Columbiana County, prepared by Rea & Associates, Inc., for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Southern Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

March 11, 2015

Southern Local School District
Columbiana County, Ohio
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February 27, 2015

To the Board of Education
Southern Local School District
Columbiana County, Ohio
38095 State Road 39 East
Salineville, OH 43945

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Local School District, Columbiana County, Ohio, (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 the Southern Local School District, Columbiana County, Ohio, as of June 30, 2014, 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 accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that *Management's Discussion and Analysis* on pages 5–14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an 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 management's 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 with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The *Schedule of Expenditures of Federal Awards* (the "Schedule"), as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Hea & Associates, Inc.

New Philadelphia, Ohio

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(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, 2014. 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 2014 are as follows:

- In total, net position of governmental activities decreased \$309,570, which represents a 3.31% decrease from 2013.
- General revenues accounted for \$8,323,954 in revenue or 71.70% of all revenues. Program specific revenues in the form of charges for services and sales, and operating grants and contributions accounted for \$3,286,001 or 28.30% of total revenues of \$11,609,955.
- The District had \$11,919,525 in expenses related to governmental activities; \$3,286,001 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,323,954 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, bond retirement fund, and permanent improvement fund. The general fund had \$9,308,567 in revenues and \$9,214,395 in expenditures and other financing uses. During fiscal year 2014 the general fund's fund deficit decreased \$94,172 from a deficit balance of \$700,660 to a deficit of \$606,488.
- The District's bond retirement fund had \$280,130 in revenues and \$251,092 in expenditures. During fiscal year 2014, the bond retirement fund's fund balance increased \$29,038 from \$485,660 to \$514,698.
- The District's permanent improvement fund had \$111,398 in revenues and \$1,168,439 in expenditures. During fiscal year 2014, the permanent improvement fund's fund balance decreased \$1,057,041 from \$1,046,671 to a deficit of \$10,370.

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 position* 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, bond retirement fund, and permanent improvement 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, 2014
(UNAUDITED)

Reporting the District as a Whole

Statement of Net position 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 2014?" The statement of net position and the statement of activities answer this question. These statements include *all assets, deferred outflows, liabilities, deferred inflows, 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 position* and changes in that position. This change in net position 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 position 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 position and statement of activities can be found on pages 15-16 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 11. 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, bond retirement fund, and permanent improvement 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 position 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 17-21 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 22-24 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(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 assets and liabilities are reported in a separate statement of fiduciary assets and liabilities on page 25. 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 26-53 of this report.

The District as a Whole

The table below provides a summary of the District's net position at June 30, 2014 and June 30, 2013.

	Net Position	
	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>
<u>Assets</u>		
Current and other assets	\$ 3,837,535	\$ 4,888,585
Capital assets, net	<u>11,751,502</u>	<u>11,094,472</u>
Total assets	<u>15,589,037</u>	<u>15,983,057</u>
<u>Deferred outflows of resources</u>		
Unamortized deferred charges on debt refunding	<u>70,047</u>	<u>76,771</u>
Total deferred outflows of resources	<u>70,047</u>	<u>76,771</u>
<u>Liabilities</u>		
Current liabilities	1,117,966	1,208,000
Long-term liabilities	<u>3,445,511</u>	<u>3,694,014</u>
Total liabilities	<u>4,563,477</u>	<u>4,902,014</u>
<u>Deferred inflows of resources</u>		
Property taxes levied for the next fiscal year	<u>2,048,793</u>	<u>1,801,430</u>
Total deferred inflows of resources	<u>2,048,793</u>	<u>1,801,430</u>
<u>Net position</u>		
Net investment in capital assets	8,801,400	8,944,541
Restricted	549,354	709,653
Unrestricted (deficit)	<u>(303,940)</u>	<u>(297,810)</u>
Total net position	<u>\$ 9,046,814</u>	<u>\$ 9,356,384</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

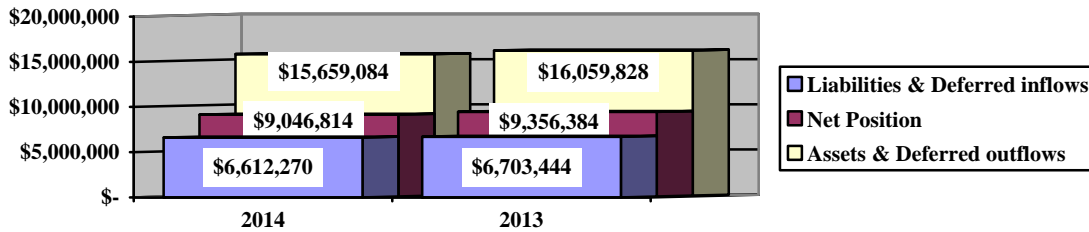
Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2014, the District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9,046,814.

At year-end, capital assets represented 75.38% of total assets. Capital assets include land, land improvements, buildings and improvements, infrastructure, furniture and equipment and vehicles. Net investment in capital assets was \$8,801,400. 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.

During fiscal year 2014, current assets decreased while net capital assets increased. This was due to the District's spending on football field improvements and other construction.

The graph below presents the District's governmental activities assets and deferred outflows, liabilities and deferred inflows, and net position at June 30, 2014 and June 30, 2013.

Governmental Activities



The table below shows the change in net position for fiscal year 2014 and 2013.

Change in Net Position

	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 891,988	\$ 808,249
Operating grants and contributions	2,394,013	2,579,224
General revenues:		
Property taxes	2,056,873	1,878,177
Grants and entitlements	6,142,855	5,748,384
Investment earnings	1,861	4,997
Other	<u>122,365</u>	<u>102,369</u>
Total revenues	<u>11,609,955</u>	<u>11,121,400</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

Change in Net Position

	Governmental Activities <u>2014</u>	Governmental Activities <u>2013</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,642,261	\$ 4,918,925
Special	1,267,038	1,180,998
Vocational	229,535	232,067
Other	411,110	266,520
Support services:		
Pupil	825,690	897,330
Instructional staff	561,673	709,500
Board of education	141,442	130,608
Administration	927,912	739,781
Fiscal	251,243	243,788
Business	66,038	58,759
Operations and maintenance	978,116	1,043,779
Pupil transportation	609,069	874,891
Central	76,836	94,661
Operation of non-instructional services:		
Food service operations	420,157	414,889
Other non-instructional services	27,110	19,838
Extracurricular activities	328,681	255,586
Interest and fiscal charges	<u>155,614</u>	<u>173,589</u>
Total expenses	<u>11,919,525</u>	<u>12,255,509</u>
Change in net position	<u>(309,570)</u>	<u>(1,134,109)</u>
Net position at beginning of year	<u>9,356,384</u>	<u>10,490,493</u>
Net position at end of year	<u>\$ 9,046,814</u>	<u>\$ 9,356,384</u>

Governmental Activities

Net position of the District's governmental activities decreased \$309,570. Total governmental expenses of \$11,919,525 were offset by program revenues of \$3,286,001 and general revenues of \$8,323,954. Program revenues supported 27.57% 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 70.63% of total governmental revenue.

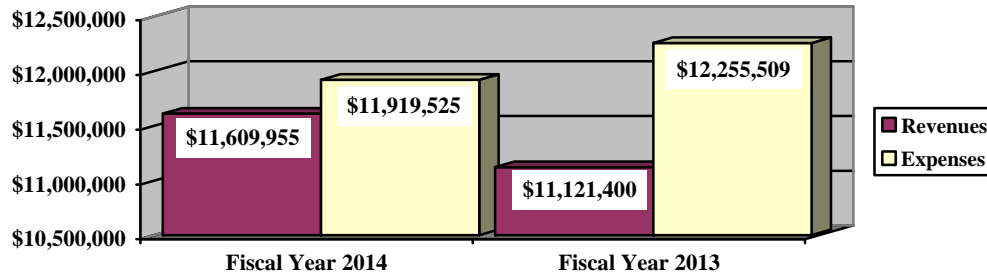
The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,549,944 or 54.95% of total governmental expenses for fiscal year 2014.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

The graph below presents the District's governmental activities revenues and expenses for fiscal year 2014 and 2013.

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 2014	Net Cost of Services 2014	Total Cost of Services 2013	Net Cost of Services 2013
Program expenses				
Instruction:				
Regular	\$ 4,642,261	\$ 3,929,568	\$ 4,918,925	\$ 4,311,127
Special	1,267,038	179,506	1,180,998	203,165
Vocational	229,535	189,673	232,067	199,434
Other	411,110	58,753	266,520	20,581
Support services:				
Pupil	825,690	662,135	897,330	567,945
Instructional staff	561,673	294,681	709,500	201,214
Board of education	141,442	141,442	130,608	130,608
Administration	927,912	861,376	739,781	673,822
Fiscal	251,243	251,243	243,788	243,788
Business	66,038	66,038	58,759	58,759
Operations and maintenance	978,116	974,516	1,043,779	1,040,179
Pupil transportation	609,069	606,287	874,891	847,945
Central	76,836	38,402	94,661	36,537
Food service operations	420,157	(23,170)	414,889	(4,955)
Other non-instructional services	27,110	1,477	19,838	792
Extracurricular activities	328,681	245,983	255,586	163,506
Interest and fiscal charges	155,614	155,614	173,589	173,589
Total expenses	<u>\$ 11,919,525</u>	<u>\$ 8,633,524</u>	<u>\$ 12,255,509</u>	<u>\$ 8,868,036</u>

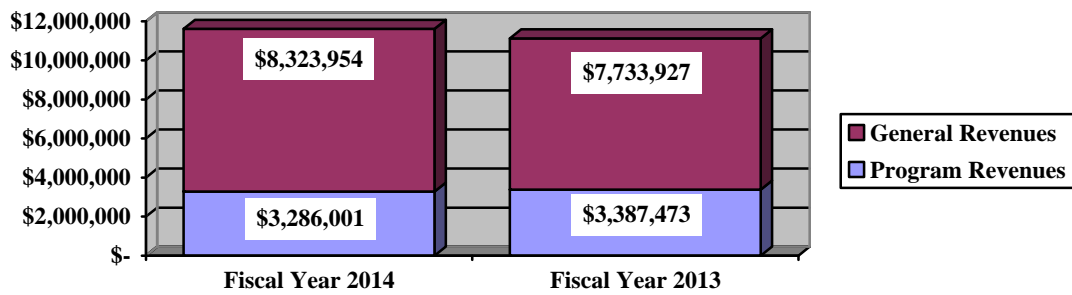
**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, 66.53% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 72.43%. 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 2014 and 2013.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$93,681, which is lower than last year's total of \$1,108,067. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2014 and 2013.

	Fund Balance (Deficit) <u>June 30, 2014</u>	Fund Balance (Deficit) <u>June 30, 2013</u>	Increase (Decrease)	Percentage Change
General	\$ (606,488)	\$ (700,660)	\$ 94,172	13.44 %
Bond Retirement	514,698	485,660	29,038	5.98 %
Permanent Improvement	(10,370)	1,046,671	(1,057,041)	(100.99) %
Other Governmental	<u>195,841</u>	<u>276,396</u>	<u>(80,555)</u>	(29.14) %
Total	<u>\$ 93,681</u>	<u>\$ 1,108,067</u>	<u>\$ (1,014,386)</u>	(91.55) %

General Fund

The District's general fund deficit decreased \$94,172 or 13.44%. 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, 2014
(UNAUDITED)

	2014 <u>Amount</u>	2013 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 1,722,564	\$ 1,595,887	\$ 126,677	7.94 %
Tuition	644,849	537,165	107,684	20.05 %
Earnings on investments	112	110	2	1.82 %
Intergovernmental	6,721,544	6,361,034	360,510	5.67 %
Other revenues	<u>219,498</u>	<u>208,582</u>	<u>10,916</u>	5.23 %
Total	<u>\$ 9,308,567</u>	<u>\$ 8,702,778</u>	<u>\$ 605,789</u>	6.96 %
<u>Expenditures</u>				
Instruction	\$ 5,034,875	\$ 5,266,024	\$ (231,149)	(4.39) %
Support services	3,799,862	3,428,345	371,517	10.84 %
Extracurricular activities	184,457	186,786	(2,329)	(1.25) %
Debt service	<u>10,633</u>	<u>10,635</u>	<u>(2)</u>	(0.02) %
Total	<u>\$ 9,029,827</u>	<u>\$ 8,891,790</u>	<u>\$ 138,037</u>	1.55 %

The District experienced a \$605,789 or 6.96% increase in general fund revenues. Tuition increased \$107,684 or 20.05% due to an increase in open enrollment revenue received during the fiscal year. Intergovernmental increased \$360,510 or 5.67% due to an increase in State foundation formula funding. Expenditures in the general fund increased \$138,037 or 1.55%. All other revenues and expenditures remained consistent with the prior year.

Bond Retirement Fund

The District's bond retirement fund balance increased \$29,038 from \$485,660 to \$514,698 at June 30, 2014. The increase in fund balance can be attributed to revenues of \$280,130 being greater than expenditures of \$251,092.

Permanent Improvement Fund

The District's permanent improvement fund balance decreased \$1,057,041 at June 30, 2014. The decrease in fund balance can be attributed to lease proceeds received in fiscal year 2013 for football field renovations that were spent during fiscal year 2014.

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 2014, the District amended its general fund budget. For the general fund, original budgeted revenues and other financing sources were \$9,125,470. Final budgeted revenues and other financing sources were \$9,289,152 and remained the same for the actual revenues and other financing sources for fiscal year 2014.

General fund original appropriations (appropriated expenditures including other financing uses) were \$9,279,625. General fund final appropriations (appropriated expenditures including other financing uses) were \$9,346,942. The actual budget basis expenditures and other financing uses for fiscal year 2014 totaled \$9,347,302, which represents an excess of \$360 over final budgeted appropriations and other financing uses.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2014, the District had \$11,751,502 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, 2014 balances compared to June 30, 2013:

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

	Governmental Activities	
	2014	2013
Land	\$ 84,670	\$ 84,670
Land improvements	334,938	371,678
Building and improvements	10,880,688	10,271,442
Furniture and equipment	144,296	165,719
Infrastructure	66,432	71,344
Vehicles	240,478	129,619
Total	\$ 11,751,502	\$ 11,094,472

The overall increase in capital assets of \$657,030 is due to capital outlays of \$1,393,414 exceeding depreciation expense of \$736,384 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, 2014, the District had \$3,062,325 in general obligation bonds, capital lease obligations, and lease purchase obligations outstanding. Of this total, \$262,970 is due within one year and \$2,799,355 is due in greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2014	2013
General obligation bonds	\$ 2,039,879	\$ 2,168,864
Capital lease obligations	1,754	11,807
Lease purchase obligations	1,020,692	1,086,373
Total	\$ 3,062,325	\$ 3,267,044

At June 30, 2014, the District's overall legal debt margin was \$6,502,161, and an unvoted debt margin of \$87,472.

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, 2014
(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 Ohio Facilities Construction Commission does not allow for administrative offices, so the current offices are located behind the new school building in a modular unit.

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'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 East, Salineville, Ohio 43945.

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 916,441
Cash with fiscal agent	415,575
Receivables:	
Taxes	2,413,653
Intergovernmental	81,826
Prepayments	297
Materials and supplies inventory.	9,743
Capital assets:	
Land	84,670
Depreciable capital assets, net.	11,666,832
Capital assets, net	11,751,502
 Total assets.	 15,589,037
 Deferred Outflows of Resources:	
Unamortized deferred charges on debt refunding	70,047
 Total deferred outflows of resources	 70,047
 Liabilities:	
Accounts payable.	39,374
Accrued wages and benefits.	751,870
Pension obligation payable.	130,010
Intergovernmental payable	31,857
Accrued interest payable	4,627
Claims payable.	160,228
Long-term liabilities:	
Due within one year.	277,751
Due in more than one year.	3,167,760
 Total liabilities	 4,563,477
 Deferred Inflows of Resources:	
Property taxes levied for the next fiscal year.	2,048,793
 Total deferred inflows of resources	 2,048,793
 Net Position:	
Net investment in capital assets	8,801,400
Restricted for:	
Capital projects	21,477
Classroom facilities maintenance	5,167
Debt service.	390,046
State funded programs.	3,674
Federally funded programs	6,893
Student activities	2,057
Other purposes	120,040
Unrestricted (deficit).	(303,940)
 Total net position.	 \$ 9,046,814

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, 2014

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental activities:				
Instruction:				
Regular	\$ 4,642,261	\$ 712,693	\$ -	\$ (3,929,568)
Special	1,267,038	-	1,087,532	(179,506)
Vocational	229,535	-	39,862	(189,673)
Other	411,110	-	352,357	(58,753)
Support services:				
Pupil	825,690	-	163,555	(662,135)
Instructional staff	561,673	-	266,992	(294,681)
Board of education	141,442	-	-	(141,442)
Administration	927,912	-	66,536	(861,376)
Fiscal	251,243	-	-	(251,243)
Business	66,038	-	-	(66,038)
Operations and maintenance	978,116	-	3,600	(974,516)
Pupil transportation	609,069	-	2,782	(606,287)
Central	76,836	-	38,434	(38,402)
Operation of non-instructional services:				
Food service operations	420,157	96,597	346,730	23,170
Other non-instructional services	27,110	-	25,633	(1,477)
Extracurricular activities	328,681	82,698	-	(245,983)
Interest and fiscal charges	155,614	-	-	(155,614)
Total governmental activities	\$ 11,919,525	\$ 891,988	\$ 2,394,013	(8,633,524)
 General Revenues:				
Property taxes levied for:				
General purposes				1,674,653
Debt service				232,010
Facilities maintenance				34,331
Capital projects				115,879
Grants and entitlements not restricted to specific programs				6,142,855
Investment earnings				1,861
Miscellaneous				122,365
Total general revenues				8,323,954
Change in net position				(309,570)
Net position at beginning of year				9,356,384
Net position at end of year				\$ 9,046,814

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and cash equivalents.	\$ 116,382	\$ 504,543	\$ -	\$ 295,516	\$ 916,441
Receivables:					
Taxes	1,756,211	270,397	310,747	76,298	2,413,653
Interfund loans	55,264	-	-	-	55,264
Intergovernmental.	4,820	-	-	77,006	81,826
Prepayments.	297	-	-	-	297
Materials and supplies inventory	-	-	-	9,743	9,743
Total assets	<u>\$ 1,932,974</u>	<u>\$ 774,940</u>	<u>\$ 310,747</u>	<u>\$ 458,563</u>	<u>\$ 3,477,224</u>
Liabilities:					
Accounts payable	\$ 33,487	\$ -	\$ 4,050	\$ 1,837	\$ 39,374
Accrued wages and benefits.	667,534	-	1,000	83,336	751,870
Compensated absences payable	7,188	-	-	-	7,188
Interfund loans payable.	-	-	11,834	43,430	55,264
Pension obligation payable	109,784	-	-	20,226	130,010
Intergovernmental payable	26,630	-	21	5,206	31,857
Total liabilities.	<u>844,623</u>	<u>-</u>	<u>16,905</u>	<u>154,035</u>	<u>1,015,563</u>
Deferred Inflows of Resources:					
Property taxes levied for the next fiscal year.	1,467,974	226,953	282,735	71,131	2,048,793
Delinquent property tax revenue not available.	222,045	33,289	21,477	3,980	280,791
Intergovernmental revenue not available	4,820	-	-	33,576	38,396
Total deferred inflows of resources	<u>1,694,839</u>	<u>260,242</u>	<u>304,212</u>	<u>108,687</u>	<u>2,367,980</u>
Fund Balances:					
Nonspendable:					
Materials and supplies inventory.	-	-	-	9,743	9,743
Prepays	297	-	-	-	297
Restricted:					
Debt service	-	514,698	-	-	514,698
Classroom facilities maintenance	-	-	-	1,187	1,187
Food service operations	-	-	-	122,747	122,747
Other purposes.	-	-	-	8,318	8,318
Extracurricular.	-	-	-	2,057	2,057
Assigned:					
Capital improvements	-	-	-	90,778	90,778
Unassigned (deficit).	(606,785)	-	(10,370)	(38,989)	(656,144)
Total fund balances (deficit)	<u>(606,488)</u>	<u>514,698</u>	<u>(10,370)</u>	<u>195,841</u>	<u>93,681</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,932,974</u>	<u>\$ 774,940</u>	<u>\$ 310,747</u>	<u>\$ 458,563</u>	<u>\$ 3,477,224</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

Total governmental fund balances		\$	93,681
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			11,751,502
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Taxes receivable	\$	280,791	
Intergovernmental receivable		<u>38,396</u>	
Total			319,187
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 on the statement of net position.			255,347
Unamortized premiums on bonds issued are not recognized in the funds.			(112,705)
Unamortized amounts on refundings are not recognized in the funds.			70,047
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(4,627)
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		(263,293)	
Capital lease obligation payable		(1,754)	
Lease purchase obligation payable		(1,020,692)	
General obligation bonds payable		<u>(2,039,879)</u>	
Total			<u>(3,325,618)</u>
Net position of governmental activities		\$	<u>9,046,814</u>

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, 2014

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 1,722,564	\$ 238,982	\$ 98,389	\$ 30,351	\$ 2,090,286
Tuition	644,849	-	-	-	644,849
Charges for services	-	-	-	96,597	96,597
Earnings on investments	112	-	-	-	112
Extracurricular	34,254	-	-	48,444	82,698
Contract services	67,844	-	-	-	67,844
Other local revenues	117,400	-	-	4,965	122,365
Intergovernmental - State	6,721,544	41,148	13,009	52,465	6,828,166
Intergovernmental - Federal	-	-	-	1,731,054	1,731,054
Total revenues	<u>9,308,567</u>	<u>280,130</u>	<u>111,398</u>	<u>1,963,876</u>	<u>11,663,971</u>
Expenditures:					
Current:					
Instruction:					
Regular	4,034,393	-	-	-	4,034,393
Special	757,099	-	-	488,433	1,245,532
Vocational	235,768	-	-	-	235,768
Other	7,615	-	-	403,495	411,110
Support services:					
Pupil	633,014	-	-	187,586	820,600
Instructional staff	259,052	-	-	292,244	551,296
Board of education	141,442	-	-	-	141,442
Administration	836,799	-	-	74,962	911,761
Fiscal	241,735	6,621	2,622	759	251,737
Business	66,038	-	-	-	66,038
Operations and maintenance	914,469	-	27,050	43,613	985,132
Pupil transportation	675,594	-	-	3,191	678,785
Central	31,719	-	-	43,868	75,587
Operation of non-instructional services:					
Food service operations	-	-	-	407,340	407,340
Other non-instructional services	-	-	-	27,110	27,110
Extracurricular activities	184,457	-	-	77,259	261,716
Capital outlay	-	-	1,074,183	135,501	1,209,684
Debt service:					
Principal retirement	10,053	165,000	24,308	41,373	240,734
Interest and fiscal charges	580	79,471	40,276	2,265	122,592
Total expenditures	<u>9,029,827</u>	<u>251,092</u>	<u>1,168,439</u>	<u>2,228,999</u>	<u>12,678,357</u>
Excess (deficiency) of revenues over (under) expenditures	<u>278,740</u>	<u>29,038</u>	<u>(1,057,041)</u>	<u>(265,123)</u>	<u>(1,014,386)</u>
Other financing sources (uses):					
Transfers in	-	-	-	184,568	184,568
Transfers (out)	(184,568)	-	-	-	(184,568)
Total other financing sources (uses)	<u>(184,568)</u>	<u>-</u>	<u>-</u>	<u>184,568</u>	<u>-</u>
Net change in fund balances	94,172	29,038	(1,057,041)	(80,555)	(1,014,386)
Fund balances (deficit) at beginning of year	<u>(700,660)</u>	<u>485,660</u>	<u>1,046,671</u>	<u>276,396</u>	<u>1,108,067</u>
Fund balances (deficit) at end of year	<u>\$ (606,488)</u>	<u>\$ 514,698</u>	<u>\$ (10,370)</u>	<u>\$ 195,841</u>	<u>\$ 93,681</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, 2014

Net change in fund balances - total governmental funds	\$	(1,014,386)
<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. This is the amount by which capital outlay exceeds depreciation expense.		
Capital asset additions	\$ 1,393,414	
Depreciation expense	(736,384)	
Total		657,030
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(34,373)	
Intergovernmental	(16,572)	
Total		(50,945)
Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		240,734
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	(1,102)	
Accreted interest	(36,015)	
Amortization of deferred charges	(6,724)	
Amortization of bond premium	10,819	
Total		(33,022)
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.		
		14,051
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.		
		(123,032)
Change in net position of governmental activities	\$	(309,570)

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, 2014

	<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	\$ 1,622,000	\$ 1,711,316	\$ 1,711,316	\$ -
Tuition	566,000	644,849	644,849	-
Earnings on investments	150	178	178	-
Contract services	85,000	67,844	67,844	-
Other local revenues	100,000	120,141	120,141	-
Intergovernmental - State	6,723,620	6,721,544	6,721,544	-
Total revenues	<u>9,096,770</u>	<u>9,265,872</u>	<u>9,265,872</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,175,050	4,102,556	4,102,556	-
Special	777,506	757,355	757,355	-
Vocational	230,276	241,958	241,958	-
Other	17,500	9,713	9,713	-
Support services:				
Pupil	551,373	634,952	635,312	(360)
Instructional staff	205,478	257,838	257,838	-
Board of education	152,576	152,008	152,008	-
Administration	685,970	847,454	847,454	-
Fiscal	253,330	248,113	248,113	-
Business	70,000	76,671	76,671	-
Operations and maintenance	909,401	918,281	918,281	-
Pupil transportation	866,865	682,519	682,519	-
Central	32,200	31,744	31,744	-
Extracurricular activities	147,100	157,781	157,781	-
Total expenditures	<u>9,074,625</u>	<u>9,118,943</u>	<u>9,119,303</u>	<u>(360)</u>
Excess of expenditures over revenues	<u>22,145</u>	<u>146,929</u>	<u>146,569</u>	<u>(360)</u>
Other financing sources (uses):				
Refund of prior year's expenditures	200	3,115	3,115	-
Transfers (out)	(180,000)	(184,568)	(184,568)	-
Advances in	25,000	11,165	11,165	-
Advances (out)	(25,000)	(43,431)	(43,431)	-
Sale of capital assets	3,500	9,000	9,000	-
Total other financing sources (uses)	<u>(176,300)</u>	<u>(204,719)</u>	<u>(204,719)</u>	<u>-</u>
Net change in fund balance	(154,155)	(57,790)	(58,150)	(360)
Fund balance at beginning of year	140,492	140,492	140,492	-
Prior year encumbrances appropriated	24,903	24,903	24,903	-
Fund balance at end of year	<u>\$ 11,240</u>	<u>\$ 107,605</u>	<u>\$ 107,245</u>	<u>\$ (360)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2014

		Governmental Activities - Internal Service Fund
Assets:		
Cash with fiscal agent.	\$	415,575
		<hr/>
Total assets.		415,575
		<hr/>
Liabilities:		
Claims payable		160,228
		<hr/>
Total liabilities		160,228
		<hr/>
Net position:		
Unrestricted.		255,347
		<hr/>
Total net position.	\$	255,347
		<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 1,841,657
Total operating revenues	<u>1,841,657</u>
Operating expenses:	
Purchased services.	454,588
Claims	<u>1,511,850</u>
Total operating expenses.	<u>1,966,438</u>
Operating loss	<u>(124,781)</u>
Nonoperating revenues:	
Interest revenue	<u>1,749</u>
Total nonoperating revenues.	<u>1,749</u>
Change in net position.	(123,032)
Net position at beginning of year.	<u>378,379</u>
Net position at end of year	<u><u>\$ 255,347</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, 2014

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 1,841,657
Cash payments for purchased services.	(454,588)
Cash payments for claims	<u>(1,516,584)</u>
Net cash used in operating activities	<u>(129,515)</u>
Cash flows from investing activities:	
Interest received	<u>1,749</u>
Net cash provided by investing activities	<u>1,749</u>
Net decrease in cash with fiscal agent	(127,766)
Cash and cash equivalents at beginning of year . . .	<u>543,341</u>
Cash and cash equivalents at end of year	<u><u>\$ 415,575</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (124,781)
Changes in assets and liabilities:	
Decrease in claims payable	<u>(4,734)</u>
Net cash used in operating activities.	<u><u>\$ (129,515)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2014

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	<u>\$ 35,735</u>
Total assets	<u>\$ 35,735</u>
Liabilities:	
Due to students.	<u>\$ 35,735</u>
Total liabilities	<u>\$ 35,735</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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 504th largest by total enrollment among the 918 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 and further mandated by State and/or Federal agencies. The Board of Education controls the District's 2 instructional/support facilities staffed by 40 classified employees and 71 certified employees who provide services to 870 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'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" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34". 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, 2014

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.

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.

INSURANCE PURCHASING POOLS

Jefferson Health Plan

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the District's major governmental funds:

General fund -The general fund is used to account for and report all financial resources not accounted for and reported 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.

Permanent improvement fund - The permanent improvement fund is used to account for taxes levied and the accumulation of resources and payment of the lease purchase agreement for football field renovations, bleachers and a building.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 position and changes in net position. 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 position 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the District are included on the statement of net position.

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, 2014

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 deferred outflows of resources and current liabilities and deferred inflows of resources 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 position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. 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, 2014

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.

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance fiscal year 2015 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as deferred inflows. Grants not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at June 30, 2014, are recorded as deferred inflows on the governmental fund financial statements.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred inflows of resources.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair 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 2014 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

2. By no later than January 20, the Board-adopted budget is filed with the Columbiana County Budget Commission for tax rate determination.
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 2014.
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, 2014; 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 Cash Equivalents

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, 2014

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

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 2014 amounted to \$112, which includes \$99 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 position, 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 2014, 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.

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

<u>Description</u>	<u>Governmental Activities 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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

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 position.

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, 2014 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.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

L. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

M. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District 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 the food service fund.

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

P. 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.

Q. 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 2014, the District had no extraordinary or special items.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

R. Bond Premium and Discount/Accounting Gain or Loss

Bond premiums are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter and is presented as deferred outflows of resources. On the governmental fund financial statements, bond premiums are recognized in the current period.

A reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 10.A.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2014, the District has implemented GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees".

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2014 included the following individual fund deficits:

<u>Major governmental funds</u>	<u>Deficit</u>
General	\$ 606,488
Permanent Improvement	10,370
 <u>Nonmajor governmental funds</u>	
IDEA Part-B	31,550
Title I School Improvement Stimulus G	1,108
Title I	3,400
Improving Teacher Quality	2,931

The deficit fund balance resulted from adjustments for accrued liabilities.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Non-Compliance

Prior to this reporting period, the District did not establish a classroom facilities maintenance fund pursuant to Ohio Revised Code Chapter 3318. This violation was corrected by year end and management has indicated that receipts and expenditures will be closely monitored to ensure no future violations.

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;
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;

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

6. The State Treasurer's investment pool the State Treasury Asset Reserve of Ohio (STAR Ohio and STAR Plus);
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, 2014, was \$415,575.

B. Deposits with Financial Institutions

At June 30, 2014, the carrying amount of all District deposits was \$952,176. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", \$715,395 of the District's bank balance of \$965,395 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.

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Cash and Investments to the Statement of Net Position

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 position as of June 30, 2014:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 952,176
Cash with fiscal agent	<u>415,575</u>
Total	<u>\$ 1,367,751</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 1,332,016
Agency fund	<u>35,735</u>
Total	<u>\$ 1,367,751</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2014 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	\$ 43,430
General	Permanent improvement fund	<u>11,834</u>
Total		<u>\$ 55,264</u>

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, 2014 are reported on the statement of net position.

- B.** Interfund transfers for the year ended June 30, 2014, consisted of the following, as reported on the fund financial statements:

<u>Transfers to nonmajor governmental funds from:</u>	<u>Amount</u>
General	<u>\$ 184,568</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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.

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 and public utility property. Real property tax revenues received in calendar year 2014 represent the collection of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed values as of January 1, 2013, 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 2014 represent the collection of calendar year 2013 taxes. Public utility real and personal property taxes received in calendar year 2014 became a lien on December 31, 2012, were levied after April 1, 2013, 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.

The District receives property taxes from Columbiana and Jefferson Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2014, are available to finance fiscal year 2014 operations. The amount available as an advance at June 30, 2014 was \$66,192 in the general fund, \$10,155 in the bond retirement fund, \$6,535 in the permanent improvement fund, and \$1,187 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2013 was \$54,944 in the general fund, \$8,281 in the bond retirement fund and \$1,008 in the permanent improvement 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.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2014 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 deferred inflows.

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 reported as a deferred inflow.

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2014 taxes were collected are:

	2013 Second Half Collections		2014 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 77,412,440	92.84	\$ 80,435,100	91.96
Public utility personal	<u>5,967,050</u>	<u>7.16</u>	<u>7,036,690</u>	<u>8.04</u>
Total	<u>\$ 83,379,490</u>	<u>100.00</u>	<u>\$ 87,471,790</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$39.44		\$39.44	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2014 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 position follows:

Governmental activities:	
Taxes	\$ 2,413,653
Intergovernmental	<u>81,826</u>
Total	<u>\$ 2,495,479</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
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance <u>06/30/13</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/14</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	730,388	-	-	730,388
Buildings and improvements	16,457,124	1,209,684	-	17,666,808
Furniture and equipment	450,437	-	-	450,437
Infrastructure	139,856	-	-	139,856
Vehicles	973,838	183,730	-	1,157,568
Total capital assets, being depreciated	<u>18,751,643</u>	<u>1,393,414</u>	<u>-</u>	<u>20,145,057</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(358,710)	(36,740)	-	(395,450)
Buildings and improvements	(6,185,682)	(600,438)	-	(6,786,120)
Furniture and equipment	(284,718)	(21,423)	-	(306,141)
Infrastructure	(68,512)	(4,912)	-	(73,424)
Vehicles	(844,219)	(72,871)	-	(917,090)
Total accumulated depreciation	<u>(7,741,841)</u>	<u>(736,384)</u>	<u>-</u>	<u>(8,478,225)</u>
Governmental activities capital assets, net	<u>\$ 11,094,472</u>	<u>\$ 657,030</u>	<u>\$ -</u>	<u>\$ 11,751,502</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 561,700
Vocational	2,006
<u>Support services:</u>	
Instructional staff	1,403
Administration	6,047
Operations and maintenance	24,895
Pupil transportation	68,645
Food service operations	4,691
Extracurricular activities	<u>66,997</u>
Total depreciation expense	<u>\$ 736,384</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

- A. In a prior year, the District entered into a capital lease for the acquisition of copiers. At inception, the lease was accounted for as an other financing source and as 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 position in the amount of \$43,707, 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, 2014 was \$39,336, leaving a current book value of \$4,371. A corresponding liability has been recorded in the governmental activities on the statement of net position. Principal payments made during fiscal year 2014 totaled \$10,053.

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, 2014.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 1,773
Total minimum lease payments	<u>1,773</u>
Less: amount representing interest	<u>(19)</u>
Present value of minimum lease payments	<u>\$ 1,754</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 the half-mill classroom facilities maintenance tax and the half-mill State equalization funding.

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, 2014 was \$123,938, leaving a current book value of \$206,562. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2014 totaled \$41,373 paid by the classroom facilities maintenance 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.

- C. During fiscal year 2013, the District entered into lease-purchase agreement with the Ohio School Building Leasing Corporation to finance football field renovations, bleachers and a building at the District. The source of revenue to fund the principal and interest payments is derived from a permanent improvement tax levy.

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, 2014

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, 2014.

Fiscal Year Ending <u>June 30</u>	<u>Amount</u>
2015	\$ 129,168
2016	129,168
2017	129,168
2018	129,170
2019	129,169
2020 - 2024	<u>579,770</u>
Total	1,225,613
Less: amount representing interest	<u>(204,921)</u>
Present value of minimum lease payments	<u>\$ 1,020,692</u>

NOTE 10 - LONG-TERM OBLIGATIONS

- A. During fiscal year 2014, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/13</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/14</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Refunding bonds - Series 2007					
Current interest	\$ 1,985,000	\$ -	\$ (165,000)	\$ 1,820,000	\$ 170,000
Capital appreciation	64,998	-	-	64,998	-
Accreted interest	<u>118,866</u>	<u>36,015</u>	<u>-</u>	<u>154,881</u>	<u>-</u>
Total general obligation bonds	<u>2,168,864</u>	<u>36,015</u>	<u>(165,000)</u>	<u>2,039,879</u>	<u>170,000</u>
Compensated absences	303,446	2,493	(35,458)	270,481	14,781
Capital lease obligation	11,807	-	(10,053)	1,754	1,754
Lease purchase obligation	<u>1,086,373</u>	<u>-</u>	<u>(65,681)</u>	<u>1,020,692</u>	<u>91,216</u>
Total	<u>\$ 3,570,490</u>	<u>\$ 38,508</u>	<u>\$ (276,192)</u>	3,332,806	<u>\$ 277,751</u>
Add: Unamortized premium on refunding				<u>112,705</u>	
Total on statement of net position				<u>\$ 3,445,511</u>	

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

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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 \$154,881 has been included in the statement of net position at June 30, 2014.

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.

Fiscal Year Ending June 30	Current Interest Bonds - Series 2007			Capital Appreciation Bonds - Series 2007		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 170,000	\$ 72,352	\$ 242,352	\$ -	\$ -	\$ -
2016	175,000	65,021	240,021	-	-	-
2017	-	61,303	61,303	34,978	150,022	185,000
2018	-	61,303	61,303	30,020	159,980	190,000
2019	185,000	57,487	242,487	-	-	-
2020 - 2024	1,050,000	163,283	1,213,283	-	-	-
2025	240,000	5,040	245,040	-	-	-
Total	<u>\$ 1,820,000</u>	<u>\$ 485,789</u>	<u>\$ 2,305,789</u>	<u>\$ 64,998</u>	<u>\$ 310,002</u>	<u>\$ 375,000</u>

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2014, are a voted debt margin of \$6,502,161, (including available funds of \$514,698) and an unvoted debt margin of \$87,472.

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.

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 11 - OTHER EMPLOYEE BENEFITS – (Continued)

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 2014, the District contracted with Schools of Ohio 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 Ohio 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 Ohio 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
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 \$160,228 reported in the internal service fund at June 30, 2014, 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>
2014	\$ 164,962	\$ 1,511,850	\$ (1,516,584)	\$ 160,228
2013	160,204	1,599,299	(1,594,541)	164,962

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 District 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 2014, 13.05 percent and 0.05 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 14 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, 2014, 2013 and 2012 were \$133,640, \$131,435 and \$126,566, respectively; 83.97 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 website at www.strsoh.org, under “Publications”.

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 2014, plan members were required to contribute 11 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 14 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, 2014, 2013 and 2012 were \$451,196, \$474,606 and \$483,147, respectively; 83.32 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$10,395 made by the District and \$8,167 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, 2014 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
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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 Section 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 monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the 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 2014, 0.14 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 2014, the actuarially determined amount was \$20,250.

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, 2014, 2013 and 2012 were \$18,906, \$16,082 and \$19,005, respectively; 83.97 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, 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, 2014, 2013, and 2012 were \$7,753, \$7,425 and \$7,504, respectively; 83.97 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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, under "Publications" 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 2014, 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, 2014, 2013 and 2012 were \$34,707, \$36,508 and \$37,165, respectively; 83.32 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

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 revenue, 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 assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis)
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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	\$ (58,150)
Net adjustment for revenue accruals	7,966
Net adjustment for expenditure accruals	107,484
Net adjustment for other sources/uses	20,151
Funds budgeted elsewhere	7,626
Adjustment for encumbrances	9,095
GAAP basis	<u>\$ 94,172</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the public school support fund.

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, 2014

NOTE 17 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2013	\$ -
Current year set-aside requirement	144,857
Current year qualifying expenditures	<u>(171,211)</u>
Total	<u>\$ (26,354)</u>
Balance carried forward to fiscal year 2015	<u>\$ -</u>
Set-aside balance June 30, 2014	<u>\$ -</u>

NOTE 18 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 9,311
Other governmental	<u>17,979</u>
Total	<u>\$ 27,290</u>

February 27, 2015

To the Board of Education
Southern Local School District
Columbiana County, Ohio
38095 State Road 39 East
Salineville, OH 43945

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Local School District, Columbiana County, Ohio (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 27, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Questioned Costs*, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2014-001 and 2014-002 described in the accompanying *Schedule of Findings and Questioned Costs* to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying *Schedule of Findings and Questioned Costs* as item 2014-001.

The District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

New Philadelphia, Ohio

February 27, 2015

To the Board of Education
Southern Local School District
Columbiana County, Ohio
38095 State Road 39 East
Salineville, OH 43945

**Independent Auditor's Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance Required by OMB Circular A-133**

Report on Compliance for Each Major Federal Program

We have audited Southern Local School District's, Columbiana County, Ohio (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Rea & Associates, Inc.

New Philadelphia, Ohio

Southern Local School District
Columbiana County, Ohio
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2014

Federal Grantor/Pass Through Grantor Program Title	Grant Year	CFDA Number	Federal Receipts	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Title I	2013	84.010	\$ 51,818	\$ 40,842
Title I	2014	84.010	385,332	394,736
Total Title I			437,150	435,578
Title VI-B - Special Education	2011	84.027	0	618
Title VI-B - Special Education	2013	84.027	18,517	25,177
Title VI-B - Special Education	2014	84.027	179,118	181,263
Total Title VI-B - Special Education			197,635	207,058
Title VI-B - Rural and Low Income	2013	84.358	(2,500)	0
Title VI-B - Rural and Low Income	2014	84.358	16,260	22,250
Total Title VI-B - Rural and Low Income			13,760	22,250
Title II-A - Improving Teacher Quality	2013	84.367	5,213	5,861
Title II-A - Improving Teacher Quality	2014	84.367	48,986	50,687
Total Title II-A - Improving Teacher Quality			54,199	56,548
<i>School Improvement Grants Cluster:</i>				
ARRA School Improvement Grants	2013	84.388	(7,356)	30,724
School Improvement Grants	2013	84.377	55,066	26,177
School Improvement Grants	2014	84.377	741,085	745,889
<i>School Improvement Grants Subtotal</i>			796,151	772,066
<i>Total School Improvement Grants Cluster</i>			788,795	802,790
Total U.S. Department of Education			1,491,539	1,524,224
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
<i>Non-Cash Assistance (Food Distribution):</i>				
National School Lunch Program	2014	10.555	28,855	28,855
<i>Cash Assistance:</i>				
School Breakfast Program	2014	10.553	89,103	89,103
National School Lunch Program	2014	10.555	223,090	223,090
<i>Cash Assistance Subtotal</i>			312,193	312,193
<i>Total Child Nutrition Cluster</i>			341,048	341,048
Total U.S. Department of Agriculture			341,048	341,048
TOTAL FEDERAL ASSISTANCE			\$ 1,832,587	\$ 1,865,272

See accompanying notes to this schedule.

Southern Local School District
Columbiana County, Ohio
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2014

Note A – Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) reports the federal award programs’ receipts and disbursements. The schedule has been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred.

Note B – Commingled Funds

Federal money is commingled with state subsidy reimbursements for the Child Nutrition Cluster. It is assumed federal moneys are expended first.

Note C – Food Donation Program

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance and related expenditures are reported in this Schedule at the value of the commodities received as assessed by the U.S. Department of Agriculture (entitlement value).

Note D – Ohio Bureau of Workers’ Compensation Rebate

Ohio’s workers’ compensation system serves as an insurance program for both employers and employees alike. For those who contribute premiums, the Ohio Bureau of Workers’ Compensation (BWC) covers the payment of compensation and medical costs related to industrial accidents and diseases. The BWC invested contributions over a three-year period which generated a greater than anticipated return. In May 2013, the Ohio BWC Board of Directors authorized a \$1 billion rebate for more than 210,000 public and private entities paying into Ohio’s workers’ compensation system. Each employer’s rebate reflected 56% of what they were billed during the last policy period (2011 calendar year for public-taxing districts). Approximately \$113 million of the \$1 billion rebate went to local governments around the state. The District has receipted the rebate to the general fund only, although other funds initially paid portions of the 2011 policy year premiums. Any rebate due to federal and other funds were clearly trivial and no rebates were reflected in federal funds or on the Schedule.

Note E – Transfers between Program Years

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE’s consent, schools can transfer unobligated amounts to the subsequent fiscal year’s program. These transfers resulted in the Schedule reporting negative receipts. The District transferred the following amounts from program year 2013 to 2014:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Amount</u>
84.010	Title I	\$ 11,430
84.367	Title II-A - Improving Teacher Quality	1,808
84.358	Title VI-B - Rural and Low-Income	2,500
84.027	Title VI-B - Special Education	2,290

Southern Local School District
Columbiana County, Ohio
Schedule of Findings and Questioned Costs
OMB Circular A-133, Section .505
For the Fiscal Year Ended June 30, 2014

1. SUMMARY OF AUDITOR'S RESULTS
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(d) (1) (i)	Type of Financial Statement Opinion	Unmodified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Was there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unmodified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list): Child Nutrition Cluster School Breakfast Program National School Lunch Program School Improvement Grants Cluster ARRA School Improvement Grants School Improvement Grants Title I	CFDA # 10.553 10.555 84.388 84.377 84.010
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

Southern Local School District
Columbiana County, Ohio
Schedule of Findings and Questioned Costs
OMB Circular A-133, Section .505
For the Fiscal Year Ended June 30, 2014
(Continued)

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

Finding Number: 2014-001

Noncompliance/Material Weakness – Classroom Facilities Maintenance Fund

Criteria: The District’s management is responsible for designing and implementing internal controls over financial reporting. The District entered in to a Classroom Facilities Assistance Program Project Agreement with the Ohio Facilities Construction Commission (“OFCC”) pursuant to Ohio Rev. Code Section 3318.08 during fiscal year 2000. As a condition of approval of the project, Ohio Rev. Code Section 3318.05 required the District to levy a tax to be used to pay the cost of maintaining the classroom facilities included in the project. Such tax was required to be at a rate of not less than one-half mill for each dollar of valuation for a period of twenty-three years. Proceeds of the tax to be used for maintenance of the classroom facilities were required to be deposited into a separate fund established by the District for such purpose (USAS fund 034). Ohio Rev. Code 3318.18 established a State half-mill equalization fund. Payments made to the school districts under this section were required to be credited to the District’s classroom facilities maintenance fund (USAS fund 034) and were required to be used only for the purpose of maintaining facilities constructed or renovated under the project agreement. The Project Agreement also required a maintenance plan to be submitted to OFCC for approval.

Condition: The voters approved the required one-half mill maintenance levy; however, the District did not credit the proceeds of the levy to the classroom facilities maintenance fund (USAS fund 034) as required. Collections of this levy began in fiscal year 2001. The District credited the proceeds from this tax levy to a permanent improvement fund (USAS fund 003). The levy generates approximately \$30,000 annually.

Beginning in fiscal year 2007, the District received State equalization funding pursuant to Ohio Rev. Code Section 3318.18, but did not credit the payments from the State of Ohio to the classroom facilities maintenance fund (USAS fund 034) as required. The District credited these payments to the general fund (USAS fund 001). The annual funding is \$38,380.

The District did receive OFCC approval of the maintenance plan as required by the Project Agreement; however, the District does not have a process to ensure the funds restricted for classroom facilities maintenance are spent in a manner consistent with the purpose of such funding as outlined in the maintenance plan.

Taxes Receivable and Deferred Inflows of Resources related to the maintenance tax levy were improperly reported in the permanent improvement fund (USAS fund 003).

Cause: Management did not have a sufficient understanding of the applicable compliance and reporting requirements with regard to the classroom facilities maintenance.

Effect: The District is not compliant with certain sections of Ohio Rev. Code Chapter 3318 with respect to classroom facilities maintenance funding. The financial statements presented for audit were materially misstated. The classroom facilities maintenance funds were spent in a manner that contradicted allowable expenses as outlined in the District’s maintenance plan.

Southern Local School District
Columbiana County, Ohio
Schedule of Findings and Questioned Costs
OMB Circular A-133, Section .505
For the Fiscal Year Ended June 30, 2014
(Continued)

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

Finding Number: 2014-001 (continued)

Noncompliance/Material Weakness – Classroom Facilities Maintenance Fund (continued)

Recommendation: We recommend management establish the classroom facilities maintenance fund (USAS fund 034) and credit the maintenance tax proceeds and State equalization maintenance funding payments to this fund. We further recommend management implement a process to review the maintenance plan document prior to disbursing funds from the classroom facilities maintenance fund to ensure the funds are spent in a manner consistent with the maintenance plan as required by OFCC Project Agreement.

Management’s Response: The District has created the classroom facilities maintenance fund (USAS fund 034). The District was able to determine the receipts fund 034 should have received from FY01 to FY14. The District identified qualifying maintenance expenditures from FY04 to FY14 in the general (001), permanent improvement (003) and building improvement (004) funds. Based on this, the District has determined that as of June 30, 2014, there are no unspent maintenance funds. Audit adjustments were posted in fiscal year 2014 to correct the reporting of Taxes Receivable and Deferred Inflows of Resources related to the classroom facilities maintenance fund as these items were previously reported within the permanent improvement fund. Audit adjustments to correct the cash balances in the general (001), permanent improvement (003) and building improvement (004) funds were also posted. The District has discussed these circumstances with OFCC and has received OFCC approval of these corrective actions.

Finding Number: 2014-002

Material Weakness – Capital Asset Reporting

Criteria: Management is responsible for internal controls over financial reporting of capital assets. A necessary step in internal control over financial reporting is to maintain and update capital asset records.

Condition: There were material audit adjustments made to the financial statements presented for audit related to capital assets. During the performance of audit procedures, we noted the District’s capital asset records were not completely updated for all additions and deletions. We identified \$187,730 in purchases in fiscal year 2010 through 2013 and \$167,684 in fiscal year 2014 that were improperly expensed, rather than recorded as capital asset additions. We also identified a misstatement in the amount of \$1,045,000 to Regular Instruction and Operations and Maintenance as a result of the improper posting of a GAAP journal entry during the GAAP compilation. We noted the District received proceeds from the sale of buses in the amount of \$9,000 during fiscal year 2014, but did not report a corresponding disposal of the capital assets. While scanning the capital asset ledger, we identified several fully depreciated assets, which indicates there are unrecorded disposals or the District does not assign reasonable useful lives for the purpose of calculating depreciation expense.

Cause: Management does not have sufficient policies and has not implemented sufficient internal controls over financial reporting to ensure completeness and accuracy of reporting capital asset additions and disposals. The District does not perform a physical inventory inspection.

Southern Local School District
Columbiana County, Ohio
Schedule of Findings and Questioned Costs
OMB Circular A-133, Section .505
For the Fiscal Year Ended June 30, 2014
(Continued)

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

Finding Number: 2014-002 (continued)

Material Weakness – Capital Asset Reporting (continued)

Effect: The financial statements presented for audit were materially misstated with regard to capital assets and related accounts. Without performing a physical inventory inspection, the District is unable to determine that all assets on the capital asset ledger remain in operation and are limited to District use.

Recommendation: We recommend management review the receipt and expenditure ledgers closely at the end of each fiscal year to search for capital asset additions and disposals. All additions and disposals should be identified and communicated to the appraisal company that prepares the capital asset reports used during the GAAP compilation. We recommend the Treasurer closely review all GAAP compilation workpapers and financial statements for accuracy and completeness prior to presenting the financial statements to the auditor. We recommend the District perform physical inventory inspections to verify the capital assets reported by the District are still in operation at the District.

Management's Response: The Treasurer will review the last fiscal year's capital asset ledger and also the receipt and expenditure ledgers so as to report any additional equipment needed to be placed on the District's capital asset ledger. Also, we will work with all employees to ensure that our capital asset ledgers are correct for each department.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

Southern Local School District
Columbiana County, Ohio
Schedule of Prior Audit Findings
OMB Circular A-133, Section .315(b)
For the Fiscal Year Ended June 30, 2014

Finding Number	Finding Summary	Fully Corrected?	Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain
2013-001	Did not meet Single Audit filing deadline.	Yes	Corrected
2013-002	Material Weakness with regard to purchase requisitions against Federal grants.	Yes	Corrected

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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 24, 2015**