



Mary Taylor, CPA  
Auditor of State



**SOUTHERN LOCAL SCHOOL DISTRICT  
MEIGS COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets – Modified Cash Basis .....	11
Statement of Activities – Modified Cash Basis.....	12
Statement of Modified Cash Basis Assets and Fund Balances – Governmental Funds .....	13
Statement of Cash Receipts, Cash Disbursements, and Changes in Modified Cash Basis Fund Balances – Governmental Funds .....	14
Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balance – Budget and Actual (Budget Basis) – General Fund.....	15
Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balance – Budget and Actual (Budget Basis) – Classroom Facilities Maintenance Special Revenue Fund .....	16
Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balance – Budget and Actual (Budget Basis) – Title VI-B Fund.....	17
Statement of Fiduciary Net Assets – Modified Cash Basis – Agency Fund .....	18
Notes to the Basic Financial Statements .....	19
Schedule of Federal Awards Receipts and Expenditures.....	35
Notes to the Schedule of Federal Awards Receipts and Expenditures .....	36
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	37
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	39
Schedule of Findings – OMB Circular A-133 § .505 .....	41
Schedule of Prior Audit Findings – OMB Circular A-133 § .315(b).....	44

**This page intentionally left blank.**



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Southern Local School District  
Meigs County  
920 Elm Street  
Racine, Ohio 45771

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Local School District, Meigs County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Local School District, Meigs County, Ohio, as of June 30, 2006, and the respective changes in modified cash financial position thereof and the budgetary comparisons for the General Fund, Classroom Facilities Maintenance Fund, and the Title VI-B Fund, thereof, for the year then ended in conformity with the basis of accounting Note 2 describes.

The accompanying financial statements have been prepared assuming the School District will continue as a going concern. As discussed in Note 1 to the basic financial statements, the Ohio Department of Education and the State of Ohio Auditor's Office declared the School District to be in fiscal emergency on November 8, 1999, which raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2007, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



**Mary Taylor, CPA**  
Auditor of State

February 26, 2007

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

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2006*

Unaudited

---

The discussion and analysis of the Southern Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for the fiscal year 2006 are as follows:

- Net assets of governmental activities increased \$108,449.
- General receipts amounted to \$5,697,868 or 73% of all receipts. Program specific cash receipts in the form of charges for services, grants, contributions, and interest accounted for \$2,092,308 or 27% of total receipts of \$7,790,176.
- The School District had \$7,681,727 in disbursements related to governmental activities; only \$2,092,308 of these disbursements were offset by program specific charges for services, grants, contributions, and interest. General receipts of \$5,697,868 were adequate to provide for these programs.
- The School District's major funds were the General Fund, the Bond Retirement Debt Service Fund, and the Classroom Facilities Maintenance and Title VI-B Special Revenue Funds. The General Fund had \$5,583,929 in receipts and \$6,020,962 in disbursements. The General Fund's balance decreased \$21,255. The Bond Retirement Debt Service Fund had \$304,774 in receipts and \$312,252 in disbursements. The Bond Retirement Debt Service Fund's balance decreased \$7,478. The Classroom Facilities Maintenance Special Revenue Fund had \$30,437 in receipts and \$17,232 in disbursements. The Classroom Facilities Maintenance Special Revenue Fund increased \$13,205. The Title VI-B Special Revenue Fund had \$243,877 in receipts and \$166,956 in disbursements. The Title VI-B Special Revenue Fund's balance increased \$64,800.

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

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

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

**Southern Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
Unaudited

---

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

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

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, “How did we do financially during fiscal year 2006?” The Statement of Net Assets – Modified Cash Basis and the Statement of Activities – Modified Cash Basis answer this question. These two statements report the School District’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District’s property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

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

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

*Fund Financial Statements*

The analysis of the School District’s major funds begins on page 8. Fund financial reports provide detailed information about the School District’s major fund. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District’s most significant funds. The School District’s major governmental funds are the General Fund, the Bond Retirement Fund, and the Classroom Facilities Maintenance and Title VI-B Special Revenue Funds.

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

**Southern Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
 Unaudited

**The School District as a Whole**

Recall that the Statement of Net Assets – Modified Cash Basis provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2006 compared to 2005.

Table 1  
 Net Assets - Cash Basis

	Governmental Activities		
	2006	2005	Change
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$629,108	\$520,659	\$108,449
<b>Net Assets</b>			
Restricted	\$577,624	\$473,531	\$104,093
Unrestricted	51,484	47,128	4,356
Total Net Assets	\$629,108	\$520,659	\$108,449

The above table reflects an increase in net assets of \$108,449. The increase is a result of staff reductions and a stabilization of health care costs.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006 compared to June 30, 2005.

**Southern Local School District, Ohio**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2006*

Unaudited

Table 2  
Change in Net Assets

	Governmental Activities		
	2006	2005	Change
<b>Receipts</b>			
Program Cash Receipts			
Charges for Services	\$367,611	\$295,924	\$71,687
Operating Grants, Contributions and Interest	1,712,436	1,314,389	398,047
Capital Grants and Contributions	12,261	8,577	3,684
Total Program Cash Receipts	<u>2,092,308</u>	<u>1,618,890</u>	<u>473,418</u>
General Receipts			
Property Taxes	1,748,607	1,706,628	41,979
Grants and Entitlements	3,533,617	3,333,879	199,738
Proceeds from Solvency Assistance Loan	41,000	291,000	(250,000)
Proceeds from Tax Anticipation Note	350,000	350,766	(766)
Investment Earnings	4,302	5,777	(1,475)
Receipts from Sale of Capital Assets	0	895	(895)
Miscellaneous	20,342	7,369	12,973
Total General Receipts	<u>5,697,868</u>	<u>5,696,314</u>	<u>1,554</u>
Total Receipts	<u>7,790,176</u>	<u>7,315,204</u>	<u>474,972</u>
<b>Program Disbursements</b>			
Instruction:			
Regular	2,533,996	2,323,424	210,572
Special	820,094	662,555	157,539
Vocational	262,597	190,494	72,103
Support Services:			
Pupils	235,731	114,083	121,648
Instructional Staff	235,254	216,289	18,965
Board of Education	14,450	10,298	4,152
Administration	631,873	874,563	(242,690)
Fiscal	235,672	205,996	29,676
Operation and Maintenance of Plant	606,424	595,891	10,533
Pupil Transportation	510,390	435,816	74,574
Central	17,925	16,714	1,211
Operation of Non-Instructional Services:			
Food Service Operations	311,859	314,048	(2,189)
Other	2,416	16,684	(14,268)
Extracurricular Activities	123,293	144,762	(21,469)
Capital Outlay	1,421	397,779	(396,358)
Principal Retirement	967,812	1,205,578	(237,766)
Interest and Fiscal Charges	170,520	173,374	(2,854)
Total Disbursements	<u>7,681,727</u>	<u>7,898,348</u>	<u>(216,621)</u>
Increase (Decrease) in Net Assets	108,449	(583,144)	691,593
Net Assets Beginning of Year	520,659	1,103,803	1,103,803
Net Assets End of Year	<u>\$629,108</u>	<u>\$520,659</u>	<u>\$1,795,396</u>

**Southern Local School District, Ohio**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2006*

Unaudited

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreases as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 22% of revenues for governmental activities for the Southern Local School District in fiscal year 2006. If trends continue as indicated in the School District's Five Year Forecast, the Board of Education will likely have to place an operating levy on the ballot.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services for fiscal year 2006. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3  
Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2006	2006	2005	2005
<b>Program Disbursements</b>				
Instruction:				
Regular	\$2,533,996	\$1,922,277	\$2,323,424	\$1,883,885
Special	820,094	63,810	662,555	177,027
Vocational	262,597	189,364	190,494	118,934
Support Services:				
Pupils	235,731	167,459	114,083	41,527
Instructional Staff	235,254	182,080	216,289	169,741
Board of Education	14,450	14,450	10,298	10,298
Administration	631,873	520,644	874,563	809,712
Fiscal	235,672	208,633	205,996	205,379
Operation and Maintenance of Plant	606,424	588,805	595,891	577,358
Pupil Transportation	510,390	505,929	435,816	411,637
Central	17,925	(5,635)	16,714	3,828
Operation of Non-Instructional Services				
Food Service	311,859	12,278	314,048	7,709
Other	2,416	2,416	16,684	3,821
Extracurricular Activities	123,293	77,156	144,762	81,871
Capital Outlay	1,421	1,421	397,779	397,779
Principal Retirement	967,812	967,812	1,205,578	1,205,578
Interest and Fiscal Charges	170,520	170,520	173,374	173,374
<b>Total</b>	<b>\$7,681,727</b>	<b>\$5,589,419</b>	<b>\$7,898,348</b>	<b>\$6,279,458</b>

**Southern Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
Unaudited

---

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2006, approximately 63% of instruction activities were supported through taxes and other general receipts.

As the table shows, the School District did not receive enough in charges for services and/or operating grants and contributions to support any programs in fiscal year 2006, except for central support services. That is, programs are not currently self-supporting.

**The School District Funds**

The School District's major funds are accounted for using the modified cash basis of accounting. All governmental funds had total receipts of \$7,399,176 and disbursements of \$7,681,727. The General Fund had a decrease in fund balance of \$21,255 due to salary step increases. The Bond Retirement Debt Service Fund had a decrease in fund balance of \$7,478. The Classroom Facilities Maintenance Special Revenue Fund had an increase in fund balance of \$13,205. The Title VI-B Special Revenue Fund had an increase in fund balance of \$64,800.

***General Fund Budgeting Highlights***

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

During the course of 2006, the School District amended its General Fund budget. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis receipts were \$5,583,929, above final estimates of \$5,583,804. Original receipts were increased \$1,226,934 due to grossly understated estimates. Disbursements were \$17,259 below final appropriations of \$6,040,107. Original appropriations were increased \$1,208,331.

The School District's ending unobligated General Fund balance was \$39,415.

**Southern Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
 Unaudited

**Debt Administration**

At June 30, 2006, the School District had the following debt outstanding.

Table 4  
 Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2006	2005
2004 Solvency Loan Assistance	\$0	\$335,500
2005 Solvency Loan Assistance	145,500	291,000
2006 Solvency Loan Assistance	41,000	0
1995 Asbestos Abatement Loan	76,779	88,591
1998 School Facilities Construction and Improvement Bonds - 3.2%-4.625%	3,245,000	3,370,000
	\$3,508,279	\$4,085,091

See Note 10 for more information regarding debt.

**Current Issues**

The future of the Southern Local School District is inspiring. Academic achievement has increased, fiscal responsibility is stressed, and economic development is imminent.

Though there are many encouraging highlights, the District continues to face many uncertainties. Some of these uncertainties are decreases in enrollment, continued increases in healthcare costs, and the possibility of staff reductions.

State funding for the District is based on student enrollment. The current "October Count" reveals the District enrollment has decreased by 25 students. Thus, decreases in enrollment equal decreases in funding. The District's current foundation payment will be \$140,000 less than the previous fiscal year payment due to decreases in student enrollment.

The uncertainties in healthcare costs are a major focus in administrative/union negotiations. Though the District has been fortunate not to incur exuberant increases in the last three years, the District incurred rate hikes of up to 30% per year prior to that. A concentrated focus on staff wellness and safety has helped to lower renewal rates.

At the end of fiscal year 2006, four staff members retired and another was promoted to an administrative position. The three positions were "absorbed" so cost savings could be maintained. A staffing analysis was completed by the Ohio Department of Education. Findings of the report were as follows:

1. Certified staff at the high school was consistent with current enrollment
2. Certified staff at the elementary was "very close" to consistent. The report listed one possible staff reduction.

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

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2006*

Unaudited

---

3. Classified staffing was found to be "high". The area of bus drivers was listed as a concern. A possible solution for this staffing problem would be the creation of a dual routing system coupled with staff reductions.

The School District's current five year forecast projects an ending cash balance. But, the forecast was created prior to the release of the state foundation payment. This decrease will cause the District to take the following steps:

1. The Board of Education and administration must maintain careful financial planning and fiscal management in order to balance the budget annually.
2. The Board of Education and administration must conduct business in a fiscally conservative manner in order to ensure the tax payers that all available resources are spent properly and in the best interest of the students of the District.
3. The Board of Education and administration will focus on areas of over staffing and take the proper steps necessary to reduce costs in these areas.
4. The Board of Education and administration will continue to monitor and actively participate in ways to attempt to influence legislative actions which will have a positive impact on the school system.
5. The Board of Education and administration will work with local economic development agencies to encourage business development in the District.

Though many concerns have been listed, the District remains upbeat. A new administration and young staff will continue to work to stabilize the District and provide the best education possible for the students of the Southern Local School District.

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

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Richard Koker, Treasurer, at Southern Local School District, 920 Elm Street, Racine, Ohio 45771.

**Southern Local School District, Ohio**  
*Statement of Net Assets - Modified Cash Basis*  
*June 30, 2006*

---

---

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$629,108</u>
<b>Net Assets</b>	
Restricted for:	
Debt Service	\$235,829
Capital Projects	12,131
Bus Purchase	4,325
Unclaimed Monies	441
Other Purposes	324,898
Unrestricted	<u>51,484</u>
<i>Total Net Assets</i>	<u>\$629,108</u>

See accompanying notes to the basic financial statements

**Southern Local School District, Ohio**  
*Statement of Activities - Modified Cash Basis*  
*For the Fiscal Year Ended June 30, 2006*

	Program Cash Receipts				Net (Disbursements)
	Cash	Charges for	Operating Grants,	Capital	Receipts and
Disbursements	Services	Contributions	Grants and	Contributions	Changes in
Governmental Activities	Governmental	and Interest	Contributions	Governmental	Net Assets
Governmental Activities	Activities				Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$2,533,996	\$201,715	\$402,068	\$7,936	(\$1,922,277)
Special	820,094	0	756,284	0	(63,810)
Vocational	262,597	0	73,233	0	(189,364)
Support Services:					
Pupils	235,731	12,726	55,546	0	(167,459)
Instructional Staff	235,254	0	53,174	0	(182,080)
Board of Education	14,450	0	0	0	(14,450)
Administration	631,873	0	111,229	0	(520,644)
Fiscal	235,672	0	27,039	0	(208,633)
Operation and Maintenance of Plant	606,424	0	17,619	0	(588,805)
Pupil Transportation	510,390	0	136	4,325	(505,929)
Central	17,925	0	23,560	0	5,635
Operation of Non-Instructional Services:					
Food Service Operations	311,859	107,033	192,548	0	(12,278)
Other	2,416	0	0	0	(2,416)
Extracurricular Activities	123,293	46,137	0	0	(77,156)
Capital Outlay	1,421	0	0	0	(1,421)
Principal Retirement	967,812	0	0	0	(967,812)
Interest and Fiscal Charges	170,520	0	0	0	(170,520)
<b>Totals</b>	<b>\$7,681,727</b>	<b>\$367,611</b>	<b>\$1,712,436</b>	<b>\$12,261</b>	<b>(5,589,419)</b>
<b>General Receipts</b>					
Property Taxes Levied for:					
General Purposes					1,442,975
Classroom Facilities Maintenance					27,897
Bond Retirement					277,735
Grants and Entitlements not Restricted to Specific Programs					3,533,617
Proceeds from Solvency Assistance Loan					41,000
Proceeds from Tax Anticipation Note					350,000
Investment Earnings					4,302
Miscellaneous					20,342
<i>Total General Receipts</i>					<u>5,697,868</u>
<i>Change in Net Assets</i>					108,449
<i>Net Assets Beginning of Year</i>					<u>520,659</u>
<i>Net Assets End of Year</i>					<u><u>\$629,108</u></u>

See accompanying notes to the basic financial statements

**Southern Local School District, Ohio**  
*Statement of Modified Cash Basis Assets and Fund Balances*  
*Governmental Funds*  
*June 30, 2006*

	General	Classroom Facilities Maintenance	Title VI-B	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$36,535	\$90,550	\$65,981	\$235,829	\$195,447	\$624,342
Restricted Cash and Cash Equivalents	4,766	0	0	0	0	4,766
<i>Total Assets</i>	<u>\$41,301</u>	<u>\$90,550</u>	<u>\$65,981</u>	<u>\$235,829</u>	<u>\$195,447</u>	<u>\$629,108</u>
<b>Fund Balances</b>						
Reserved for Encumbrances	\$1,886	\$0	\$0	\$0	\$2,030	\$3,916
Reserved for Bus Purchase	4,325	0	0	0	0	4,325
Reserved for Unclaimed Monies	441	0	0	0	0	441
Unreserved, Undesignated, Reported in:						
General Fund	34,649	0	0	0	0	34,649
Special Revenue Funds	0	90,550	65,981	0	181,286	337,817
Debt Service Fund	0	0	0	235,829	0	235,829
Capital Projects Funds	0	0	0	0	12,131	12,131
<i>Total Fund Balances</i>	<u>\$41,301</u>	<u>\$90,550</u>	<u>\$65,981</u>	<u>\$235,829</u>	<u>\$195,447</u>	<u>\$629,108</u>

See accompanying notes to the basic financial statements

**Southern Local School District, Ohio**  
*Statement of Cash Receipts, Cash Disbursements and Changes in Modified Cash Basis Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2006*

	General	Classroom Facilities Maintenance	Title VI-B	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>						
Taxes	\$1,442,975	\$27,897	\$0	\$277,735	\$0	\$1,748,607
Intergovernmental	3,920,201	2,540	243,877	27,039	1,064,657	5,258,314
Investment Earnings	4,302	0	0	0	0	4,302
Charges for Services	0	0	0	0	107,033	107,033
Tuition and Fees	198,302	0	0	0	3,413	201,715
Extracurricular Activities	1,244	0	0	0	57,619	58,863
Miscellaneous	16,905	0	0	0	3,437	20,342
<i>Total Receipts</i>	<u>5,583,929</u>	<u>30,437</u>	<u>243,877</u>	<u>304,774</u>	<u>1,236,159</u>	<u>7,399,176</u>
<b>Disbursements</b>						
Current:						
Instruction:						
Regular	2,151,547	0	0	0	382,449	2,533,996
Special	478,526	0	95,716	0	245,852	820,094
Vocational	262,597	0	0	0	0	262,597
Support Services:						
Pupils	164,892	0	4,058	0	66,781	235,731
Instructional Staff	187,795	0	0	0	47,459	235,254
Board of Education	14,450	0	0	0	0	14,450
Administration	538,105	0	56,859	0	36,909	631,873
Fiscal	225,696	0	0	9,976	0	235,672
Operation and Maintenance of Plant	585,903	17,232	0	0	3,289	606,424
Pupil Transportation	499,583	0	10,323	0	484	510,390
Central	0	0	0	0	17,925	17,925
Operation of Non-Instructional Services	0	0	0	0	314,275	314,275
Extracurricular Activities	75,812	0	0	0	47,481	123,293
Capital Outlay	0	0	0	0	1,421	1,421
Debt Service:						
Principal Retirement	831,000	0	0	136,812	0	967,812
Interest and Fiscal Charges	5,056	0	0	165,464	0	170,520
<i>Total Disbursements</i>	<u>6,020,962</u>	<u>17,232</u>	<u>166,956</u>	<u>312,252</u>	<u>1,164,325</u>	<u>7,681,727</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(437,033)</u>	<u>13,205</u>	<u>76,921</u>	<u>(7,478)</u>	<u>71,834</u>	<u>(282,551)</u>
<b>Other Financing Sources (Uses)</b>						
Proceeds from Solvency Assistance Loan	41,000	0	0	0	0	41,000
Proceeds from Tax Anticipation Note	350,000	0	0	0	0	350,000
Transfers In	0	0	0	0	17,095	17,095
Advances In	43,577	0	0	0	1,704	45,281
Transfers Out	(17,095)	0	0	0	0	(17,095)
Advances Out	(1,704)	0	(12,121)	0	(31,456)	(45,281)
<i>Total Other Financing Sources (Uses)</i>	<u>415,778</u>	<u>0</u>	<u>(12,121)</u>	<u>0</u>	<u>(12,657)</u>	<u>391,000</u>
<i>Net Change in Fund Balance</i>	<u>(21,255)</u>	<u>13,205</u>	<u>64,800</u>	<u>(7,478)</u>	<u>59,177</u>	<u>108,449</u>
<i>Fund Balances Beginning of Year</i>	<u>62,556</u>	<u>77,345</u>	<u>1,181</u>	<u>243,307</u>	<u>136,270</u>	<u>520,659</u>
<i>Fund Balances End of Year</i>	<u>\$41,301</u>	<u>\$90,550</u>	<u>\$65,981</u>	<u>\$235,829</u>	<u>\$195,447</u>	<u>\$629,108</u>

See accompanying notes to the basic financial statements

**Southern Local School District, Ohio**  
*Statement of Cash Receipts, Cash Disbursements and Changes  
in Cash Basis Fund Balance - Budget and Actual (Budget Basis)  
General Fund  
For the Fiscal Year Ended June 30, 2006*

	<u>Budgeted Amounts</u>		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>Receipts</b>				
Taxes	\$1,125,884	\$1,442,848	\$1,442,975	\$127
Intergovernmental	3,058,743	3,920,201	3,920,201	0
Investment Earnings	3,357	4,324	4,302	(22)
Tuition and Fees	154,726	198,282	198,302	20
Extracurricular	970	1,244	1,244	0
Miscellaneous	13,190	16,905	16,905	0
<i>Total Receipts</i>	<u>4,356,870</u>	<u>5,583,804</u>	<u>5,583,929</u>	<u>125</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	1,657,702	2,158,074	2,151,647	6,427
Special	293,280	479,523	478,526	997
Vocational	270,217	263,983	262,597	1,386
Support Services:				
Pupils	49,219	165,493	164,892	601
Instructional Staff	158,542	189,415	188,152	1,263
Board of Education	15,820	14,450	14,450	0
Administration	669,978	540,918	538,105	2,813
Fiscal	203,736	226,322	226,134	188
Operation and Maintenance of Plant	569,308	587,086	585,903	1,183
Pupil Transportation	395,774	502,975	500,574	2,401
Extracurricular Activities	67,700	75,812	75,812	0
Debt Service:				
Principal	480,500	831,000	831,000	0
Interest and Fiscal Charges	0	5,056	5,056	0
<i>Total Disbursements</i>	<u>4,831,776</u>	<u>6,040,107</u>	<u>6,022,848</u>	<u>17,259</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(474,906)</u>	<u>(456,303)</u>	<u>(438,919)</u>	<u>17,384</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Tax Anticipation Note	350,000	350,000	350,000	0
Proceeds from Solvency Assistance Loan	41,000	41,000	41,000	0
Advances In	43,577	43,577	43,577	0
Advances Out	0	(1,704)	(1,704)	0
Transfer Out	0	(17,095)	(17,095)	0
<i>Total Other Financing Sources (Uses)</i>	<u>434,577</u>	<u>415,778</u>	<u>415,778</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(40,329)	(40,525)	(23,141)	17,384
<i>Fund Balance Beginning of Year</i>	48,082	48,082	48,082	0
<i>Prior Year Encumbrances Appropriated</i>	<u>14,474</u>	<u>14,474</u>	<u>14,474</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$22,227</u>	<u>\$22,031</u>	<u>\$39,415</u>	<u>\$17,384</u>

See accompanying notes to the basic financial statements

**Southern Local School District, Ohio**  
*Statement of Cash Receipts, Cash Disbursements and Changes  
in Cash Basis Fund Balance - Budget and Actual (Budget Basis)  
Classroom Facilities Maintenance Special Revenue Fund  
For the Fiscal Year Ended June 30, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Taxes	\$27,717	\$27,897	\$27,897	\$0
Intergovernmental	2,540	2,540	2,540	0
<i>Total Receipts</i>	30,257	30,437	30,437	0
<b>Disbursements</b>				
Current:				
Support Services:				
Operation and Maintenance of Plant	18,600	23,100	17,232	5,868
<i>Net Change in Fund Balance</i>	11,657	7,337	13,205	5,868
<i>Fund Balance Beginning of Year</i>	76,673	76,673	76,673	0
Prior Year Encumbrances Appropriated	672	672	672	0
<i>Fund Balance End of Year</i>	<u>\$89,002</u>	<u>\$84,682</u>	<u>\$90,550</u>	<u>\$5,868</u>

See accompanying notes to the basic financial statements

**Southern Local School District, Ohio**  
*Statement of Cash Receipts, Cash Disbursements and Changes  
in Cash Basis Fund Balance - Budget and Actual (Budget Basis)*  
*Title VI-B Fund*  
*For the Fiscal Year Ended June 30, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Intergovernmental	\$240,000	\$243,877	\$243,877	\$0
<b>Disbursements</b>				
Current:				
Instruction:				
Special	117,695	126,751	95,716	31,035
Support Services:				
Pupils	26,412	16,457	4,058	12,399
Administration	65,054	66,507	56,859	9,648
Pupil Transportation	17,480	10,323	10,323	0
<i>Total Disbursements</i>	226,641	220,038	166,956	53,082
<i>Excess of Receipts Over Disbursements</i>	13,359	23,839	76,921	53,082
<b>Other Financing Uses</b>				
Advances Out	(12,121)	(12,121)	(12,121)	0
<i>Net Change in Fund Balance</i>	1,238	11,718	64,800	53,082
<i>Fund Balance Beginning of Year</i>	70	70	70	0
Prior Year Encumbrances Appropriated	1,111	1,111	1,111	0
<i>Fund Balance End of Year</i>	\$2,419	\$12,899	\$65,981	\$53,082

See accompanying notes to the basic financial statements

**Southern Local School District, Ohio**  
*Statement of Fiduciary Net Assets - Modified Cash Basis*  
*Agency Fund*  
*June 30, 2006*

---

---

<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$15,574</u>
<b>Net Assets</b>	
Restricted for Students	<u>\$15,574</u>

See accompanying notes to the basic financial statements

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**Note 1 - Description of the School District and Reporting Entity**

Southern Local School District, Meigs County (the School District), is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The School District provides educational services as authorized by State and/or local guidelines. The School District is staffed by 61 certificated employees and 33 classified employees who provide services to 734 students. The School District currently operates one elementary school and one high school.

The Auditor of State of Ohio declared the School District to be in fiscal emergency on November 8, 1999. A financial planning and supervision commission has been established to develop and oversee a financial recovery plan which must be submitted to the State Superintendent of Public Instruction. The Board of Education will be prohibited from taking any action which is contrary to or not authorized by the plan.

The Commission's primary charge is to develop, adopt and implement a financial recovery plan. The original recovery plan was adopted on March 21, 2000. State law requires the plan to be updated annually. The last update was approved on April 26, 2006, for the fiscal year ending June 30, 2006. The update recommended that the School District continue to develop and maintain a five-year forecast that establishes the parameters of expenditures versus revenue for the School District and that the Board of Education contains expenditures within the five year forecast.

***Reporting Entity***

A reporting entity is composed of the primary government, component units, and other organizations included ensuring that the basic financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Southern Local School District, this includes general operations, food service, and student-related activities.

The School District participates in three jointly governed organizations and an insurance purchasing pool. These organizations are the Southeastern Ohio Voluntary Education Cooperative, the Coalition of Rural and Appalachian Schools, South Eastern Ohio Special Education Regional Resource Center, and the Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 14 and 15 to the basic financial statements.

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

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

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

---

---

***A. Basis of Presentation***

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services, if any. The School District does not have any business-type activities.

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

Fund Financial Statements

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

***B. Fund Accounting***

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain functions or activities. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The School District classifies each fund as either governmental or fiduciary.

***Governmental:*** The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g., grants) and other nonexchange transactions as governmental funds. The following are the School District's major governmental funds:

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**General Fund** The General Fund accounts for all financial resources except for restricted resources requiring a separate accounting. The general fund balance is available for any purpose provided it is disbursed or transferred according to Ohio law.

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

**Title VI-B Fund** The Title VI-B Fund is used to account for State funds used for identification of handicapped children, development of procedural safeguards, implementation of least restrictive alternative service patterns, and provision of full educational opportunities to handicapped children at the preschool, elementary, and secondary levels.

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

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

**Fiduciary Fund Type** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary fund is an agency fund, which accounts for student activities.

### ***C. Basis of Accounting***

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

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

### ***D. Budgetary Process***

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

---

---

The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

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

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

***E. Cash, Cash Equivalents, and Investments***

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

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

Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2006 was \$4,302, including \$3,492 assigned from other School District funds.

***F. Restricted Assets***

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets include unexpended grants restricted for the purchase of buses and unclaimed monies.

***G. Inventory and Prepaid Items***

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

***H. Capital Assets***

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

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

---

---

***I. Interfund Receivables/Payables***

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

***J. Accumulated Leave***

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

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

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

***L. Long-term Obligations***

The School District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid.

***M. Net Assets***

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide statement of net assets reports \$577,624 of restricted net assets, none of which is restricted by enabling legislation.

***N. Fund Balance Reserves***

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

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

***O. Interfund Transactions***

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

---

---

Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

**Note 3 - Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual (Budget Basis) presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis are outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis).

Net Change in Fund Balance	
Cash Basis	(\$21,255)
Encumbrances	<u>(1,886)</u>
Budget Basis	<u><u>(\$23,141)</u></u>

**Note 4 - Deposits and Investments**

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

---

---

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

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. Investments may only be made through specified dealers and institutions.

**Deposits** Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$623,176 of the School District's bank balance of \$725,804 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

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

#### **Note 5 - Property Taxes**

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

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property tax) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value listed as of December 31, 2005. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Meigs County. The County Auditor periodically advanced to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$54,342,570	78%	\$54,736,250	79%
Public Utility Personal	12,964,890	19%	12,875,750	19%
Tangible Personal Property	2,119,740	3%	1,915,520	3%
	<u>\$69,427,200</u>	<u>100%</u>	<u>\$69,527,520</u>	<u>100%</u>
Tax Rates per \$1,000 of Assessed Valuation	\$31.89		\$31.40	

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

**Note 6 - Interfund Balances**

Unpaid interfund cash advances at June 30, 2006, were as follows:

	Receivables	Payables
General Fund	\$19,086	\$0
Nonmajor Special Revenue Funds:		
Title VIB Fund	0	370
State Grant Funds	0	10,137
Federal Grant Funds	0	7,967
Total Special Revenue Funds	0	18,474
Schoolnet Plus Capital Project Fund	0	612
Total All Funds	\$19,086	\$19,086

**Note 7 - Risk Management**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted with Indiana Insurance Company for general liability, vehicle, and property insurance. Coverage provided by the Indiana Insurance Group is as follows:

Building and Contents-replacement cost	\$19,847,634
Inland Marine:	
Cameras and audio-visual equipment (\$500 deductible)	50,000
Signs	10,000
Music Instruments and Band Uniforms	50,000
Computers (\$1,000 deductible)	
Hardware	100,000
Extra Expense	10,000
Valuable Papers & Records per Building	100,000
Accounts Receivable	100,000
Crime (\$500 deductible) -	
Public Employee Dishonesty	10,000
Money and Securities -	
Inside Premises - Per Occurrence	10,000
Outside Premises - Per Messenger	10,000
Automobile Liability (no deductible):	
Bodily Injury and Property Damage - combined single limit	1,000,000
Medical Payments - each person	5,000

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

---

---

Hired Auto Liability	1,000,000
Non-owned Auto Liability	\$1,000,000
General Liability (no deductible):	
Aggregate Limit	2,000,000
Medical Expense Limit – per person/accident	15,000
Employee Benefits Liability (\$1,000 deductible):	
Per Claim	1,000,000
Aggregate Limit	3,000,000
Umbrella:	
Each Occurrence	1,000,000
Aggregate Limit	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2006.

***B. Workers' Compensation***

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. GRP then calculates total savings and each participant's individual performance is compared to the overall Plan's savings percentage. A participant then either receives money from or contributes to GRP's equity pooling fund. This equity pooling arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria.

**Note 8 - Defined Benefit Pension Plans**

***A. State Teachers Retirement System***

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

---

---

A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$303,268, \$310,983, and \$332,959 respectively; 82.69 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$25 made by the School District and \$2,475 made by the plan members.

***B. School Employees Retirement System***

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$86,597, \$75,634, and \$66,289 respectively; 54.41 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**Note 9 - Postemployment Benefits**

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$23,328 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$39,371.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2005, (the latest information available), were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants receiving health care benefits.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

**Note 10 - Long-Term Debt**

The changes in the School District's long-term obligations during the fiscal year consist of the following:

<b>Governmental Activities:</b>	Principal Outstanding 6/30/05	Additions	Deductions	Principal Outstanding 6/30/06	Amounts Due Within One Year
Solvency Assistance Loans - 0%					
2004 Solvency Assistance	\$335,500	\$0	\$335,500	\$0	\$0
2005 Solvency Assistance	291,000	0	145,500	145,500	145,500
2006 Solvency Assistance	0	41,000	0	41,000	20,500
<b>Total Solvency Assistance Loans</b>	<b>626,500</b>	<b>41,000</b>	<b>481,000</b>	<b>186,500</b>	<b>166,000</b>
1993 Asbestos Abatement Loan - 0%	88,591	0	11,812	76,779	11,812
1998 Classroom Facilities Construction and Improvement Serial and Term Bonds - 3.2%-4.625%	3,370,000	0	125,000	3,245,000	130,000
2005 Tax Anticipation Note	0	350,000	350,000	0	0
<b>Total Long Term Obligations</b>	<b>\$4,085,091</b>	<b>\$391,000</b>	<b>\$967,812</b>	<b>\$3,508,279</b>	<b>\$307,812</b>

**2004 Solvency Assistance Loan** - On May 25, 2004, the School District obtained a loan, in the amount of \$671,000, from the State of Ohio Department of Education Solvency Assistance Fund. This loan was obtained under the authority of Ohio Rev. Code Section 3316.20 for a three year period, with the first payment due in August 2005 and the final payment due in June 2006. This loan was being retired through bi-monthly deductions from the School District's State Foundation Settlements in the General Fund.

**2005 Solvency Assistance Loan** - On March 1, 2005, the School District obtained a loan, in the amount of \$291,000, from the State of Ohio Department of Education Solvency Assistance Fund. This loan was obtained under the authority of Ohio Rev. Code Section 3316.20 for a three year period, with the first payment due in August 2005 and the final payment due in June 2007. This loan is being retired through bi-monthly deductions from the School District's State Foundation Settlements in the General Fund.

**2006 Solvency Assistance Loan** - On June 12, 2006, the School District obtained a loan, in the amount of \$41,000, from the State of Ohio Department of Education Solvency Assistance Fund. This loan was obtained under the authority of Ohio Rev. Code Section 3316.20 for a three year period, with the first payment due in August 2005 and the final payment due in June 2008. This loan will be retired through bi-monthly deductions from the School District's State Foundation Settlements in the General Fund.

**Asbestos Abatement Loan** - On May 25, 1993, the School District obtained a loan, in the amount of \$212,618, for removing asbestos. The loan was obtained under the authority of Ohio Rev. Code Section 3317.22 for a twenty year period, with maturity in fiscal year 2013. The loan is being retired through the Bond Retirement Debt Service Fund.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

**Classroom Facilities Construction and Improvement Bonds** - On December 1, 1998, the School District issued \$4,042,000 in voted general obligation bonds for building a new elementary and an addition to the high school. The bond issue included serial and term bonds, in the amount of \$1,432,000 and \$2,610,000, respectively. The bonds were issued for a twenty-three year period, with the final maturity date during fiscal year 2022. The bonds are being retired through the Bond Retirement Debt Service Fund.

**Tax Anticipation Note** - On December 8, 2005, the School District issued a tax anticipation note in the amount of \$350,000. The note was paid off during the fiscal year through the General Fund.

Principal and interest requirements to retire debt outstanding at June 30, 2006, are as follows:

Fiscal Year Ending June 30	Asbestos Abatement Loan	2006 Solvency Assistance Loan	2005 Solvency Assistance Loan	Classroom Facilities Construction and Improvement Bonds	Total
2007	\$11,812	\$20,500	\$145,500	\$290,426	\$468,238
2008	11,812	20,500	0	290,059	322,371
2009	11,812	0	0	285,764	297,576
2010	11,812	0	0	290,771	302,583
2011	11,813	0	0	293,369	305,182
2012-2016	17,718	0	0	1,450,034	1,467,752
2017-2021	0	0	0	1,442,056	1,442,056
2022	0	0	0	286,475	286,475
Total	76,779	41,000	145,500	4,628,954	4,892,233
Less Interest	0	0	0	(1,383,954)	(1,383,954)
	<u>\$76,779</u>	<u>\$41,000</u>	<u>\$145,500</u>	<u>\$3,245,000</u>	<u>\$3,508,279</u>

The School District's overall debt margin was \$67,094, with an unvoted debt margin of \$3,029,330 at June 30, 2006.

**Note 11 - Set-Aside Calculations**

State statute annually requires the School District to set aside in the General Fund an amount based on a statutory formula to purchase textbooks and other instructional materials and an equal amount to acquire and construct capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward for the same uses in future years.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

The following cash basis information describes the change in the year end set-aside amounts for textbooks and capital acquisition. State statute requires disclosing this information.

	Capital Improvements Reserve	Textbooks Instructional Materials Reserve
Set-aside Reserve Balance as of June 30, 2005	(\$8,679,149)	(\$77,775)
Offsets	(27,897)	0
Qualifying Disbursements	(39,262)	(124,481)
Total	(\$8,746,308)	(\$202,256)
Set-aside Balance Carry Forward to Future Fiscal Years	(\$8,746,308)	(\$202,256)

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

**Note 12 - Interfund Transfers**

During the fiscal year, the General Fund transferred \$15,912 and \$1,183, respectively, to the Lunchroom and State Grants Special Revenue Funds to reduce deficit cash balances.

**Note 13 - Contingencies**

**A. Grants**

The School District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims through June 30, 2006, will not have a material adverse effect on the School District.

**B. Litigation**

The School District is currently not a party to any legal proceedings.

**Note 14 - Jointly Governed Organizations**

**A. Southeastern Ohio Voluntary Education Cooperative (SEOVEC)**

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

**Southern Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

---

---

SEOVEC has 36 participants consisting of 32 school districts and 4 educational service centers. SEOVEC is governed by a governing board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. During fiscal year 2006, the School District paid \$15,600 to SEOVEC. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, at 221 North Columbus Road, Athens, Ohio 45701.

***B. Coalition of Rural and Appalachian Schools***

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of over 130 school districts and other educational institutions in the 29-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 29 Appalachian counties are divided; and three from Ohio University College of Education. The Council provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$345 for fiscal year 2006.

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

SEOSERRC is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. SEOSERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Ohio University, and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2006, the School District paid \$5,922 to SEOSERRC. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

**Note 15 - Insurance Purchasing Pool**

***Ohio School Boards Association Workers' Compensation Group Rating Program***

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**SOUTHERN LOCAL SCHOOL DISTRICT  
MEIGS COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2006**

<b>FEDERAL GRANTOR</b> <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through Ohio Department of Education:</i>						
Food Donation	10.550	N/A	\$	\$ 22,890	\$	\$ 22,890
Nutrition Cluster:						
School Breakfast Program	10.553	05PU-2005	9,080		9,080	
		05PU-2006	45,438		45,438	
Total School Breakfast Program			54,518	0	54,518	0
National School Lunch Program	10.555	LLP4-2005	19,852		19,852	
		LLP4-2006	105,710		105,710	
Total National School Lunch Program			125,562	0	125,562	0
Total Nutrition Cluster			180,080	0	180,080	0
Total United States Department of Agriculture			180,080	22,890	180,080	22,890
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	C1S1-2005	40,552		19,946	
		C1S1-2006	281,767		237,802	
Total Title I Grants to Local Educational Agencies			322,319	0	257,748	0
Special Education - Grants to States	84.027	6BSF-2005	26,274		13,825	
		6BSF-2006	217,603		153,483	
Total Special Education - Grants to States			243,877	0	167,308	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DRS1-2005	(2,106)		1,713	
		DRS1-2006	14,863		15,506	
Total Safe and Drug-Free Schools and Communities - State Grants			12,757	0	17,219	0
State Grants for Innovative Programs	84.298	C2S1-2006	2,138		2,416	
Education Technology State Grants	84.318	TJS1-2005	(2,230)		405	
		TJS1-2006	13,897		6,123	
Total Education Technology State Grants			11,667	0	6,528	0
Rural Education	84.358	RUS1-2005	10,600		9,177	
		RUS1-2006	26,001		16,064	
Total Rural Education			36,601	0	25,241	0
Improving Teacher Quality State Grants	84.367	TRS1-2005	24,500		17,791	
		TRS1-2006	69,799		50,488	
Total Improving Teacher Quality State Grants			94,299	0	68,279	0
Total United States Department of Education			723,658	0	544,739	0
<b>Total Federal Awards Receipts and Expenditures</b>			<b>\$ 903,738</b>	<b>\$ 22,890</b>	<b>\$ 724,819</b>	<b>\$ 22,890</b>

*The Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.*

**SOUTHERN LOCAL SCHOOL DISTRICT  
MEIGS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS  
RECEIPTS AND EXPENDITURES  
JUNE 30, 2006**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – FOOD DONATION**

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

**NOTE C – CHILD NUTRITION CLUSTER**

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

**NOTE D – TRANSFERS**

During fiscal year 2006, the Ohio Department of Education (ODE) authorized the School District to carryover monies from the prior fiscal year to the current fiscal year. Authorized carryover monies are shown as a reduction of federal revenues in the program that the transfer was made from and increased federal revenue in the program that received the transfer or carryover. A detailed listing of the transfers/carryovers were as follows:

CFDA Number	Program Title	Pass- Through Entity Number	Transfers Out	Transfers In
84.010	Title I Grants to Local Educational Agencies	C1S1-2005	\$ 14,018	
84.010	Title I Grants to Local Educational Agencies	C1S1-2006		\$ 14,018
84.186	Safe and Drug-Free Schools and Communities	DRS1-2005	2,106	
84.186	Safe and Drug-Free Schools and Communities	DRS1-2006		2,106
84.318	Education Technology State Grants	TJS1-2005	2,230	
84.318	Education Technology State Grants	TJS1-2006		2,230
Totals			<u>\$ 18,354</u>	<u>\$ 18,354</u>



# Mary Taylor, CPA

Auditor of State

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

Southern Local School District  
Meigs County  
920 Elm Street  
Racine, Ohio 45771

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Local School District, Meigs County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 26, 2007, wherein we noted the School District uses a comprehensive basis of accounting other than generally accepted accounting principles, and wherein we expressed substantial doubt about the School District's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2006-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above to be a material weakness. In a separate letter to the School District's management dated February 26, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the School District's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2006-001 and 2006-002. In a separate letter to the School District's management dated February 26, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

February 26, 2007



# Mary Taylor, CPA

## Auditor of State

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

Southern Local School District  
Meigs County  
920 Elm Street  
Racine, Ohio 45771

To the Board of Education:

#### Compliance

We have audited the compliance of the Southern Local School District, Meigs County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that apply to its major federal program for the year ended June 30, 2006. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

#### Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

February 26, 2007

**SOUTHERN LOCAL SCHOOL DISTRICT  
MEIGS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006**

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

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

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

**FINDING NUMBER 2006-001**

**Noncompliance Citation**

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

**SOUTHERN LOCAL SCHOOL DISTRICT  
MEIGS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
---

**FINDING NUMBER 2006-001 (Continued)**

**Noncompliance Citation (Continued)**

**Ohio Rev. Code Section 117.38 (Continued)**

Ohio Admin. Code Section 117-2-03(B) requires the School District to file its annual financial report pursuant to generally accepted accounting principles. However, the School District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

We recommend the School District take the necessary steps to ensure that the annual financial report is prepared on a generally accepted accounting principles basis.

**Officials' Response:**

Treasurer Richard Koker responded that the School District expects to prepare the annual financial report on a generally accepted accounting principles basis when they believe the School District can get out of fiscal emergency.

**FINDING NUMBER 2006-002**

**Noncompliance Citation/Reportable Condition**

Ohio Admin. Code Section 117-2-02(C)(1) requires the government's internal controls to reasonably assure that budgetary accounts are integrated into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

The Treasurer's office did not accurately post appropriations into the accounting system. Due to the fact that budgeted information posted into the accounting system was not always correct, the School District's management was unable to effectively monitor budget versus actual activity.

We recommend the Treasurer accurately post appropriations as approved by the Board of Education into the computer system. This procedure will help ensure more useful comparisons of budget versus actual activity, as well as provide management with an accurate monitoring tool throughout the year.

**Officials' Response:**

We did not receive a response from Officials to this finding.

**SOUTHERN LOCAL SCHOOL DISTRICT  
MEIGS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005  
(Continued)**

**3. FINDINGS FOR FEDERAL AWARDS**

None.

**SOUTHERN LOCAL SCHOOL DISTRICT  
MEIGS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 §.315(b)  
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2005-001	A noncompliance citation was issued under Ohio Admin. Code Section 117-02-03(B) as a result of the School District not filing its annual financial report in accordance with generally accepted accounting principles.	No	Not Corrected:  This item is repeated in the current audit Schedule of Findings as item 2006-001.
2005-002	A noncompliance citation was issued for Ohio Rev. Code Section 5705.41(B) as a result of expenditures exceeding total appropriations.	Yes	N/A



Mary Taylor, CPA  
Auditor of State

**SOUTHERN LOCAL SCHOOL DISTRICT**

**MEIGS COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 15, 2007**