



**Auditor of State
Betty Montgomery**

**Southern Local School District
Meigs County, Ohio**

**Financial Forecast
For the Fiscal Year Ending June 30, 2005**

Local Government Services

Southern Local School District
Meigs County

Table of Contents

Title	Page
Table of Contents	1
Certification.....	2
Accountant's Report.....	3
Statement of Revenues, Expenditures and Changes in Fund Balance for the Fiscal Years Ended June 30, 2002, 2003, and 2004 Actual; Fiscal Year Ending June 30, 2005 Forecasted.....	4
Summary of Significant Forecast Assumptions and Accounting Policies	5



**Auditor of State
Betty Montgomery**

Financial Planning and Supervision Commission
Ohio Department of Education
615 West Superior, Room 545
Cleveland, Ohio 44113-1801

and

Board of Education
Southern Local School District
P.O. Box 176
Racine, Ohio 45771

CERTIFICATION

Certification is hereby made that, based upon the requirement set forth in Section 3316.08, Revised Code, the Local Government Services Division of the Auditor of State's Office has examined the financial forecast of the General Fund of the Southern Local School District, Meigs County, Ohio. This forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating deficit of \$291,000 for the fiscal year ending June 30, 2005.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2006 scheduled property tax settlements. The potential advances have been excluded due to the District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2005.

Each School District receiving certification of an operating deficit under 3316.08, Revised Code, is required to recommend to the Financial Planning and Supervision Commission whether a tax levy should be placed on the ballot. The Commission shall adopt a resolution stating their intent to place a tax levy or forego placing a tax levy on the ballot. The forecast excludes any revenue that might be generated from a new tax levy since it has not yet been approved by the Board and the voters within the School District.

A handwritten signature in black ink that reads "Peter R. Sorem".

Peter R. Sorem
Chief of Local Government Services

March 1, 2005



Auditor of State Betty Montgomery

Board of Education
Southern Local School District
P. O. Box 176
Racine, Ohio 45771

Independent Accountant's Report

We have examined the accompanying forecasted statement of revenues, expenditures and changes in fund balance of the general fund of the Southern Local School District for the fiscal year ending June 30, 2005. The Southern Local School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the forecasted statement referred to above is presented in conformity with the guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for the Board's forecast. However, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after its date.

The accompanying financial forecast has been prepared assuming the Southern Local School District will continue as a going concern. The School District has experienced recurring general fund operating deficiencies, decreases in the unencumbered fund balance, and has borrowed against future revenues to finance its operations. In addition, the School District was declared in Fiscal Emergency status (see Note 12) on November 8, 1999, has obtained a solvency advances to finance fiscal years 2000 through 2004, and has not requested voter approval for additional general fund operating levies. Management's plans regarding these matters have not been sufficient to eliminate any future deficits. These issues raise substantial doubt about its ability to continue as a going concern. The financial forecast does not include any adjustments that might result from the outcome of this uncertainty.

We have compiled the historical financial statements of the Southern Local School District for the fiscal years ended June 30, 2002, June 30, 2003, and June 30, 2004, in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

January 24, 2005

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Southern Local School District
Statement of Revenues, Expenditures and Changes in Fund Balance
For The Fiscal Years Ended June 30, 2002, 2003 and 2004 Actual;
Fiscal Year Ending June 30, 2005 Forecasted
General Fund

	Fiscal Year 2002 Actual	Fiscal Year 2003 Actual	Fiscal Year 2004 Actual	Fiscal Year 2005 Forecasted
Revenues				
General Property Tax (Real Estate)	\$1,336,000	\$1,234,000	\$1,309,000	\$1,243,000
Tangible Personal Property Tax	83,000	90,000	76,000	66,000
Unrestricted Grants-in-Aid	2,955,000	3,101,000	3,301,000	3,367,000
Restricted Grants-in-Aid	551,000	606,000	413,000	431,000
Property Tax Allocation	125,000	132,000	135,000	130,000
All Other Revenues	58,000	59,000	193,000	190,000
Total Revenues	5,108,000	5,222,000	5,427,000	5,427,000
Other Financing Sources				
Solvency Assistance Advance	421,000	665,000	671,000	0
Transfers In	0	0	1,000	0
Advances In	11,000	39,000	0	8,000
Total Other Financing Sources	432,000	704,000	672,000	8,000
Total Revenues and Other Financing Sources	5,540,000	5,926,000	6,099,000	5,435,000
Expenditures				
Personal Services	2,736,000	2,701,000	2,645,000	2,583,000
Employees' Retirement/ Benefits	1,256,000	1,566,000	1,379,000	1,305,000
Purchased Services	292,000	339,000	360,000	606,000
Supplies and Materials	213,000	191,000	182,000	167,000
Capital Outlay	224,000	105,000	26,000	100,000
Debt Service:				
Principal - Asbestos Loan	12,000	12,000	12,000	12,000
Principal - Solvency Assistance Advances	696,000	594,000	543,000	669,000
Principal - HB 264 Energy Conservation Note	45,000	50,000	50,000	55,000
Interest and Fiscal Charges	12,000	9,000	6,000	3,000
Other Objects	224,000	545,000	570,000	395,000
Total Expenditures	5,710,000	6,112,000	5,773,000	5,895,000
Other Financing Uses				
Operating Transfers Out	20,000	73,000	109,000	24,000
Advances Out	0	0	8,000	0
Total Other Financing Uses	20,000	73,000	117,000	24,000
Total Expenditures and Other Financing Uses	5,730,000	6,185,000	5,890,000	5,919,000
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(190,000)	(259,000)	209,000	(484,000)
Cash Balance July 1	478,000	288,000	29,000	238,000
Cash Balance June 30	288,000	29,000	238,000	(246,000)
Less Encumbrances and Reserves:				
Encumbrances at June 30	21,000	8,000	24,000	24,000
Textbook and Instructional Materials	0	0	10,000	21,000
Budget	37,000	0	0	0
Total Encumbrances and Reservations of Fund Balance	58,000	8,000	34,000	45,000
Unencumbered/Unreserved Fund Balance (Deficit) June 30	\$230,000	\$21,000	\$204,000	(\$291,000)

See accompanying summary of significant forecast assumptions, accounting policies, and accountant's report.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

Note 1 – The School District

The Southern Local School District (School District) is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, 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 currently operates 2 instructional/support facilities staffed by 61 certificated employees and 33 non-certificated employees who provide services to 747 students.

Note 2 - Nature of the Forecast

This financial forecast presents, to the best of the Southern Local School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of January 24, 2005, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

Note 3 - Nature of the Presentation

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund resources received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. State laws also require general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund. For presentation in the forecast, the disadvantaged pupil impact aid (DPIA) fund and debt service fund activity that is supported by the general fund is included with the general fund.

Note 4 - Summary of Significant Accounting Policies

A. - Basis of Accounting

This financial forecast has been prepared on a basis of cash receipts, disbursements and encumbrances, which is consistent with the cash basis of accounting (non-GAAP) used to prepare the historical financial statements. Under this basis of accounting, certain revenue and related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies to be recorded as the equivalent of an expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

B. - Fund Accounting

The School District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the segregation of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Funds

General Fund - The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the School District for any purpose provided it is disbursed or transferred in accordance with Ohio law.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than those for major capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest.

Capital Projects Funds - Capital projects funds are used to account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Funds

Enterprise Funds - Enterprise funds are used to account for any activity for which a fee is charged to external users for goods and services.

Fiduciary Funds

Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds.

C. - Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

Budget - A budget of estimated cash receipts and disbursements is submitted to the Meigs County Auditor, as secretary of the County Budget Commission, by January 20 of each year, for the succeeding fiscal year.

Estimated Resources - The County Budget Commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations - The appropriation resolution sets the limit for expenditures from each fund. A temporary appropriation resolution may be passed on or about July 1 of each year. The temporary appropriation resolution remains in place until the annual appropriation measure is adopted for the entire year. The appropriation measure may be amended or supplemented during the year as new information becomes available.

Encumbrances - The School District uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation.

Note 5 - General Operating Assumptions

The Southern Local School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. The forecast contains those expenditures the Board of Education has determined to be necessary to provide for an adequate educational program.

Note 6 - Significant Assumptions for Revenues and Other Financing Sources

A. - General and Tangible Personal Property Taxes

Property taxes consist of real estate, public utility real and personal property, manufactured home and tangible personal property taxes. Advances may be requested from the Meigs County Auditor as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times.

The forecast excludes the receipt of any advances against fiscal year 2006 scheduled property tax settlements. The potential advances have been excluded due to the District's inability to appropriate this revenue until received and the uncertainty of this timing. The forecasted operating deficit may be reduced to the extent advances are received prior to June 30, 2005 and to the extent the Board appropriates such advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2005.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

The property tax revenues for the general fund are generated from several levies. The type of levies, the year approved, last calendar year of collection, and the full tax rate are as follows:

Tax Levies	Year Approved	Last Calendar Year of Collection	Full Tax Rate (Per \$1,000 of Assessed Value)
Inside Ten Mill Limitation	n/a	n/a	\$3.50
Continuing Operating	Prior to 1976	n/a	16.50
Continuing Operating	1982	n/a	3.00
Current Operating	2003	2006	4.00
Total Tax Rate			\$27.00

The School District has other levies that total \$4.89 per \$1,000 of assessed value; \$4.39 is used for the payment of bonds issued for the construction of school facilities, and a \$.50 is used for the upkeep of a school facilities. The School Districts total rate is \$31.89 per \$1,000 of assessed value.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to authorized voted levies so that each levy yields the same amount of property taxes as in the year in which the levy was approved. Increases to voted levy revenues are restricted to assessments for new construction. The reduction factors are computed annually and applied separately for residential/agricultural property and commercial/industrial property. State law prohibits reduction factors that reduce the effective rates on real estate below 20 mills. The effective residential and agricultural rate is \$20.00 per \$1,000 of assessed valuation and the effective commercial and industrial rate is \$23.70 per \$1,000 of assessed valuation for 2005.

General Property Tax (Real Estate) - General property tax revenue includes real estate taxes, public utility property taxes, and manufactured home taxes. The amounts shown in the revenue section of the forecast statement represent gross property tax revenue. Meigs County completed a sexennial revaluation during calendar year 2004. Based on information from the County Auditor, general property taxes are anticipated to decrease \$66,000. The decrease in property tax revenues is due to the County Auditor estimating a 92 percent collection rate based on current delinquencies.

Tangible Personal Property Tax - Tangible personal property tax is applied to property used in business (except for public utilities). As with general property taxes, tangible personal property tax revenues for fiscal year 2005 are based upon information provided by the Meigs County Auditor. Based upon these estimates, the School District anticipates a decrease of \$10,000 from the previous fiscal year due to a decrease in the assessed value of taxable personal property.

The State exempts the first \$10,000 in personal property from taxation. The State reimburses the School District for the lost revenue. Beginning with tax year 2004, the State will phase out the reimbursement by 10 percent each year. The reimbursement is included in the tangible personal property tax revenues.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

B. - Unrestricted Grants-in-Aid

Unrestricted Grants-in-Aid include State Foundation payments and reimbursement for lost revenue due to utility deregulation. State Foundation payments include formula aid and various categorical aid programs such as special and gifted education, career and technical education, and transportation. Other programs such as equity and parity aid, excess cost supplement, and charge-off supplement, are provided to address certain policy issues or correct flaws in formula aid and are also included in this revenue.

The State's foundation program is established by Chapter 3317 of the Ohio Revised Code. The semi-monthly payments are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM) times a per pupil foundation level (adjusted for a regional cost of doing business factor set by the State legislature) less the equivalent of 23 mills times the school district's taxable property valuation (the charge-off). The per pupil foundation level for fiscal year 2002 was set by the legislature at \$4,490 and \$4,949 for 2003. In 2003, State law set the base cost per pupil for fiscal year 2004 at \$5,058 and \$5,169 for fiscal year 2005.

The anticipated state foundation revenue for fiscal year 2005 is based on current estimates provided by the Ohio Department of Education on the January 7, 2005, SF-3. Unrestricted grants-in-aid revenue is summarized as follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Formula Aid	\$2,164,000	\$2,322,000	\$2,338,000	\$2,265,000
Categorical Funding	191,000	242,000	225,000	215,000
Charge-Off Supplement	224,000	127,000	190,000	232,000
Transportation	194,000	224,000	227,000	214,000
Excess Cost	0	81,000	76,000	87,000
Parity Aid	0	198,000	280,000	358,000
Foundation Adjustments	0	(73,000)	(71,000)	(41,000)
County Board Deduction	(17,000)	(92,000)	(18,000)	(17,000)
Utility Deregulation	199,000	72,000	54,000	54,000
Totals	<u>\$2,955,000</u>	<u>\$3,101,000</u>	<u>\$3,301,000</u>	<u>\$3,367,000</u>

Formula aid decreased due to a decrease in ADM which is partially offset by an increase in the per pupil amount.

The increase in parity aid is due to the phase-in of this revenue. The State set parity aid funding at 76 percent of the total allocation in fiscal year 2005 and 100 percent in fiscal year 2006. The fiscal year 2004 allocation was 58 percent of the total.

The charge-off supplement is revenue intended to fill in any gap that exists between the local revenue actually raised by a school district and the amount the foundation formula assumes the school district should raise to meet its local share of formula aid, special education and vocational education weighted aid and transportation aid. If a district's local revenue falls below the sum of the district's charge-off plus its assumed local share of special education and vocational education weighted aid and transportation aid, the State makes up the shortfall in charge-off supplement aid. This aid guarantees that each pupil will receive the adequate base cost and categorical foundation amounts in state and local revenue combined.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

Beginning in tax year 2001, there were significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123rd General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes have been enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes is used to reimburse school districts for the loss of public utility property tax revenue. Reimbursements are made twice a year through the foundation program.

C. - Restricted Grants-in-Aid

The anticipated revenue for restricted grants-in-aid for fiscal year 2005 is based on estimates obtained from the Ohio Department of Education. Restricted grants-in-aid for fiscal year 2005, is anticipated to increase \$18,000. This increase is due to a \$11,000 increase in Career Tech funding and a \$7,000 increase in DPIA. The bus purchase allowance was \$9,000 during fiscal year 2004 and will remain the same for fiscal year 2005.

D. - Property Tax Allocation

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs. Property tax allocation revenue, based on information provided by the Meigs County Auditor, is anticipated to decrease by \$5,000 for fiscal year 2005.

E. - All Other Revenues

Presented below is a comparison of restricted grants-in-aid for fiscal year 2005.

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecasted Fiscal Year 2005
Interest	\$19,000	\$9,000	\$2,000	\$3,000
Classroom Materials and Fees	8,000	8,000	8,000	7,000
Tuition	3,000	3,000	1,000	1,000
Open Enrollment	0	0	128,000	142,000
Miscellaneous	28,000	39,000	54,000	37,000
Totals	<u>\$58,000</u>	<u>\$59,000</u>	<u>\$193,000</u>	<u>\$190,000</u>

The School District estimates that in fiscal year 2005, all other revenues, which includes tuition, open enrollment, interest on investments, fees and miscellaneous receipts, will decrease \$3,000. For fiscal year 2005, the School District is recording open enrollment revenue at gross revenue instead of net.

The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the greatest allocation being recorded in the general fund.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

F. – Solvency Assistance Advances

The School District has received a solvency assistance advance in each of the past four fiscal years to finance general fund operations. Solvency assistance advances are interest free and are paid back to the Ohio Department of Education over a two year period through deductions from State foundation payments. Future solvency assistance advances are not included in the forecast since such advances are not yet authorized for fiscal year 2005.

G. - Advances In

Advances in represents amounts advanced to other funds in the current or prior fiscal year which are being repaid to the general fund in the forecast year. The School District anticipates the repayment of \$8,000 from several federal programs in fiscal year 2005.

Note 6 - Significant Assumptions for Expenditures and Other Financing Uses

A. - Personal Services

Personal service expenditures represent the salaries and wages paid to certified, classified and administrative staff, substitutes, and board members. In addition to regular salaries, it includes payment for supplemental contracts, severance pay and payment in lieu of benefits. All employees receive their compensation on a bi-weekly basis. The certified, including administrative staff, and classified levels are currently at 94 full-time equivalents and are expected to remain at this level during the forecast period. A comparison of staffing levels is presented below:

	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005
General Fund:				
Certified	55	55	55	51
Classified	28	29	25	28
Total General Fund	<u>83</u>	<u>84</u>	<u>80</u>	<u>79</u>
Other Funds:				
Certified	11	7	9	10
Classified	8	4	12	5
Total Other Funds	<u>19</u>	<u>11</u>	<u>21</u>	<u>15</u>
Totals	<u><u>102</u></u>	<u><u>95</u></u>	<u><u>101</u></u>	<u><u>94</u></u>

Certified (teaching) staff salaries are based on a negotiated contract which includes step increases and educational incentives. Classified staff salaries are also based on a negotiated contract which includes step increases. The contracts cover the period from July 1, 2003, to June 30, 2005. Both certified and classified contracts include a two percent base salary increase for only 2004 and a three percent step increase for each year of the contract. Administrative salaries are set by the Board of Education and were increased by two percent in fiscal year 2004, and no increase in fiscal year 2005 is anticipated.

The School District offers severance pay to its retiring employees of one-fourth of their accumulated sick leave to a maximum of 240 days, depending on years of service. Severance payments are anticipated to decrease in fiscal year 2005 because of the retirement of fewer staff members.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

Personal services for fiscal year 2005 are forecasted to decrease from fiscal year 2004 by \$62,000. Severance payments for fiscal year 2004 were much higher than normal because severance payments for fiscal years 2003 and 2004 were delayed until fiscal year 2004. Fiscal year 2005 severance payments only reflect retirements for fiscal year 2005. In addition, there is only one anticipated retirement for fiscal year 2005. General fund salaries were also reduced as a result of three employees that retired at the end of fiscal year 2004, of which two were replaced by new employees at a lower rate of pay and one not replaced.

Presented below is a comparison of personal services expenditures for fiscal year 2005.

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecast Fiscal Year 2005
Certified Salaries	\$2,012,000	\$2,004,000	\$1,896,000	\$1,891,000
Classified Salaries	535,000	510,000	470,000	493,000
Substitute Salaries	94,000	87,000	92,000	80,000
Supplemental Contracts	51,000	57,000	62,000	72,000
Severance Pay	30,000	19,000	98,000	19,000
Other Salaries and Wages	14,000	24,000	27,000	28,000
Totals	<u>\$2,736,000</u>	<u>\$2,701,000</u>	<u>\$2,645,000</u>	<u>\$2,583,000</u>

B. - Employees' Retirement/ Benefits

Employees' retirement and benefits include employer contributions to the State pension systems, medicare, workers' compensation, health care, and other insurance benefits arising from the negotiated agreements.

Retirement costs are based on the employers' contribution rate of 14 percent of the salaries for STRS and SERS members. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from over/under estimates are prorated over the next calendar year.

Medicare benefits are based on the employers' rate of 1.45 percent of the payroll costs for contributing staff.

Workers' compensation premiums are based on the School District's premium rate and the anticipated salaries for the fiscal year. Premiums are anticipated to increase for fiscal year 2005 due to School District losing the preferred group rating as a result of encountering a large number of claims during calendar year 2004. The increase will be partially offset by the 20 percent premium reduction. The premium reduction has decreased from 75 percent in fiscal year 2002 to 50 percent in fiscal year 2003 and 20 percent in fiscal year 2004.

Health care costs are based on the coverage terms of the existing health insurance contracts, the anticipated number of employees participating in the program, and the monthly premiums. The School District participates in a traditional health plan. The School District pays 99 percent of the premiums and employees pay the remaining one percent. Effective August 1, 2004, the School District changed health care providers from Medical Mutual of Ohio to Anthem for fiscal year 2005. This will result in a reduction of health insurance premiums. Based on actual fiscal year 2005 premium payments, the School District will experience a decrease of 8.3 percent in health insurance premiums and a 13 percent decrease in dental insurance premiums during fiscal year 2005.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

Presented below is a comparison of fiscal year 2005:

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecasted Fiscal Year 2005
STRS Retirement	\$281,000	\$323,000	\$270,000	\$252,000
SERS Retirement	85,000	90,000	92,000	82,000
SERS Surcharge	7,000	7,000	7,000	14,000
Medicare/Workers' Compensation	22,000	32,000	40,000	67,000
Health Insurance	786,000	1,032,000	892,000	820,000
Other Employee Insurances	75,000	82,000	78,000	70,000
Totals	\$1,256,000	\$1,566,000	\$1,379,000	\$1,305,000

C. - Purchased Services

Presented below is a comparison of forecasted purchased service expenditures for fiscal years 2005.

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecasted Fiscal Year 2005
Professional and Technical Services	\$58,000	\$30,000	\$49,000	\$64,000
Property Services	61,000	78,000	91,000	81,000
Travel and Meeting Expenses	11,000	15,000	12,000	12,000
Communication Costs	24,000	28,000	22,000	22,000
Utility Services	112,000	163,000	169,000	169,000
Tuition Payments	12,000	15,000	13,000	14,000
Pupil Transportation	14,000	9,000	3,000	3,000
Open Enrollment	0	0	0	240,000
Other Purchased Services	0	1,000	1,000	1,000
Totals	\$292,000	\$339,000	\$360,000	\$606,000

The increase of purchased services from fiscal year 2004 to fiscal year 2005 of \$246,000 is primarily due to the School District recording open enrollment expenditures under purchased services rather than other objects as in previous fiscal years. In addition, the School District will be paying legal fees for negotiations with both certified and classified employee bargaining units. The increase in legal fees is offset by the School District switching its property and fleet insurance provider with a savings of \$10,000.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

D. - Supplies and Materials

Presented below is a comparison of forecasted supplies and materials expenditures for fiscal years 2005.

	Actual Fiscal Year 2002	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Forecasted Fiscal Year 2005
General Supplies	\$51,000	\$67,000	\$40,000	\$42,000
Operations, Maintenance and Repair	73,000	70,000	111,000	110,000
Textbooks, Library Books and Periodicals	89,000	54,000	31,000	15,000
Totals	<u>\$213,000</u>	<u>\$191,000</u>	<u>\$182,000</u>	<u>\$167,000</u>

The decrease of \$15,000 in expenditures for textbooks, library books and periodicals is due to the School District buying a limited number of textbooks in fiscal year 2005. The School District purchased a large amount of textbooks during fiscal years 2002 through 2004. In addition, there is a decrease in the amount of library books that are anticipated to be purchased.

E. - Capital Outlay

Property, plant and equipment acquired or constructed for general governmental services are recorded as expenditures. Depreciation is not recorded for these general fixed assets as the purpose of the financial statements is to report the expenditure of resources, not costs. Capital Outlay is anticipated to increase in fiscal year 2005 due to the purchase of a school bus and a maintenance truck. The School District has not purchased a school bus in the last two fiscal years.

F. - Debt Service

General fund supported debt consists of solvency assistance fund advances, an asbestos abatement loan, and energy conservation notes. The solvency assistance fund advance from fiscal year 2003 will be repaid during fiscal year 2005. The solvency assistance fund advance from fiscal year 2004 will be repaid during fiscal years 2005 and 2006. The asbestos loan will reach final maturity in fiscal year 2013, and the energy conservation notes will reach final maturity in fiscal year 2005. The forecasted changes in the general fund obligations for fiscal year 2005 are as follows:

	Interest Rate	Balance 6/30/2004	Retired	Estimated Balance 6/30/2005
State Solvency Assistance Advance 2003	0.00%	333,000	333,000	0
State Solvency Assistance Advance 2004	0.00%	671,000	336,000	335,000
Energy Conservation Note 1995	5.75%	55,000	55,000	0
Asbestos Abatement Loan 1995	0.00%	112,000	12,000	100,000
Total		<u>\$1,171,000</u>	<u>\$736,000</u>	<u>\$435,000</u>

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

G. - Other Objects

Other objects include dues, fees, liability insurance, and county educational service center costs. For fiscal year 2005, the School District is forecasting a decrease of \$175,000 in other objects due to the following:

- For fiscal year 2005, the School District is recording gross open enrollment expenditures as a purchased service. In previous fiscal years, the School District recorded these expenditures in other objects net of open enrollment revenues.
- An increase of \$68,000 in county educational service center costs due to the addition of a speech language pathologist and increases in the costs of other services provided by the educational service center. In addition, county educational service center foundation deductions will be reflected as other objects rather than as a reduction of unrestricted grants in aid as in previous years.
- A decrease of \$3,000 in county auditor and treasurer fees based on a three year average.

H. – Interfund Transactions

The School District expects to make a transfer from the general fund to the lunchroom fund in the amount of \$24,000 during fiscal year 2005. The School District does not anticipate making any advances from the general fund during the forecast period.

The School District made an \$85,000 transfer from the general fund to the classroom facilities fund during fiscal year 2004 for renovations to the high school which are complete. The School District also made \$24,000 transfer to the lunchroom fund in fiscal year 2004 to cover the operating deficit at fiscal year end. The School District made \$8,000 in advances to federal programs resulting from the provision of cash flow resources from the General Fund until the receipt of grant monies.

Note 7 - Encumbrances

Encumbrances represent purchase authorizations and contracts for goods or services that are pending vendor performance and those purchase commitments which have been performed, invoiced, and are awaiting payment. Encumbrances on a budget basis of accounting are treated as the equivalent of an expenditure at the time authorization is made in order to maintain compliance with spending restrictions established by Ohio law. For presentation in the forecast, outstanding encumbrances are presented as a reduction of the general fund balance.

Historically, the School District has very limited encumbrances at the end of a fiscal year. The amount forecasted for fiscal year 2005 is \$24,000. This amount represents \$12,000 in purchased services, \$9,000 in supplies and \$3,000 in capital outlay.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

Note 8 - Reservations of Fund Balance

The School District is required by State statute to annually set aside in the general fund three percent of certain revenues for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in the future years.

A. - Textbooks and Instructional Materials

The set aside amount for fiscal year 2005 is \$91,000. Qualifying expenditures in the amount of \$80,000 are anticipated; therefore, an \$11,000 increase in the reserve balance is anticipated. The School District had a carryover textbook setaside of \$10,000 at June 30, 2004.

B. - Capital Acquisition and Improvements

The set aside amount for fiscal year 2005 is \$91,000. The School District has offsets in excess of the required setaside, therefore, no reserve is anticipated.

C. - Disadvantaged Pupil Impact Aid (DPIA)

The School District anticipates receiving \$351,000 in restricted DPIA monies during fiscal year 2005. The School District also anticipates spending \$351,000 in the current fiscal year. Therefore, no reserve is anticipated at June 30, 2004.

Note 9 - Levies

In fiscal year 2004, the School District was successful in renewing a 4 mill operating levy. The School District does not plan to place any levies on the ballot during fiscal year 2005. In the past ten years, the School District has placed several levies on the ballot. The type of levy, rate, term, and election results are as follows:

<u>Date</u>	<u>Type</u>	<u>Amount</u>	<u>Term</u>	<u>Election Results</u>
May 1994	Operating	4 mills	Continuing	Failed
November 1994	Operating	4 mills	3 Years	Passed
March 1996	Bond Issue	5.6 mills	23 Years	Failed
August 1996	Bond Issue	4.92 mills	23 Years	Failed
November 1997	Operating/Renewal	4 mills	3 Years	Passed
May 1998	Bond Issue	4.89 mills	23 Years	Passed
November 2000	Operating/Renewal	4 mills	3 Years	Passed
November 2003	Operating/Renewal	4 mills	3 Years	Passed

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2005

Note 10 - Pending Litigation

The School District's management is of the opinion that there are no issues that would have a material effect on the financial forecast.

Note 11 - State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

Note 12 – Financial Planning and Supervision Commission

On November 8, 1999, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District's declining financial condition. In accordance with the law, a five-member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction, the School District Superintendent, State Director of Budget and Management, the Meigs County Auditor, an appointee of the Superintendent of Public Instruction, and an appointee of the Governor.

The Commission's primary charge is to develop, adopt and implement a financial recovery plan. The original recovery plan was adopted on March 21, 2000. State law requires the plan to be updated annually. The last update was approved on October 17, 2003, for the fiscal year ending June 30, 2004. The update included staff reductions and replacements with an estimated savings of \$265,000, the elimination of the transfer from the general fund to the food service fund, and certain other changes. Although lunch prices were increased to help eliminate the transfer, an increase in operating expenses is forecasted to result in a \$24,000 transfer from the general fund to the lunchroom fund. The plan also identified the elimination of the restrictions on the use of State parity aid in the amount of \$150,000. The Board and the Commission have not yet taken any action to revise the recovery plan for fiscal years 2005 and beyond.



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SOUTHERN LOCAL SCHOOL DISTRICT

MEIGS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED

MARCH 1, 2005