



**Auditor of State
Betty Montgomery**

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

**Financial Forecast
For the Fiscal Year Ending June 30, 2006**

Local Government Services Division

Southern Local School District
Meigs County

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**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 \$41,000 for the fiscal year ending June 30, 2006.

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 2006.

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

April 20, 2006



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, 2006. 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 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 2005, and has not requested voter approval for additional general fund operating levies. Management's plans in regards to 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, 2003, June 30, 2004, and June 30, 2005, 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

March 27, 2006

Southern Local School District
Statement of Revenues, Expenditures and Changes in Fund Balance
For The Fiscal Years Ended June 30, 2003, 2004 and 2005 Actual;
Fiscal Year Ending June 30, 2006 Forecasted
General Fund

	Fiscal Year 2003 Actual	Fiscal Year 2004 Actual	Fiscal Year 2005 Actual	Fiscal Year 2006 Forecasted
Revenues				
General Property Tax	\$1,234,000	\$1,309,000	\$1,335,000	\$1,377,000
Tangible Personal Property Tax	90,000	76,000	61,000	49,000
Unrestricted Grants-in-Aid	3,101,000	3,301,000	3,379,000	3,701,000
Restricted Grants-in-Aid	606,000	413,000	431,000	433,000
Property Tax Allocation	132,000	135,000	150,000	140,000
All Other Revenues	59,000	193,000	181,000	206,000
Total Revenues	5,222,000	5,427,000	5,537,000	5,906,000
Other Financing Sources				
Solvency Assistance Advance	665,000	671,000	291,000	0
Proceeds from Sale of Notes	0	0	351,000	350,000
Transfers In	0	1,000	0	0
Advances In	39,000	0	0	55,000
Total Other Financing Sources	704,000	672,000	642,000	405,000
Total Revenues and Other Financing Sources	5,926,000	6,099,000	6,179,000	6,311,000
Expenditures				
Personal Services	2,701,000	2,645,000	2,575,000	2,619,000
Employees' Retirement/Insurance Benefits	1,566,000	1,379,000	1,265,000	1,318,000
Purchased Services	339,000	360,000	589,000	722,000
Supplies and Materials	191,000	182,000	194,000	321,000
Capital Outlay	105,000	26,000	71,000	128,000
Debt Service:				
Principal - Asbestos Loan	12,000	12,000	12,000	12,000
Principal - Tax Anticipation Loan	0	0	351,000	350,000
Principal - Solvency Assistance Advances	594,000	543,000	668,000	481,000
Principal - HB 264 Energy Conservation Note	50,000	50,000	55,000	0
Interest and Fiscal Charges	9,000	6,000	8,000	9,000
Other Objects	545,000	570,000	438,000	470,000
Total Expenditures	6,112,000	5,773,000	6,226,000	6,430,000
Other Financing Uses				
Operating Transfers Out	73,000	109,000	9,000	30,000
Advances Out	0	8,000	55,000	0
Total Other Financing Uses	73,000	117,000	64,000	30,000
Total Expenditures and Other Financing Uses	6,185,000	5,890,000	6,290,000	6,460,000
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(259,000)	209,000	(111,000)	(149,000)
Cash Balance July 1	288,000	29,000	238,000	127,000
Cash Balance June 30	29,000	238,000	127,000	(22,000)
Less Encumbrances and Reserves:				
Encumbrances at June 30	8,000	24,000	15,000	15,000
Textbook and Instructional Materials	0	10,000	0	0
Bus Purchase	0	0	38,000	4,000
Total Encumbrances and Reservations of Fund Balance	8,000	34,000	53,000	19,000
Unencumbered/Unreserved Fund Balance (Deficit) June 30	\$21,000	\$204,000	\$74,000	(\$41,000)

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, 2006

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 68 certificated employees and 32 non-certificated employees who provide services to 745 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 March 27, 2006, 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 poverty based assistance fund, disadvantaged pupil impact aid (DPIA) fund and general fund supported debt are included in 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 required budget (non-GAAP) basis of accounting use 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, 2006

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 Fund - 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 resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated.

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.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2006

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 – 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, and tangible personal property taxes. Property taxes are collected for, and distributed to, the school districts of the county by the Meigs County Auditor and Treasurer. The School District may request advances 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 amounts shown in the revenue section of the forecast represent gross property tax revenue.

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. Property taxes include amounts levied against all real, public utility, and tangible personal property located in the School District. Property tax revenue received during calendar year 2005 for real and public utility property taxes represents collections of calendar year 2004 taxes. Property tax payments received during calendar year 2005 for tangible personal property (other than public utility property) are for calendar year 2005 taxes. First half calendar year tax collections are received by the School District in the second half of the fiscal year. Second half calendar year tax distributions occur in the first half of the following fiscal year.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2006

State law allows for certain reductions in the form of rollbacks and homestead exemptions for real estate taxes. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is presented in the account "property tax allocation". Beginning in calendar year 2006, the State eliminated the ten percent rollback on commercial and industrial property. This change will increase real property taxes collected against commercial and industrial real property and decrease property tax allocation revenue.

The forecast excludes the receipt of any advances against fiscal year 2007 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. The forecasted operating deficit may be reduced to the extent advances are received prior to June 30, 2006 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 2006.

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 valuation)
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			<u>\$27.00</u>

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 project. The School Districts total rate is \$31.89 per \$1,000 of valuation.

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 voted levies so that each levy yields the same amount of property taxes as in the year in which the levy was approved. For all voted levies except emergency and debt levies, increases to revenues are restricted to amounts generated from new construction. Emergency and debt levies are intended to generate a set revenue amount annually; the revenue generated by emergency and debt levies is not affected by changes in property valuation. The reduction factors are computed annually and applied separately for residential/agricultural property and commercial/industrial property. Reduction factors are not applied to inside millage (an unvoted levy) and tangible personal property levy rates. The effective residential and agricultural real property tax rate is \$20.00 per \$1,000 of assessed valuation and the effective commercial and industrial real property tax rate is \$23.70 per \$1,000 of assessed valuation for the collection year 2006.

General Property Tax - The general property tax revenue account appearing on the Statement includes real estate taxes, public utility property taxes, and manufactured home taxes. The general property tax revenue estimate is based upon actual receipts and information provided by the Meigs County Auditor's office. The School District anticipates an increase of \$42,000 from the prior fiscal year based on actual settlements received in fiscal year 2006.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2006

Tangible Personal Property Tax – Tangible personal property taxes have undergone many changes in the past several years. Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25 percent. Starting in tax year 2005, the assessment rate for personal property owned by telephone utilities prior to 1995 was being phased down from 88 percent to 25 percent (in tax year 2007) over a three-year period. Effective for tax years 2005 and 2006, the assessment rate on business inventory, currently at 23 percent, was to be reduced by two percent if the total statewide collections of personal property taxes for the second preceding year exceed the total statewide collections of property taxes for the third preceding year. Effective for tax years 2007 and beyond, the assessment rate for inventory was to be reduced by two percent per year until it was completely phased out regardless of the growth in collections.

Beginning in 2006, HB 66 will phase out by 25 percent each year tangible personal property tax on most business inventory, manufacturing machinery and equipment, and furniture and fixtures. This change supersedes the changes and phase out periods addressed above. No tangible personal property taxes will be levied or collected in 2009. Most new manufacturing machinery and equipment that would have been first taxable in tax year 2006 and thereafter will not be subject to any tangible personal property tax. The School District, based on the 2004 calendar year tangible personal property tax collections, will lose \$67,000 when the tangible personal property tax is completely phased out in 2009. The State of Ohio will reimburse the School District for the loss of tangible personal property taxes as a result of the changes in HB 66 within certain limitations (see Property Tax Allocation below).

Tangible personal property tax is applied to property used in business (except for public utilities). Tangible personal property tax revenues are based upon information provided by the Meigs County Auditor. Based upon these estimates, the School District anticipates a decrease of \$12,000 from the previous fiscal year. Tangible personal property tax revenues include the actual settlement for October 2005. This settlement represents 90 percent of the tangible personal property tax revenue for the School District. The effect of the tax changes on the June 2006 personal property settlement will not be significant to the personal property tax revenue for fiscal year 2006. The decrease in revenue for the forecast period compared to the prior fiscal year is due to the phase out of taxable personal property tax.

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, which are provided to address certain policy issues or correct flaws in formula aid 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 regional cost of doing business factor is being phased out over a three-year period through fiscal year 2008. The per pupil foundation level has been set by the State Legislature as follows:

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2006

Fiscal Year	Per Pupil Foundation Level
2003	\$4,949
2004	5,058
2005	5,169
2006	5,283

The anticipated state foundation revenue for fiscal year 2006 is based on current estimates provided by the Ohio Department of Education on the February 2, 2006, SF-3. Unrestricted grants-in-aid revenue is summarized as follows:

	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Forecasted Fiscal Year 2006	Variance Increase (Decrease)
Formula Aid	\$2,322,000	\$2,338,000	\$2,231,000	\$2,384,000	\$153,000
Categorical Funding	242,000	225,000	228,000	318,000	90,000
Charge-Off Supplement	127,000	190,000	232,000	192,000	(40,000)
Transportation	224,000	227,000	193,000	197,000	4,000
Excess Cost	81,000	76,000	93,000	141,000	48,000
Parity Aid	198,000	280,000	349,000	406,000	57,000
Foundation Adjustments	(73,000)	(71,000)	(1,000)	13,000	14,000
County Board Deduction	(92,000)	(18,000)	0	0	0
Utility Deregulation	72,000	54,000	54,000	50,000	(4,000)
Totals	\$3,101,000	\$3,301,000	\$3,379,000	\$3,701,000	\$322,000

Formula Aid and categorical funding are anticipated to increase due to an increase in per pupil funding and an increase of 17.1 in ADM. Parity aid continues its phase in with the percentage of the distribution going from 58 percent in fiscal year 2004 to 76 percent in fiscal year 2005, and to 100 percent in fiscal year 2006.

The intent of the charge-off supplement is to fill any gap that exists between the local revenue raised by a district and the amount the foundation formula assumes the 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.

The excess cost supplement aid establishes a 3.3-mill limit on the district's share of combined funding for special education, vocational education and transportation. If the assumed local share of special and vocational weighted aid plus the assumed local share of transportation exceeds 3.3 mills times the district's recognized valuation, the state pays the difference in excess cost supplement aid.

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 in February and August and are identified as Utility Deregulation payments.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2006

C. - Restricted Grants-in-Aid

Restricted grants-in-aid consist of the bus purchase allowance, career tech monies and Poverty Based Assistance/DPIA monies. The anticipated revenue for restricted grants-in-aid for fiscal year 2006 is based on estimates obtained from the Ohio Department of Education. For fiscal year 2006, the School District anticipates \$4,000 in bus purchase allowance monies, \$74,000 in career tech monies and \$355,000 in Poverty Based Assistance monies which replaced the DPIA program. Although career tech and Poverty Based Assistance/DPIA monies are increasing by \$7,000; this increase is offset by a decrease of \$5,000 in bus purchase monies.

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. Beginning in 2006, the State eliminated the ten percent rollback credit on commercial and industrial real properties.

Beginning in fiscal year 2006, the State will reimburse the School District for lost revenue due to the phase out of tangible personal property tax. In the first five years, the School District will be fully reimbursed relative to prior law for revenue lost due to the taxable value reductions prescribed by HB 66. Over the next seven years, the reimbursements are phased out. The reimbursement will be for the difference between the assessment values under prior law and the assessment values under HB 66. This means the School District is only reimbursed for the difference between prior law and the phase-outs in HB 66.

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 began phasing out the reimbursement by 10 percent each year. Under HB 66, the phase-out period has been accelerated. The last reimbursement for this exemption will be in October 2008.

Property tax allocation revenue, based on information provided by the Meigs County Auditor, is anticipated to decrease by \$10,000 for fiscal year 2006 due to the School District receiving a late settlement from 2003 manufactured homes in fiscal year 2005 and the loss of the reimbursement on the rollback on commercial and industrial property.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2006

E. - All Other Revenues

Presented below is a comparison of all other revenue for the last three fiscal years and the forecast period:

	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Forecasted Fiscal Year 2006	Variance Increase (Decrease)
Interest	\$9,000	\$2,000	\$5,000	\$4,000	(\$1,000)
Classroom Materials and Fees	8,000	8,000	11,000	8,000	(3,000)
Tuition	3,000	1,000	0	1,000	1,000
Open Enrollment	0	128,000	137,000	183,000	46,000
Miscellaneous	39,000	54,000	28,000	10,000	(18,000)
Totals	\$59,000	\$193,000	\$181,000	\$206,000	\$25,000

The School District estimates that in fiscal year 2006, all other revenues, which includes tuition, open enrollment, interest on investments, fees and miscellaneous receipts, will increase \$25,000. 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. Open enrollment revenues are increasing due to an increase of 8.4 students coming into the School District and an increase in the per pupil formula level.

F. – Other Financing Sources

During fiscal year 2005, the School District issued \$351,000 tax anticipation notes. The notes were repaid during fiscal year 2005. The School District received \$291,000 in a State solvency assistance advance during fiscal year 2005. The advance will be repaid without interest over two fiscal years beginning in fiscal year 2006. On December 7, 2005, the School District issued a \$350,000, 4.75 percent tax anticipation note which will be repaid during fiscal year 2006. The general fund is forecasting the return of advances made in fiscal year 2005 from several state and federal grant funds in the amount of \$55,000.

Note 7 - 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 expected to remain at 100 full-time equivalents during the forecast period. A comparison of staffing levels is presented below:

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2006

	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006
General Fund:				
Certified	55	55	53	53
Classified	29	25	26	26
Total General Fund	<u>84</u>	<u>80</u>	<u>79</u>	<u>79</u>
Other Funds:				
Certified	7	9	8	7
Classified	4	12	7	8
Total Other Funds	<u>11</u>	<u>21</u>	<u>15</u>	<u>15</u>
Totals	<u><u>95</u></u>	<u><u>101</u></u>	<u><u>94</u></u>	<u><u>94</u></u>

Certified (teaching) staff salaries are based on a negotiated contract which includes two percent 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, 2005 to June 30, 2008. No pay increases are expected for administrators in fiscal year 2006.

The School District offers severance pay to its retiring employees of one-fourth of their accumulated sick leave to a maximum accumulation of 240 days, depending on years of service. No severance payments are expected in fiscal year 2006.

Salaries for fiscal year 2006 are forecasted to increase from fiscal year 2005 by \$44,000 due primarily to the School District paying salaries to both the Treasurer, who was on sick leave, and the interim Treasurer. In fiscal year 2005, three new custodians were hired half way through the year that were previously being paid from the substitute object. These employees are all full time employees in fiscal year 2006. Other salaries and wages are increasing due to the Assistant to the Treasurer working ten overtime hours per week to perform computer functions that the previous Treasurer performed.

Presented below is a comparison of salaries and wages for the last three fiscal years and the forecast period.

	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Forecast Fiscal Year 2006	Variance Increase (Decrease)
Certified Salaries	\$2,004,000	\$1,896,000	\$1,905,000	\$1,889,000	(\$16,000)
Classified Salaries	510,000	470,000	454,000	556,000	102,000
Substitute Salaries	87,000	92,000	127,000	77,000	(50,000)
Supplemental Contracts	57,000	62,000	59,000	61,000	2,000
Severance Pay	19,000	98,000	0	0	0
Other Salaries and Wages	24,000	27,000	30,000	36,000	6,000
Totals	<u><u>\$2,701,000</u></u>	<u><u>\$2,645,000</u></u>	<u><u>\$2,575,000</u></u>	<u><u>\$2,619,000</u></u>	<u><u>\$44,000</u></u>

B. - Employees' Retirement/Insurance Benefits

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

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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 2006 due to School District experiencing an increase in the premium rate and the elimination of rebates received in prior years.

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. This resulted in a reduction of health insurance premiums. The School District will experience an increase in health insurance costs due to two additional employees electing family coverage in fiscal year 2006. The School District anticipates a decrease in vision insurance premiums due to a 49 percent rate decrease in fiscal year 2006.

Presented below is a comparison for the last three fiscal years and the forecast period:

	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Forecasted Fiscal Year 2006	Variance Increase (Decrease)
STRS Retirement	\$323,000	\$270,000	\$264,000	\$291,000	\$27,000
SERS Retirement	90,000	92,000	81,000	77,000	(4,000)
SERS Surcharge	7,000	7,000	14,000	17,000	3,000
Medicare/Workers' Compensation	32,000	40,000	62,000	71,000	9,000
Health Insurance	1,032,000	892,000	773,000	799,000	26,000
Other Employee Insurances	82,000	78,000	71,000	63,000	(8,000)
Totals	<u>\$1,566,000</u>	<u>\$1,379,000</u>	<u>\$1,265,000</u>	<u>\$1,318,000</u>	<u>\$53,000</u>

An increase in surcharge costs of \$3,000 is anticipated due to the School District changing from paying through monthly foundation deductions to paying the surcharge in one lump sum. The second half of the fiscal year 2004 surcharge of \$7,000 was paid through foundation deductions appearing on the July-December 2005 settlements and the fiscal year 2005 surcharge of \$10,000 was paid in one lump sum on October 21, 2005.

Southern Local School District
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C. - Purchased Services

Presented below are the purchased service expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Forecasted Fiscal Year 2006	Variance Increase (Decrease)
Professional and Technical Services	\$30,000	\$49,000	\$53,000	\$64,000	\$11,000
Property Services	78,000	91,000	64,000	83,000	19,000
Travel and Meeting Expenses	15,000	12,000	10,000	10,000	0
Communication Costs	28,000	22,000	22,000	29,000	7,000
Utility Services	163,000	169,000	182,000	201,000	19,000
Tuition Payments	15,000	13,000	11,000	31,000	20,000
Pupil Transportation	9,000	3,000	0	4,000	4,000
Open Enrollment	0	0	246,000	299,000	53,000
Other Purchased Services	1,000	1,000	1,000	1,000	0
Totals	\$339,000	\$360,000	\$589,000	\$722,000	\$133,000

The \$11,000 increase in professional and technical services is due to increased legal costs relating to the negotiation of new contracts. Property services will increase by \$19,000 due to an increase in maintenance contracts and the \$19,000 increase in utility services is due to an increase in electricity and heating costs. Open enrollment costs rose due to an increase of 8.2 students leaving the School District and an increase in per pupil funding.

D. - Supplies and Materials

Presented below are the supplies and materials expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2003	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Forecasted Fiscal Year 2006	Variance Increase (Decrease)
General Supplies	\$67,000	\$40,000	\$57,000	\$71,000	\$14,000
Operations, Maintenance and Repair Textbooks, Library Books and Periodicals	70,000	111,000	102,000	182,000	80,000
	54,000	31,000	35,000	68,000	33,000
Totals	\$191,000	\$182,000	\$194,000	\$321,000	\$127,000

The School District will buy new textbooks in fiscal year 2006. The increase in operations, maintenance and repair supplies is due to an anticipated increase of \$56,000 for fuel for the buses and an increase of \$23,000 in maintenance supplies. General supplies are also increasing based on what the School District has already spent in fiscal year 2006.

E. - Capital Outlay

The acquisition or construction of property, plant and equipment used for general governmental services is recorded as an expenditure. Capital Outlay is anticipated to increase in fiscal year 2006 due to the purchase of a new school bus. The School District has not purchased a school bus in the last three fiscal years.

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F. - Debt Service

General fund supported debt consists of solvency assistance fund advances, an asbestos abatement loan, and a tax anticipation note. The solvency assistance fund advance from fiscal year 2004 will be repaid during fiscal year 2006. The solvency assistance fund advance from fiscal year 2005 will be repaid during fiscal years 2006 and 2007. The asbestos loan will reach final maturity in fiscal year 2013, and the tax anticipation note will be repaid within fiscal year 2006. The forecasted changes in the general fund obligations for fiscal year 2006, excluding the tax anticipation notes which are issued and repaid in the same fiscal year, are as follows:

	Interest Rate	Balance 6/30/2005	Retired	Estimated Balance 6/30/2006
State Solvency Assistance Advance 2004	0.00%	336,000	336,000	0
State Solvency Assistance Advance 2005	0.00%	291,000	145,000	146,000
Asbestos Abatement Loan 1995	0.00%	89,000	12,000	77,000
Total		<u>\$716,000</u>	<u>\$493,000</u>	<u>\$223,000</u>

G. - Other Objects

Other objects include dues, fees, liability insurance, and county educational service center costs. For fiscal year 2006, the School District is forecasting an increase of \$32,000 in other objects due to the following:

- An increase of \$40,000 in foundation adjustments;
- An increase of \$3,000 in additional costs for the compilation of the School District's modified cash statements;
- An increase in memberships and dues of \$4,000 based on disbursements already made in fiscal year 2006; and,
- A decrease of \$21,000 in costs due to the Athens-Meigs Educational Service Center based on estimates provided by the ESC Treasurer.
- An increase of \$6,000 in County Auditor and Treasurer Fees.

H. - Other Financing Uses

The School District expects to make a transfer from the general fund to the lunchroom fund in the amount of \$30,000 during fiscal year 2006. The School District does not anticipate making any advances from the general fund during the forecast period.

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Note 8 - Encumbrances

Encumbrances represent purchase authorizations and contracts for goods or services that are pending vendor performance and those purchase commitments which have been performed 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 had very few encumbrances at the end of a fiscal year. The amount forecasted for fiscal year 2006 is \$15,000. This amount represents \$13,000 in purchased services, \$1,000 in supplies and \$1,000 in other objects.

Note 9 - 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 future years.

Beginning in fiscal year 2006, HB 66 allows school districts in fiscal emergency to set aside less than the annual required set aside amount or set aside nothing in the textbook and instruction materials and the capital and maintenance set aside funds. The Board of Education, by resolution, has chosen to set aside no current year revenue in the textbook and instructional materials and the capital and maintenance set asides for the current fiscal year.

The School District had no set aside reserves at the June 30, 2005 and there will be no reserves at June 30, 2006.

Poverty Based Assistance/Disadvantaged Pupil Impact Aid (DPIA)

At June 30, 2005, the School District had \$64,714 in unspent DPIA monies which were spent in fiscal year 2006. The School District anticipates receiving \$355,000 in restricted Poverty Based Assistance monies during fiscal year 2006 and having \$355,000 in Poverty Based Assistance expenditures during the current fiscal year. Therefore, no reserve for Poverty Based Assistance is forecasted.

Bus Purchases

At June 30, 2005, the School District had \$38,000 in unspent bus monies. The School District received \$4,000 in a bus purchase allowance during fiscal year 2006. The School District anticipates purchasing a new public school bus during the current fiscal year using the \$38,000 in unspent bus monies at June 30, 2005. A reserve amount of \$4,000 is forecasted for bus purchases at fiscal year-end.

Southern Local School District
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Note 10 - Levies

In fiscal year 2006, the School District was not successful in passing a one mill permanent improvement levy. The School District placed the November 2003 Operating/Renewal levy on the May, 2006 ballot. 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:

Date	Type	Amount	Term	Election Results
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	\$4,042,000	23 Years	Passed
November 2000	Operating/Renewal	4 mills	3 Years	Passed
November 2003	Operating/Renewal	4 mills	3 Years	Passed
November 2005	Permanent Improvement	1 mill	2 Years	Failed

Note 11 - 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 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, the 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. Once the plan has been adopted, the Board of Education's discretion is limited in that all financial activity of the School District must be in accordance with the 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 the elimination of the transfer from the general fund to the lunchroom fund. Although staff reductions have taken place, the School District has been unable to eliminate the transfer. The Board and the Commission have not yet taken any action to revise the recovery plan since October 17, 2003.

Southern Local School District
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Summary of Significant Forecast Assumptions and Accounting Policies
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Note 13 - Information Related to Periods Beyond the Forecast Period

Management is required to annually prepare and file a five-year financial plan with the Ohio Department of Education. The financial plan for the fiscal years 2006 through 2010 was filed on November 7, 2005. Management believes that the following information, although it does not constitute a financial forecast, is necessary in order for users to make a meaningful analysis of the forecast results. The financial plan assumes the continued operation of the School District with no significant increases in revenues. The plan makes no assumptions about fiscal year 2007 through 2010. The operating deficit increases from \$582,000 for fiscal year 2007 to \$737,000 for fiscal year 2010.

The information presented in this note is less reliable than the information presented in the financial forecast and, accordingly, is presented for information purposes only. Furthermore, there can be no assurance that events and circumstances described in this note will occur.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**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
APRIL 20, 2006**