

Southern Local School District

Perry County, Ohio

Single Audit

July 1, 2006 through June 30, 2007

Fiscal Year Audited Under GAGAS: 2007



Balestra, Harr & Scherer, CPAs, Inc.

528 South West St., P.O. Box 687, Piketon, Ohio 45661 Phone: 740.289.4131 Fax: 740.289.3639



Mary Taylor, CPA
Auditor of State

Board of Education
Southern Local School District
10390 State Route 155 SE
Corning, Ohio 45730

We have reviewed the *Independent Auditor's Report* of the Southern Local School District, Perry County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 30, 2007

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Southern Local School District
Perry County, Ohio

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Balestra, Harr & Scherer, CPAs, Inc.

528 South West St., P.O. Box 687, Piketon, Ohio 45661 Phone: 740.289.4131 Fax: 740.289.3639

Independent Auditor's Report

Southern Local School District
Perry County
10390 State Route 155 SE
Corning, Ohio 45730

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Perry County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information of Southern Local School District, Perry County, as of June 30, 2007, and the respective changes in cash basis financial position and respective budgetary comparison for the General and Classroom Maintenance Funds thereof for the year then ended in conformity with the accounting basis described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of federal awards expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of federal awards expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

September 21, 2007

Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

The discussion and analysis of Southern Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007, within the limitations of the School District's cash basis of accounting. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

HIGHLIGHTS

Key financial highlights for the fiscal year 2007 are as follows:

- Net assets of governmental activities increased \$158,412.
- General Cash receipts accounted for \$6,176,259 or 63% of all cash receipts. Program cash receipts in the form of charges for services, grants, and contributions, accounted for \$3,633,819 or 37% of total cash receipts of \$9,810,078.
- The School District had \$9,651,666 in cash disbursements related to governmental activities; only \$3,633,819 of these cash disbursements were offset by program specific charges for services, grants, and contributions.

USING THE BASIC FINANCIAL STATEMENTS

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the School District's cash basis of accounting.

REPORT COMPONENTS

The *Statement of Net Assets – Cash Basis* and *Statement of Activities – Cash Basis* provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specific purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the basic financial statements.

BASIS OF ACCOUNTING

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

REPORTING THE DISTRICT AS A WHOLE

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the School District did financially during 2007, within the limitations of the cash basis of accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. It is important to note that fiduciary funds are not included in these statements. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as the School District's property tax base, the condition of the School District's capital assets and infrastructure, the extent of the School District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

In the statement of net assets and the statement of activities, the School District has one type of activity; governmental.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major funds – not the District as a whole. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, the Construction Capital Projects Fund, and the Classroom Maintenance Special Revenue Fund.

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed short-term view of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be spent in the near future to finance educational programs. Since the School District is reporting on the cash basis of accounting, there are no differences in the Net Assets and fund cash balances or changes in Net Assets and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements. However, differences will be apparent when comparing gross revenues and expenses on the Fund Financial Statements to the Statement of Activities due to transfers netted on the Statement of Activities. See Note 2 to the basic financial statements in the section entitled *Government-Wide Financial Statements*.

Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Proprietary Funds Proprietary fund reporting focuses on the determination of operating receipts over (under) operating disbursements and changes in net assets. Proprietary funds are classified as enterprise or internal service and the School District only has an internal service fund which is used to account for their self-insurance program for employee dental and vision claims. This fund is reported using the cash basis of accounting.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The School District's fiduciary funds are agency funds which are used to maintain financial activity of the School District's Student Managed Activities. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2007 compared to 2006.

Table 1
Net Assets

	Governmental Activities	
	2007	2006
Assets		
Equity in Pooled Cash and Cash Equivalents	\$1,435,095	\$1,239,781
Restricted Cash and Cash Equivalents	\$114,677	\$151,579
Total Assets	1,549,772	1,391,360
Net Assets		
Restricted	979,377	1,108,676
Unrestricted	570,395	282,684
Total Net Assets	\$1,549,772	\$1,391,360

Total assets, of the District as a whole, increased \$158,412. This increase is due to cash receipts exceeding cash disbursements.

Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2007 as compared to 2006.

Table 2
 Changes in Net Assets

	Governmental Activities	
	2007	2006
Cash Receipts		
Program Cash Receipts		
Charges for Services and Sales	\$ 279,585	\$ 251,068
Operating Grants and Contributions	3,354,234	3,121,984
Total Program Cash Receipts	<u>3,633,819</u>	<u>3,373,052</u>
General Cash Receipts		
Property and Other Local Taxes	807,565	973,107
Grants and Entitlements	5,172,277	5,234,763
Investment Earnings	20,927	16,732
Miscellaneous	175,490	249,803
Total General Cash Receipts	<u>6,176,259</u>	<u>6,474,405</u>
Total Cash Receipts	<u>9,810,078</u>	<u>9,847,457</u>
Program Cash Disbursements		
Instruction:		
Regular	3,034,393	3,177,579
Special	2,157,034	2,440,907
Vocational	75,168	80,931
Support Services:		
Pupils	233,234	230,290
Instructional Staff	329,352	389,949
Board of Education	37,917	44,885
Administration	1,151,789	930,075
Fiscal	302,694	217,241
Operation and Maintenance of Plant	725,042	684,864
Pupil Transportation	640,968	624,280
Central	60,014	65,911
Operation of Non-Instructional Services	470,105	555,865
Extracurricular Activities	277,956	300,748
Capital Outlay	-	46,500
Principal Retirement	67,984	156,027
Interest and Fiscal Charges	88,016	13,885
Total Cash Disbursements	<u>9,651,666</u>	<u>9,959,937</u>
Changes in Net Assets	158,412	(112,480)
Net Assets, Beginning of Year	1,391,360	1,503,840
Net Assets, End of Year	<u>\$ 1,549,772</u>	<u>\$ 1,391,360</u>

Cash receipts decreased \$37,379. The most significant decreases were cash receipts for property taxes, grants and entitlements and miscellaneous cash receipts. The decrease in cash receipts for property taxes was due to tax bills being sent out late by the County Auditor's office, resulting in these monies not being received by the School District until after June 30, 2007. These decreases were partially offset by an increase in cash receipts for operating grants and contributions.

Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Cash disbursements decreased \$308,271. The most significant decreases were cash disbursements for regular and special instruction. These decreases were due to the elimination of several positions as part of the School District's efforts to decrease expenses. These decreases were partially offset by an increase in cash disbursements for administration support services. The decrease in principal retirement and increase in interest and fiscal charges is a result of the debt agreement on the School Improvement Advance Refunding Bonds. According to this agreement, for fiscal years 2001 through 2006, the bulk of the debt payments were allocated to the principal of the debt with a small portion being allocated to interest. Beginning in fiscal year 2007, the annual payment amount became \$140,000, with a large portion of the amount being allocated to interest and a smaller portion being allocated to the principal for the remainder of the debt obligation.

Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2007	2007	2006	2006
Program Cash Disbursements				
Instruction:				
Regular	\$3,034,393	\$2,454,727	\$3,177,579	\$2,919,663
Special	2,157,034	658,289	2,440,907	1,035,054
Vocational	75,168	74,484	80,931	80,736
Support Services:				
Pupils	233,234	222,682	230,290	223,712
Instructional Staff	329,352	179,348	389,949	245,615
Board of Education	37,917	37,575	44,885	44,777
Administration	1,151,789	852,123	930,075	708,727
Fiscal	302,694	294,249	217,241	203,813
Operation and Maintenance of Plant	725,042	691,464	684,864	657,286
Pupil Transportation	640,968	174,658	624,280	151,999
Central	60,014	55,609	65,911	57,921
Operation of Non-Instructional Services	470,105	51,557	555,865	(903)
Extracurricular Activities	277,956	135,889	300,748	56,114
Capital Outlay	-	-	46,500	46,500
Principal Retirement	67,984	67,984	156,027	156,027
Interest and Fiscal Charges	88,016	67,209	13,885	(156)
Total	<u>\$9,651,666</u>	<u>\$6,017,847</u>	<u>\$9,959,937</u>	<u>\$6,586,885</u>

THE SCHOOL DISTRICT FUNDS

The School District's governmental funds are accounted for using the cash basis of accounting. All governmental funds had total cash receipts of \$9,810,078 and cash disbursements of \$9,645,460. The most significant change in fund balance was in the General Fund.

For the General Fund, cash receipts decreased slightly from the prior year. However, cash disbursements decreased by \$401,830. The most significant decreases were in cash disbursements for regular and special instruction. These decreases were partially offset by an increase in cash disbursements for administration support services resulting in an increase in fund cash balance for the fund in the amount of \$257,015.

Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

The Construction major capital projects fund had an increase in fund balance of \$2,079. This increase is a result of interest earnings.

The Classroom Maintenance major special revenue fund had an increase in fund balance of \$23,116. This increase is primarily the result of increases in cash receipts for intergovernmental revenue which was partially offset by a decrease in cash receipts for property taxes.

General Fund Budgeting Highlights

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

During 2007, there were revisions to the General Fund budget. The decrease in the amount budgeted for cash receipts from property taxes was due to a delay in receipt of these monies until after the fiscal year end as discussed above. The decrease in appropriations for special instruction and increase in appropriations for administration support services reflects careful monitoring by the School District of expected cash receipts and disbursements as discussed above. The General fund's ending unobligated cash balance was \$432,212.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The School District does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements.

Debt

Under the cash basis of accounting the School District does not report bonds, long-term notes or short-term notes in the accompanying cash basis financial statements. However, in order to provide information to the readers of this report, we are providing the following detailed information about bonds and long-term notes. At June 30, 2007 the District had \$562,931 in bonds and notes outstanding. For additional information regarding debt, please see Note 6 to the basic financial statements.

Table 4 summarizes bonds and long-term notes outstanding for Governmental Activities for the past two years:

Table 4 Outstanding Debt at June 30 Governmental Activities		
	<u>2007</u>	<u>2006</u>
School Improvement Advance Refunding Bonds	\$389,052	\$449,995
School Facilities Improvement Notes	<u>173,879</u>	<u>180,920</u>
Totals	<u>\$562,931</u>	<u>\$630,915</u>

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Jeff Kaaz, Treasurer at Southern Local School District, 10390 St. Rt. 155 SE, Corning, Ohio 45730.

Southern Local School District, Perry County
Statement of Net Assets - Cash Basis
June 30, 2007

	Governmental Activities
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$1,435,095
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	114,677
<i>Total Assets</i>	1,549,772
NET ASSETS:	
Restricted for Debt Service	104,089
Restricted for Capital Outlay	315,116
Restricted for Classroom Maintenance	203,052
Restricted for Other Purposes	242,443
Restricted for Set-Asides	114,677
Unrestricted	570,395
<i>Total Net Assets</i>	\$1,549,772

The notes to the basic financial statements are an integral part of this statement.

Southern Local School District, Perry County
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2007

	<u>Cash</u>	<u>Program Cash Receipts</u>		<u>Net (Disbursements)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Receipts and</u>
	<u>Disbursements</u>	<u>Services and</u>	<u>Grants and</u>	<u>Changes in</u>
		<u>Sales</u>	<u>Contributions</u>	<u>Net Assets</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental Activities:				
Instruction:				
Regular	\$ 3,034,393	\$ 71,844	\$ 507,822	\$ (2,454,727)
Special	2,157,034	85,630	1,413,115	(658,289)
Vocational	75,168	684	-	(74,484)
Support Services:				
Pupils	233,234	2,794	7,758	(222,682)
Instructional Staff	329,352	14,792	135,212	(179,348)
Board of Education	37,917	342		(37,575)
Administration	1,151,789	33,675	265,991	(852,123)
Fiscal	302,694	3,131	5,314	(294,249)
Operation and Maintenance of Plant	718,602	8,752	24,826	(685,024)
Pupil Transportation	640,968	5,842	460,468	(174,658)
Central	60,014	858	3,547	(55,609)
Operation of Non-Instructional Services	470,105	37,515	381,033	(51,557)
Extracurricular Activities	277,956	13,726	128,341	(135,889)
Debt Service:				
Principal Retirement	74,424	-	-	(74,424)
Interest and Fiscal Charges	88,016	-	20,807	(67,209)
Total Governmental Activities	<u>9,651,666</u>	<u>\$ 279,585</u>	<u>\$ 3,354,234</u>	<u>(6,017,847)</u>
General Cash Receipts:				
Property Taxes Levied for:				
General Purposes				735,066
Other Purposes				6,915
Debt Service				65,584
Grants and Entitlements, Not Restricted to Specific Programs				5,172,277
Investment Earnings				20,927
Miscellaneous				175,490
Total General Cash Receipts				<u>6,176,259</u>
Change in Net Assets				158,412
Net Assets Beginning of Year				<u>1,391,360</u>
Net Assets End of Year				<u>\$ 1,549,772</u>

The notes to the basic financial statements are an integral part of this statement.

Southern Local School District, Perry County
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2007

	<u>General</u>	<u>Construction</u>	<u>Classroom Maintenance</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:					
Equity in Pooled Cash and Cash Equivalents	\$ 489,608	\$ 235,927	\$ 203,052	\$ 425,721	\$ 1,354,308
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	114,677	-	-	-	114,677
<i>Total Assets</i>	<u>604,285</u>	<u>235,927</u>	<u>203,052</u>	<u>425,721</u>	<u>1,468,985</u>
FUND BALANCES:					
Reserved:					
Reserved for Encumbrances	172,073	-	500	256,465	429,038
Reserved for Textbooks and Instructional Materials	114,677	-	-	-	114,677
Unreserved, Undesignated, Reported in:					
General Fund	317,535	-	-	-	317,535
Special Revenue Funds	-	-	202,552	(14,022)	188,530
Debt Service Funds	-	-	-	104,089	104,089
Capital Projects Funds	-	235,927	-	79,189	315,116
<i>Total Fund Balances</i>	<u>\$ 604,285</u>	<u>\$ 235,927</u>	<u>\$ 203,052</u>	<u>\$ 425,721</u>	<u>\$ 1,468,985</u>

The notes to the basic financial statements are an integral part of this statement.

Southern Local School District, Perry County
Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	<u>General</u>	<u>Construction</u>	<u>Classroom Maintenance</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
CASH RECEIPTS:					
Property Taxes	\$ 735,066	\$ -	\$ 6,915	\$ 65,584	\$ 807,565
Intergovernmental	6,288,450	-	45,968	2,185,708	8,520,126
Interest	17,043	2,079	-	1,805	20,927
Tuition and Fees	56,178	-	-	1,274	57,452
Rent	6,001	-	-	-	6,001
Extracurricular Activities	-	-	-	97,590	97,590
Gifts and Donations	-	-	-	6,385	6,385
Customer Sales and Services	-	-	-	118,542	118,542
Miscellaneous	105,384	-	-	70,106	175,490
<i>Total Cash Receipts</i>	<u>7,208,122</u>	<u>2,079</u>	<u>52,883</u>	<u>2,546,994</u>	<u>9,810,078</u>
CASH DISBURSEMENTS:					
Current:					
Instruction:					
Regular	2,425,223	-	-	605,571	3,030,794
Special	1,251,121	-	-	903,306	2,154,427
Vocational	75,168	-	-	-	75,168
Support Services:					
Pupils	224,017	-	-	9,217	233,234
Instructional Staff	168,089	-	-	161,263	329,352
Board of Education	37,917	-	-	-	37,917
Administration	834,575	-	-	317,214	1,151,789
Fiscal	294,246	-	277	8,171	302,694
Operation and Maintenance of Plant	689,053	-	29,490	59	718,602
Pupil Transportation	640,812	-	-	156	640,968
Central	55,815	-	-	4,199	60,014
Operation of Non-Instructional Services	15,696	-	-	454,409	470,105
Extracurricular Activities	124,935	-	-	153,021	277,956
Debt Service:					
Principal	6,440	-	-	67,984	74,424
Interest	-	-	-	88,016	88,016
<i>Total Cash Disbursements</i>	<u>6,843,107</u>	<u>-</u>	<u>29,767</u>	<u>2,772,586</u>	<u>9,645,460</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>365,015</u>	<u>2,079</u>	<u>23,116</u>	<u>(225,592)</u>	<u>164,618</u>
OTHER FINANCING SOURCES AND USES:					
Transfers In	-	-	-	70,000	70,000
Advances In	-	-	-	38,000	38,000
Transfers Out	(70,000)	-	-	-	(70,000)
Advances Out	(38,000)	-	-	-	(38,000)
<i>Total Other Financing Sources and Uses</i>	<u>(108,000)</u>	<u>-</u>	<u>-</u>	<u>108,000</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	257,015	2,079	23,116	(117,592)	164,618
<i>Fund Balances at Beginning of Year</i>	<u>347,270</u>	<u>233,848</u>	<u>179,936</u>	<u>543,313</u>	<u>1,304,367</u>
<i>Fund Balances at End of Year</i>	<u>\$ 604,285</u>	<u>\$ 235,927</u>	<u>\$ 203,052</u>	<u>\$ 425,721</u>	<u>\$ 1,468,985</u>

The notes to the basic financial statements are an integral part of this statement.

Southern Local School District, Perry County
Statement of Cash Receipts, Disbursements, and Changes
In Fund Balance - Budget (Budgetary Basis) and Actual
GENERAL FUND
For the Fiscal Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
CASH RECEIPTS:				
Property Taxes	\$ 803,987	\$ 729,687	\$ 735,066	\$ 5,379
Intergovernmental	6,324,226	6,324,226	6,288,450	(35,776)
Interest	15,000	15,000	17,043	2,043
Tuition and Fees	53,700	53,700	56,178	2,478
Rent	6,000	6,000	6,001	1
Gifts and Donations	1,000	1,000	0	(1,000)
Miscellaneous	122,300	122,300	105,384	(16,916)
Total Cash Receipts	7,326,213	7,251,913	7,208,122	(43,791)
CASH DISBURSEMENTS:				
Current:				
Instruction:				
Regular	2,594,865	2,598,249	2,442,852	155,397
Special	1,515,692	1,332,308	1,264,203	68,105
Vocational	78,734	93,906	81,341	12,565
Support Services:				
Pupils	225,493	225,493	224,184	1,309
Instructional Staff	213,330	213,330	177,191	36,139
Board of Education	49,828	49,828	40,608	9,220
Administration	671,869	851,869	897,440	(45,571)
Fiscal	213,870	299,470	313,179	(13,709)
Operation and Maintenance of Plant	708,912	738,912	722,118	16,794
Pupil Transportation	612,343	653,843	655,619	(1,776)
Central	57,019	57,019	55,815	1,204
Operation of Non-Instructional Services	44,700	44,700	15,696	29,004
Extracurricular Activities	124,616	124,616	124,935	(319)
Total Cash Disbursements	7,111,271	7,283,543	7,015,181	268,362
Excess of Cash Receipts Over (Under) Cash Disbursements	214,942	(31,630)	192,941	(312,153)
OTHER FINANCING SOURCES AND USES:				
Transfers Out	(562,207)	(231,935)	(70,000)	161,935
Advances Out	0	(38,000)	(38,000)	-
Total Other Financing Sources and Uses	(562,207)	(269,935)	(108,000)	161,935
Net Change in Fund Balance	(347,265)	(301,565)	84,941	386,506
Fund Balance at Beginning of Year	293,430	293,430	293,430	-
Prior Year Encumbrances Appropriated	53,841	53,841	53,841	-
Fund Balance at End of Year	\$ 6	\$ 45,706	\$ 432,212	\$ 386,506

The notes to the basic financial statements are an integral part of this statement.

Southern Local School District, Perry County
Statement of Cash Receipts, Disbursements, and Changes
In Fund Balance - Budget (Budgetary Basis) and Actual
CLASSROOM MAINTENANCE FUND
For the Fiscal Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
CASH RECEIPTS:				
Property Taxes	\$ 14,700	\$ 14,700	\$ 6,915	\$ (7,785)
Intergovernmental	2,250	2,250	45,968	43,718
Total Cash Receipts	<u>16,950</u>	<u>16,950</u>	<u>52,883</u>	<u>35,933</u>
CASH DISBURSEMENTS:				
Current:				
Support Services:				
Fiscal	8,897	2,897	277	2,620
Operation and Maintenance of Plant	187,988	193,988	29,990	163,998
Total Cash Disbursements	<u>196,885</u>	<u>196,885</u>	<u>30,267</u>	<u>166,618</u>
Net Change in Fund Balances	<u>(179,935)</u>	<u>(179,935)</u>	<u>22,616</u>	<u>202,551</u>
Fund Balance at Beginning of Year	179,809	179,809	179,809	-
Prior Year Encumbrances Appropriated	127	127	127	-
Fund Balance at End of Year	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 202,552</u>	<u>\$ 202,551</u>

The notes to the basic financial statements are an integral part of this statement.

Southern Local School District, Perry County
Statement of Net Assets - Cash Basis
Governmental Activities - Internal Service Fund
June 30, 2007

	Internal Service
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 80,787</u>
<i>Total Assets</i>	<u>80,787</u>
NET ASSETS:	
Unrestricted	<u>80,787</u>
<i>Total Net Assets</i>	<u><u>\$ 80,787</u></u>

The notes to the basic financial statements are an integral part of this statement.

Southern Local School District, Perry County
Statement of Receipts, Disbursements and Changes in Fund Net Assets - Cash Basis
Governmental Activities - Internal Service Fund
For the Fiscal Year Ended June 30, 2007

	Internal Service
OPERATING RECEIPTS:	
Charges for Services	\$ 84,465
<i>Total Operating Receipts</i>	84,465
OPERATING DISBURSEMENTS:	
Purchased Services	90,671
<i>Total Operating Disbursements</i>	90,671
<i>Change in Net Assets</i>	(6,206)
<i>Net Assets at Beginning of Year</i>	86,993
<i>Net Assets at End of Year</i>	\$ 80,787

The notes to the basic financial statements are an integral part of this statement.

Southern Local School District, Perry County
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Fund
June 30, 2007

	<u>Agency Fund</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 34,963</u>
<i>Total Assets</i>	<u>34,963</u>
NET ASSETS:	
Unrestricted	<u>34,963</u>
<i>Total Net Assets</i>	<u><u>\$ 34,963</u></u>

The notes to the basic financial statements are an integral part of this statement.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

1. DESCRIPTION OF THE ENTITY

The Southern Local School District, Perry County (the School District), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a local school district as defined by Ohio Revised Code Section 3311.03. The School District operates under an elected Board of Education (five members) and is responsible for the provision of public education to residents of the School District. Average daily membership (ADM) as of October 1, 2006, was 930. The School District employed 79 certificated employees and 41 non-certificated employees.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organizations' governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organizations' resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the School District.

The School District is associated with the Southeastern Ohio Voluntary Education Consortium and the Coalition of Rural and Appalachian Schools, which are defined as jointly governed organizations, the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool, and the State of Ohio Cooperative Purchasing Program, a cooperative purchasing pool. The organizations are presented in Notes 11 and 12, respectively.

The following entities which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District:

- Tri-County Career Center
- Perry-Hocking Educational Service Center

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP), the School District chooses to prepare its financial statements in accordance with the cash basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary disbursements when a commitment is made (i.e., when an encumbrance is approved). These statements include adequate disclosure of material matters, in accordance with the basis of accounting described above.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Fund Accounting

The School District's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific functions or activities. The operation of each fund is accounted for within a separate set of self-balancing set of accounts. The School District classifies each fund as either governmental, proprietary, or fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Cash disbursements are assigned to the fund from which they are paid. The following are the School District's major governmental funds:

General Fund

The General Fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Construction Fund

The Construction fund is a fund used to account for the receipts and expenditures related to all special bond funds in the School District. All proceeds from the sale of bonds, notes or certificates of indebtedness, except premium and accrued interest, must be paid into this fund. Expenditures recorded here represent the costs of acquiring capital facilities including real property.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classroom Maintenance Fund

This fund accounts for the proceeds of a special levy for capital maintenance purposes.

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

Proprietary Fund Type

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the School District's self-insurance program for employee dental and vision claims.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. The School District's only fiduciary funds are agency funds.

Agency Funds

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements. The District's agency funds are used to account for student-managed activities.

Basis of Presentation

The School District uses the provisions of GASB 34 for financial reporting on a cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America and GASB 38, for certain financial statement note disclosures. The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of net assets-cash basis presents the cash basis financial condition of governmental activities of the School District at year-end. The statement of activities-cash basis presents a comparison between direct cash disbursements and program cash receipts for each program or function of the School District's governmental activities. Direct cash disbursements are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program cash receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Cash receipts which are not classified as program cash receipts are presented as general cash receipts of the School District. The comparison of direct cash disbursements with program cash receipts identifies the extent to which each governmental function is self-financing or draws from the general cash receipts of the School District.

Fund Financial Statements

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

Cash Receipts – Exchange and Non-exchange Transactions

Cash receipts resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the cash basis when the exchange takes place. On a cash basis, receipts are recorded in the year in which the resources are received.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On a cash basis, receipts from property taxes are recognized in the year in which the taxes are received. Receipts from grants, entitlements and donations are recognized in the year in which the monies have been received.

Cash Disbursements

On the cash basis of accounting, disbursements are recognized at the time payments are made.

Budgetary Process

Budget

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 appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit, to the Board of Education, a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates.

By no later than January 20, the Board-adopted budget is filed with the Perry County Budget Commission for rate determination.

Estimated Resources

The County Budget Commission certifies its actions to the School District by September 1. As part of this certification, the School District receives the official certificate of estimated resources that 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 the total contemplated disbursements from a 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. Budget receipts as shown in the accompanying financial statements do not include July 1, 2006 unencumbered fund balances. However, those fund balances are available for appropriations.

Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

Encumbrances

The School District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the disbursement of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be re-appropriated.

Operating Receipts and Disbursements

Operating receipts are those receipts that are generated directly from the primary activity of the proprietary funds. For the District, these receipts are charges for services to the various funds to cover the costs of the self insurance program. Operating disbursements are necessary costs incurred to provide the goods and/or service that is the primary activity of the fund.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents and Investments

Cash and cash equivalents consist of the total of fund cash balances of all funds as of June 30, 2007. Individual fund balance integrity is maintained through the School District's records. Balances of all funds are maintained in these accounts or are temporarily used to purchase certificates of deposit or investments. All interest receipts are reported in the General Fund except those specifically related to those funds deemed appropriate according to School Board policy. For fiscal year 2007, interest receipts amounted to \$20,927 in which \$17,043 was recorded in the General Fund, \$2,079 in the Construction Fund, and \$1,805 was recorded in the All Other Governmental Funds.

Capital Assets and Depreciation

Capital assets acquired or constructed for the School District are recorded as disbursements at the time of acquisition. However, under the cash basis of accounting, capital assets and the related depreciation are not reported separately on the financial statements.

Compensated Absences

Vacation and sick leave benefits are not accrued under the cash basis of accounting as previously described. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees.

Long-Term Obligations

In general, bonds, long-term loans, and capital leases are not accrued, but rather are recorded as cash disbursements in the basic financial statements when paid.

Net Assets

Net cash assets represent the cash assets held by the School District at year end. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Restricted for Other Purposes is comprised of net assets restricted for state and federal programs. The School District applies restricted resources when a cash disbursement is made for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2007, of the School District's \$979,377 restricted net assets, none was restricted by enabling legislation.

Fund Balance Reserves

The School District records reservations for portions of cash fund balance which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves are established for encumbrances and textbooks and instructional materials.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions

Exchange transactions between funds are reported as cash receipts in the seller funds and as cash disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented on the financial statements. In the government-wide financial statements transfers within governmental activities are eliminated.

Flows of cash from one fund to another with a requirement for repayment are reported as advances in and out. Advances between governmental activities are eliminated in the statement of activities.

Restricted Assets

Restricted assets in the General Fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set aside by the School District for the purchase of textbooks and materials. See Note 13 for additional information regarding set-asides.

3. DEPOSITS AND INVESTMENTS

The School District maintains a cash pool which is used by all funds. Each fund type's portion of this pool is displayed on the "Statement of Assets and Fund Balances – Cash Basis" as "Equity in Pooled Cash and Cash Equivalents."

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

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

- A. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
- B. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

- C. Written purchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- D. Bonds and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the School District;
- E. Time certificates of deposit or savings or deposit accounts, including, but not limited to passbook accounts;
- F. No-load money market mutual funds consisting exclusively of obligations described in division (A) or (B) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- G. The State Treasurer's investment pool (STAR Ohio);
- H. Securities lending agreements in which the School District lends securities and the eligible institution agrees to exchange either securities described in division (A) or (B) or cash or both securities and cash, equal value for equal value;
- I. High grade commercial paper in an amount not to exceed five percent of the School District's total average portfolio;
- J. Certain bankers' acceptance and commercial paper notes for a period not to exceed 180 days and in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and
- K. Under limited circumstances, corporate debt interest rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. The School District maintains a cash pool which is used by all funds.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

As of June 30, 2007, the School District's bank balance of \$1,621,663 is either covered by FDIC or collateralized by the financial institution's public entity deposit pools in the manner described above.

The School District held no investments at June 30, 2007.

4. BUDGETARY BASIS FUND BALANCES

Differences between the budgetary basis fund balances and fund cash balances are due to encumbrances. The table below presents those differences for the School District's General and Major Special Revenue Funds:

	General Fund	Classroom Maintenance
Budgetary Basis Fund Balance	\$432,212	\$202,552
Encumbrances	172,073	500
Fund Cash Balance	<u>\$604,285</u>	<u>\$203,052</u>

5. PROPERTY TAX

Real property taxes are levied on assessed values which equal 35% of appraised values. The County Auditor reappraises all real property every six years with a triennial update. The last reappraisal was completed for tax year 2005 for Perry County.

Real property taxes become a lien on all non-exempt real property located in the County on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for the fiscal year ended June 30, 2007, was \$39.10 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$27.80 per \$1,000 of assessed valuation for real property classified as residential/agricultural and was \$31.13 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the School District by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for tax year 2006 was \$39.10 per \$1,000 of assessed valuation.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

5. PROPERTY TAX (Continued)

	Perry and Hocking Counties			
	2006 Second- Half Collections		2007 First- Half Collections	
	Amount	Percent	Amount	Percent
<u>Real Property</u>				
Resident/Agricultural	32,813,750	79.67%	32,798,370	80.22%
Commercial/Industrial	2,597,270	6.31%	2,757,740	6.75%
Public Utilities	140,080	0.34%	104,460	0.26%
Minerals	870,380	2.11%	881,890	2.16%
<u>Tangible Personal Property</u>				
General	781,910	1.90%	540,020	1.32%
Public Utilities	3,982,120	9.67%	3,802,550	9.30%
Total	<u>41,185,510</u>	<u>100.00%</u>	<u>40,885,030</u>	<u>100.00%</u>

The Perry and Hocking County Treasurers collect property tax on behalf of all taxing districts within their respective County. The Perry and Hocking County Auditors periodically remit to the taxing districts their portion of the taxes collected.

6. DEBT OBLIGATIONS

Debt outstanding at June 30, 2007, consisted of the following:

<u>Debt</u>	<u>Beginning Balance 6/30/2006</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance 6/30/2007</u>	<u>Due in One Year</u>
School Improvement					
Advance Refunding					
Bonds, 3.7% to 9.6%	\$ 449,995	\$ -	\$ 60,943	\$ 389,052	\$ 58,038
School Facilities					
Improvement Notes, 5.0%	180,920	-	7,041	173,879	7,397
Capital Lease	4,176	43,776	6,440	41,512	8,755
Total	<u>\$ 635,091</u>	<u>\$ 43,776</u>	<u>\$ 74,424</u>	<u>\$ 604,443</u>	<u>\$ 74,190</u>

The School Improvement Advance Refunding Bonds are direct obligations of the School District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the School District. The Advance Refunding Bonds were issued in the amount of \$1,204,995 in 1998 to reduce the School District's debt service requirements from a previously issued school building construction issue. The School District utilizes a trustee bank to service the bonds. Payments to the bank are recorded as disbursements in the year deposited with the bank. Payments are made from the Bond Retirement fund.

The School Facilities Improvement Notes were issued in the amount of \$214,000 in 2000 to finance building improvements. The notes are direct obligations of the School District for which its full faith, credit and resources are pledged. Payments are made from the Bond Retirement fund.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

6. DEBT OBLIGATIONS (Continued)

The annual requirements to amortize debt outstanding as of June 30, 2007 are as follows:

Year Ending June 30	Advance Refunding Bonds		School Facilities Improvement Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 58,038	\$ 81,962	\$ 7,397	\$ 8,603	\$ 65,435	\$ 90,565
2009	55,220	84,780	7,772	8,228	62,992	93,008
2010	54,046	90,954	8,165	7,835	62,211	98,789
2011	50,975	94,025	8,579	7,421	59,554	101,446
2012	46,330	93,670	9,013	6,987	55,343	100,657
2013-2017	124,443	295,559	52,389	27,611	176,832	323,170
2018-2022	-	-	67,063	12,937	67,063	12,937
2023	-	-	13,501	483	13,501	483
Total	<u>\$ 389,052</u>	<u>\$ 740,950</u>	<u>\$ 173,879</u>	<u>\$ 80,105</u>	<u>\$ 562,931</u>	<u>\$ 821,055</u>

The School District's overall legal debt margin was \$3,679,653 with an unvoted debt margin of \$40,885 at June 30, 2007.

7. LEASE OBLIGATION

During fiscal year 2007 the School District entered into a 60 month lease agreement with Wells Fargo Financial for the use of copiers. The annual requirements to amortize the lease obligations outstanding as of June 30, 2007, are as follows:

Year Ending June 30	Amount
2008	\$ 8,755
2009	8,755
2010	8,755
2011	8,755
2012	6,492
Present value of minimum lease payments	<u>\$ 41,512</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

8. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During the year ended June 30, 2007, the School District contracted with the Indiana Insurance Company for property insurance and boiler and machinery coverage. Buildings and contents are 100 percent coinsured.

Vehicles are covered the Indiana Insurance Company and include deductibles of \$500. Vehicle liability has a \$1,000,000 single occurrence limit. Professional and general liability is covered through the Indiana Insurance Company with a \$1,000,000 single occurrence limit and a \$2,000,000 aggregate limit.

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

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 salaries. This rate is calculated based on accident history and administrative costs.

The School District has chosen to establish a risk financing fund for risks associated with the employee dental and vision insurance plans. The risk financing fund is accounted for as an Internal Service Fund where assets are set aside for claims and assessments. Medical Claims Services, Inc. acts as a third-party administrator for the payment of claims. A premium is charged to each fund that accounts for part-time and full-time employees. The premium charge is allocated to each of the funds based on trends in actual claims expense and the percentage of each fund's current year payroll expense to the total payroll expense of the School District. Under the cash basis of accounting the School District does not record a claims liability at fiscal year end, nor do they report claims liability information for previous years.

9. PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800)878-5853, or visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund health care benefits; for fiscal year 2006, 10.58% of annual covered salary was the portion allocated to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$138,384, \$148,236, and \$149,436, respectively. 100% has been contributed for fiscal years 2007, 2006, and 2005.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

9. PENSION PLANS (Continued)

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits, to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614)227-4090, or by visiting www.strsoh.org.

New members have a choice of three retirement plan options, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$520,240, \$519,408 and \$526,584, respectively; 100% has been contributed for fiscal years 2007, 2006 and 2005.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

10. POST-EMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$37,160 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006 (the latest information available), net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2% of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$47,518.

The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available), were \$158,751,207. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

11. JOINTLY GOVERNED ORGANIZATIONS

A. Southeastern Ohio Voluntary Educational Consortium (SEOVEC)

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC's governing board is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. To obtain financial information write to the Southeastern Ohio Voluntary Educational Consortium, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Perry, Ohio 45701.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

11. JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. The Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization of over one hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The Board members are composed of one superintendent from each County elected by the school districts within that County. The Coalition provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or a financial responsibility for the Coalition.

12. PURCHASING POOLS

Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan

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

State of Ohio Cooperative Purchasing Program

The School District participates in the State of Ohio Cooperative Purchasing Program, a cooperative purchasing pool. The Program, created by the Cooperative Purchasing Act of 1985, offers Ohio counties, townships, municipalities, school districts, public libraries, regional transit authorities, park districts, and other authorities and instrumentalities cost savings and convenience by empowering members to buy supplies and services through state government contracts. Each year, the participating entities pay a membership fee to cover the costs of administering the program.

13. STATUTORY RESERVES

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula 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. The following information describes the change in the year end set-aside amounts for textbooks and instructional materials and capital acquisition. Disclosure of this information is required by State Statute.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

13. STATUTORY RESERVES (Continued)

	Textbooks & Instructional Materials	Capital Acquisition	Total
Set-Aside Reserve Cash Balance as of June 30, 2006	\$ 151,579	\$ (2,753,323)	\$ (2,601,744)
Current Year Set-aside Requirement	141,463	141,463	282,926
Qualifying Disbursements	(178,365)	(96,710)	(275,075)
Totals	114,677	(2,708,570)	(2,593,893)
Set-Aside Balances Carried Forward to Future Fiscal Years	\$ 114,677	\$ (2,708,570)	\$ (2,593,893)
Set-Aside Reserve Cash Balance as of June 30, 2007	\$ 114,677	\$ 0	\$ 114,677

The School District had qualifying disbursements during the fiscal year that reduced the capital acquisition set-aside amount to below zero. These extra amounts may be used to reduce the set-aside requirement of future years.

14. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims would not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

B. Litigation

There are currently no matters in litigation with the School District as defendant.

C. Refund of Property Taxes

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The School District receives a portion of their property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the School District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$11,602 per year. A portion of the refund may be recovered from additional State entitlement payments.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

15. INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the year ended June 30, 2007, were as follows:

Fund:	Transfer To:	Transfer From:
General Fund	\$ -	\$ 70,000
Non-Major Special Revenue Fund		
Lunchroom	70,000	-
Total	<u>\$ 70,000</u>	<u>\$ 70,000</u>

Transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

Interfund Advances

Advances made during the year ended June 30, 2007, were as follows:

Fund:	Advance To:	Advance From:
General Fund	\$ -	\$ 38,000
Non-Major Special Revenue Fund		
Lunchroom	38,000	-
Total	<u>\$ 38,000</u>	<u>\$ 38,000</u>

The advance to the Lunchroom special revenue fund was made to provide support until the federal reimbursement for May and June is received.

Southern Local School District
Perry County

Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2007

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
National School Breakfast Program	05PU	10.553	\$ 60,396	\$ -	\$ 60,396	\$ -
National School Lunch Program	LLP4	10.555	145,445	-	145,445	-
Total Nutrition Cluster			205,841	-	205,841	-
Food Donation	N/A	10.550	-	22,434	-	22,434
Child and Adult Care Food Program	CCCN	10.558	20,700	-	15,621	-
Total United States Department of Agriculture			226,541	22,434	221,462	22,434
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Education Agencies	C1S1	84.010	257,228	-	279,743	-
Special Education- Grants to States	6BSF	84.027	246,378	-	243,477	-
Safe and Drug Free Schools and Communities State Grants	DRS1	84.186	5,957	-	5,957	-
Twenty-First Century Community Learning Centers	T1S1	84.287	285,832	-	285,591	-
State Grants for Innovative Programs	C2S1	84.298	1,549	-	2,505	-
Education Technology State Grants	TJS1	84.318	2,357	-	3,770	-
Reading First State Grants	N/A	84.357	456,514	-	424,846	-
Improving Teacher Quality State Grants	TRS1	84.367	69,567	-	75,180	-
Total United States Department of Education			1,325,382	-	1,321,069	-
Total Federal Financial Assistance			\$ 1,551,923	\$ 22,434	\$ 1,542,531	\$ 22,434

N/A = Pass through entity number could not be located.
See Notes to the Schedule of Federal Awards Expenditures.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

*Notes to Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2007*

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B -FOOD DISTRIBUTIONS

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

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



Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Southern Local School District
Perry County
10397 State Route 155 SE
Corning, Ohio 43730

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Southern Local School District, Perry County (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 21, 2007, wherein we noted that the District follows the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2007-001.

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

We noted a certain matter that we reported to management of the District in a separate letter dated September 21, 2007.

This report is intended solely for the information and use of management, members of the Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

September 21, 2007



**Report on Compliance With Requirements Applicable to Each Major Program and
on Internal Control Over Compliance in Accordance with OMB Circular A-133**

Southern Local School District
Perry County
10397 State Route 155 SE
Corning, Ohio 43730

Compliance

We have audited the compliance of the Southern Local School District, Perry County (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

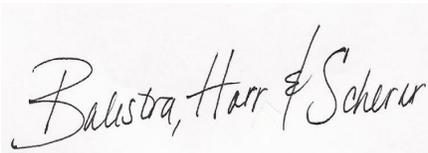
The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of management, Members of the Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

September 21, 2007

SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY
JUNE 30, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant control deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant internal control conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Reading First Program, CFDA#84.357
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY
JUNE 30, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505

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

Finding Number 2007-001

Noncompliance Citation

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

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

We recommend the School District prepare its annual financial report in accordance with generally accepted accounting principles.

Client Response

The School District officials do not believe that preparing financial statements in accordance with generally accepted accounting principles is cost beneficial.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2006-001	A noncompliance citation was Issued for Ohio Revised Code Section 117.38 and Ohio Admin. Code Section 117-2-03 (B), for failing to prepare the School District's financial statements in accordance with generally accepted accounting principles.	No	Not Corrected: The School District's officials do not believe that preparing financial Statements in accordance with generally accepted accounting principles is cost beneficial. Reissued as Finding Number 2007-001.



Mary Taylor, CPA
Auditor of State

SOUTHERN LOCAL SCHOOL DISTRICT

PERRY 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
DECEMBER 13, 2007**