

Southern Local School District
Perry County, Ohio

Single Audit

July 1, 2009 through June 30, 2010
Fiscal Years Audited Under GAGAS: 2010



Balestra, Harr & Scherer, CPAs, Inc.

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Dave Yost • Auditor of State

January 13, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Thus, I am certifying this audit report for release under the signature of my predecessor.

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

DAVE YOST
Auditor of State

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Mary Taylor, CPA
Auditor of State

Board of Education
Southern Local School District
10397 State Route 155 SE #1
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, 2009 through June 30, 2010. 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

January 3, 2011

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Perry County, Ohio
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Independent Auditor's Report

Southern Local School District
10397 State Route 155 SE #1
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 the Southern Local School District (the School District), Perry County, Ohio, as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the 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, we cannot determine at this time.

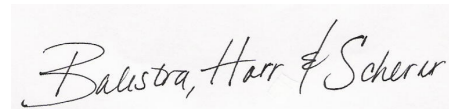
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Local School District, Perry County, Ohio, as of June 30, 2010, and the respective changes in cash basis financial position and the respective budgetary comparison for the General fund and the Classroom Maintenance fund thereof for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2010, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Board of Education
Southern Local School District
Independent Auditor's Report
Page 2

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

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The accompanying Schedule of Federal Awards Receipts and Expenditures is 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. We subjected the Schedule of Federal Awards Receipts and Expenditure to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Balestra, Harr & Scherer, CPAs, Inc.

October 28, 2010

Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

The discussion and analysis of Southern Local School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010, within the limitations of the District's cash basis of accounting. The intent of this discussion and analysis is to look at the 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 District's financial performance.

HIGHLIGHTS

Key financial highlights for the fiscal year 2010 are as follows:

- Net assets of governmental activities decreased \$431,672.
- General cash receipts accounted for \$8,757,660 or 77% of all cash receipts. Program cash receipts in the form of charges for services and sales, grants, and contributions, accounted for \$2,663,019 or 23% of total cash receipts of \$11,420,679.
- The District had \$11,852,351 in cash disbursements related to governmental activities; only \$2,663,019 of these cash disbursements were offset by program specific charges for services and sales, 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 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 District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the 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 basic 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 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 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, 2010
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 District did financially during 2010, 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 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 District's general receipts.

These statements report the 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 District's financial health. Over time, increases or decreases in the District's cash position is one indicator of whether the District's financial health is improving or deteriorating. When evaluating the District's financial condition, you should also consider other non-financial factors as well such as the District's property tax base, the condition of the District's capital assets and infrastructure, the extent of the 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 District has one type of activity; governmental.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at 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 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.

Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
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 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 District's fiduciary fund is an agency fund which is used to maintain financial activity of the District's Student Managed Activities. Agency funds are custodial in nature (assets equal net assets) 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 AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the District as a whole. Table 1 provides a summary of the District's net assets for 2010 compared to 2009.

Table 1
Net Assets

	Governmental Activities	
	2010	2009
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 762,642	\$ 753,654
Restricted Equity in Pooled Cash and Cash Equivalents	112,778	553,438
Total Assets	875,420	1,307,092
Net Assets		
Restricted	906,677	1,181,102
Unrestricted	(31,257)	125,990
Total Net Assets	\$ 875,420	\$ 1,307,092

Total assets, of the District as a whole, decreased \$431,672. This increase is due to cash disbursements exceeding cash receipts, which will be further discussed under Table 2 below.

Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2010 as compared to 2009.

Table 2
Changes in Net Assets

	Governmental Activities	
	2010	2009*
Cash Receipts		
Program Cash Receipts		
Charges for Services and Sales	\$ 336,441	\$ 413,834
Operating Grants and Contributions	2,326,578	3,036,560
Total Program Cash Receipts	<u>2,663,019</u>	<u>3,450,394</u>
General Cash Receipts		
Property Taxes	952,419	963,944
Grants and Entitlements, Not Restricted	6,706,872	5,865,827
Interest	2,336	14,730
Gifts and Donations, Not Restricted	650	-
Energy Conservation Notes Issued	998,947	-
Miscellaneous	96,436	114,063
Total General Cash Receipts	<u>8,757,660</u>	<u>6,958,564</u>
Total Cash Receipts	<u>11,420,679</u>	<u>10,408,958</u>
Program Cash Disbursements		
Instruction:		
Regular	3,265,022	3,250,178
Special	1,728,380	1,855,469
Vocational	238,141	227,207
Support Services:		
Pupils	463,575	406,445
Instructional Staff	499,207	374,192
Board of Education	34,431	69,366
Administration	1,477,323	1,476,746
Fiscal	734,678	648,286
Operation and Maintenance of Plant	751,499	915,938
Pupil Transportation	605,824	708,450
Central	77,216	62,700
Operation of Non-Instructional Services	515,417	484,204
Extracurricular Activities	257,771	302,081
Capital Outlay	968,866	161,090
Principal Retirement	96,703	72,477
Interest and Fiscal Charges	138,298	93,008
Total Cash Disbursements	<u>11,852,351</u>	<u>11,107,837</u>
Changes in Net Assets	(431,672)	(698,879)
Net Assets, Beginning of Year	1,307,092	2,005,971
Net Assets, End of Year	<u>\$ 875,420</u>	<u>\$ 1,307,092</u>

* Certain reclassifications were made for consistency with current year reporting. There was no effect on net assets.

Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Cash receipts increased \$1,011,721. The most significant increases were cash receipts for energy conservation notes issued and unrestricted grants and entitlements. The increase in cash receipts for energy conservation notes issued was due to the new issuance of debt during the fiscal year. Unrestricted grants and entitlements increased and operating grants decreased due to changes in restrictions on state foundation aid. Interest revenue decreased due to a decline in interest rates as well as a decrease in cash on hand.

Cash disbursements increased \$744,514. The most significant increases were cash disbursements for capital outlay, instructional staff, and fiscal. These disbursements were partially offset by a decrease in special instruction, pupil transportation, and operation and maintenance of plant. Capital outlay increased due to the construction and remodeling associated with the energy conservation debt issuance. Instructional staff increased due to several retirements during the year that had large severance payouts. Fiscal increased due to increased expenditures associated with open enrollment. Pupil transportation decreased as a result of a loss of students to open enrollment, thus reducing the expenditures related to the operation of busses. Operation and maintenance of plant decreased due to a remodeling project and HVAC system repairs that were done in the prior fiscal year.

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

	<u>Total Cost of Services 2010</u>	<u>Net Cost of Services 2010</u>	<u>Total Cost of Services 2009</u>	<u>Net Cost of Services 2009*</u>
Program Cash Disbursements				
Instruction:				
Regular	\$ 3,265,022	\$2,795,927	\$ 3,250,178	\$ 2,695,499
Special	1,728,380	1,012,473	1,855,469	413,313
Vocational	238,141	232,532	227,207	221,354
Support Services:				
Pupils	463,575	306,211	406,445	319,194
Instructional Staff	499,207	284,346	374,192	255,303
Board of Education	34,431	33,620	69,366	67,579
Administration	1,477,323	1,116,750	1,476,746	1,200,447
Fiscal	734,678	717,025	648,286	610,441
Operation and Maintenance of Plant	751,499	721,474	915,938	859,032
Pupil Transportation	605,824	493,388	708,450	611,434
Central	77,216	72,167	62,700	59,554
Operation of Non-Instructional Services	515,417	58,080	484,204	(15,914)
Extracurricular Activities	257,771	141,472	302,081	33,632
Capital Outlay	968,866	968,866	161,090	161,090
Principal Retirement	96,703	96,703	72,477	72,477
Interest and Fiscal Charges	138,298	138,298	93,008	93,008
Total	<u>\$ 11,852,351</u>	<u>\$9,189,332</u>	<u>\$ 11,107,837</u>	<u>\$ 7,657,443</u>

* Certain reclassifications have been made for consistency with current year reporting. There was no effect on net assets.

Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

THE DISTRICT FUNDS

The District's governmental funds are accounted for using the cash basis of accounting. All governmental funds had total cash receipts and other financing sources of \$11,678,835 and cash disbursements and other financing uses of \$12,098,884. The most significant change in fund balance was in the General Fund.

For the General Fund, cash receipts increased \$158,198 and cash disbursements increased \$17,555 from the prior year. The most significant increase in revenue was in intergovernmental receipts due to increased foundation aid from the state. The most significant increase in disbursements was in the regular instruction, instructional staff, and fiscal. Regular instruction and instructional staff both increased due to increased retirements during the fiscal year that required large severance pay outs. Fiscal increased due to increased open enrollment expenditures. All of the above changes resulted in a decrease in fund cash balance for the fund in the amount of \$312,440.

The Bond Retirement Fund had a decrease in fund balance of \$811. The Building Project Construction fund had an increase in fund balance of \$20,306, mostly due to increased capital outlay in connection with the energy conservation project which was offset by an advance in of \$149,842. The Classroom Facilities major special revenue fund had an increase in fund balance of \$433, and the Classroom Maintenance fund increased \$1,920.

General Fund Budgeting Highlights

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

During 2010, there were revisions to the General Fund budget. The final budget cash receipts of \$7,790,699 increased \$589,147 over original cash receipts due to increased intergovernmental revenue. Actual cash receipts of \$7,798,129 were \$7,430 more than the final estimate.

Final budget cash disbursements of \$8,215,917 increased \$723,393 over original cash disbursements due primarily to an increase in estimates for regular and special instruction, administration, operation and maintenance of plant, and pupil transportation for increased benefit costs and severance pay outs. Actual cash disbursements of \$8,176,507 were \$39,410 less than the final estimate. The General fund's ending unobligated cash balance was \$46,840.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements. The District had capital outlay disbursements of \$968,866 during 2010.

Debt

Under the cash basis of accounting the District does not report bonds or long-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, 2010 the District had \$1,358,463 in bonds and notes outstanding. For additional information regarding debt, please see Note 6 to the basic financial statements.

Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

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

	<u>2010</u>	<u>2009</u>
School Improvement Advance Refunding Bonds	\$ 221,748	\$ 275,794
School Facilities Improvement Notes	150,545	158,710
Energy Conservation Improvement Notes	<u>986,170</u>	<u>0</u>
Totals	<u>\$1,358,463</u>	<u>\$ 434,504</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Jeff Kaaz, Treasurer at Southern Local School District, 10397 State Route 155 SE, Corning, Ohio 45730.

Southern Local School District
Statement of Net Assets - Cash Basis
June 30, 2010

	Governmental Activities
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$ 762,642
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	112,778
<i>Total Assets</i>	875,420
NET ASSETS:	
Restricted for Debt Service	196,862
Restricted for Capital Outlay	179,191
Restricted for Classroom Maintenance	169,594
Restricted for Other Purposes	132,859
Restricted for Set-Asides	228,171
Unrestricted	(31,257)
<i>Total Net Assets</i>	\$ 875,420

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

Southern Local School District
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2010

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:				
Instruction:				
Regular	\$ 3,265,022	\$ 91,191	\$ 377,904	\$ (2,795,927)
Special	1,728,380	65,560	650,347	(1,012,473)
Vocational	238,141	5,609	-	(232,532)
Support Services:				
Pupils	463,575	16,315	141,049	(306,211)
Instructional Staff	499,207	19,242	195,619	(284,346)
Board of Education	34,431	811	-	(33,620)
Administration	1,477,323	46,726	313,847	(1,116,750)
Fiscal	734,678	17,194	459	(717,025)
Operation and Maintenance of Plant	751,499	18,155	11,870	(721,474)
Pupil Transportation	605,824	15,023	97,413	(493,388)
Central	77,216	1,938	3,111	(72,167)
Operation of Non-Instructional Services	515,417	28,544	428,793	(58,080)
Extracurricular Activities	257,771	10,133	106,166	(141,472)
Capital Outlay	968,866	-	-	(968,866)
Debt Service:				
Principal Retirement	96,703	-	-	(96,703)
Interest and Fiscal Charges	138,298	-	-	(138,298)
Total Governmental Activities	\$ 11,852,351	\$ 336,441	\$ 2,326,578	(9,189,332)
General Cash Receipts:				
Property Taxes Levied for:				
General Purposes				800,482
Other Purposes				14,134
Debt Service				137,803
Grants and Entitlements, Not Restricted to Specific Programs				6,706,872
Gifts and Donations, Not Restricted to Specific Programs				650
Energy Conservation Notes Issued				998,947
Interest				2,336
Miscellaneous				96,436
Total General Cash Receipts				8,757,660
Change in Net Assets				(431,672)
Net Assets Beginning of Year				1,307,092
Net Assets End of Year				\$ 875,420

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

Southern Local School District
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2010

	General	Bond Retirement	Building Project Construction	Classroom Facilities	Classroom Maintenance	All Other Governmental Funds	Total Governmental Funds
ASSETS:							
Equity in Pooled Cash and Cash Equivalents	\$ -	\$ 196,862	\$ 96,634	\$ 82,557	\$ 169,594	\$ 132,859	\$ 678,506
Restricted Assets:							
Equity in Pooled Cash and Cash Equivalents	112,778	-	-	-	-	-	112,778
<i>Total Assets</i>	<u>\$ 112,778</u>	<u>\$ 196,862</u>	<u>\$ 96,634</u>	<u>\$ 82,557</u>	<u>\$ 169,594</u>	<u>\$ 132,859</u>	<u>\$ 791,284</u>
FUND BALANCES:							
Reserved:							
Reserved for Encumbrances	\$ 65,938	\$ -	\$ 28,698	\$ -	\$ -	\$ 72,199	\$ 166,835
Reserved for Textbooks and Instructional Materials	228,171	-	-	-	-	-	228,171
Unreserved, Undesignated, Reported in:							
General Fund	(181,331)	-	-	-	-	-	(181,331)
Special Revenue Funds	-	-	-	-	169,594	60,660	230,254
Debt Service Funds	-	196,862	-	-	-	-	196,862
Capital Projects Funds	-	-	67,936	82,557	-	-	150,493
<i>Total Fund Balances</i>	<u>\$ 112,778</u>	<u>\$ 196,862</u>	<u>\$ 96,634</u>	<u>\$ 82,557</u>	<u>\$ 169,594</u>	<u>\$ 132,859</u>	<u>\$ 791,284</u>

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

Southern Local School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2010

Total Governmental Fund Balances	\$ 791,284
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Amounts reported for governmental activities in the statement of net assets are different because:

An internal service fund is used by management to account for their self-insurance program for employee dental and vision claims. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

84,136

Net Assets of Governmental Activities	<u>\$ 875,420</u>
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The notes to the basic financial statements are an integral part of this statement.

Southern Local School District
Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General	Bond Retirement	Building Project Construction	Classroom Facilities	Classroom Maintenance	All Other Governmental Funds	Total Governmental Funds
CASH RECEIPTS:							
Property Taxes	\$ 800,482	\$ 137,803	\$ -	\$ -	\$ 14,134	\$ -	\$ 952,419
Intergovernmental	6,754,159	27,835	-	-	2,606	2,238,350	9,022,950
Interest	1,690	-	213	433	-	-	2,336
Tuition and Fees	182,451	-	-	-	-	850	183,301
Rent	4,290	-	-	-	-	-	4,290
Extracurricular Activities	-	-	-	-	-	63,811	63,811
Gifts and Donations	650	-	-	-	-	10,500	11,150
Customer Sales and Services	-	-	-	-	-	85,039	85,039
Miscellaneous	54,407	-	-	-	-	42,029	96,436
<i>Total Cash Receipts</i>	<u>7,798,129</u>	<u>165,638</u>	<u>213</u>	<u>433</u>	<u>16,740</u>	<u>2,440,579</u>	<u>10,421,732</u>
CASH DISBURSEMENTS:							
Current:							
Instruction:							
Regular	2,803,596	-	-	-	-	454,247	3,257,843
Special	942,852	-	-	-	-	781,728	1,724,580
Vocational	238,141	-	-	-	-	-	238,141
Support Services:							
Pupils	294,032	-	-	-	-	169,543	463,575
Instructional Staff	264,069	-	-	-	-	235,138	499,207
Board of Education	34,431	-	-	-	-	-	34,431
Administration	1,096,825	-	-	-	-	377,250	1,474,075
Fiscal	728,677	5,449	-	-	552	-	734,678
Operation and Maintenance of Plant	737,231	-	-	-	14,268	-	751,499
Pupil Transportation	582,162	-	-	-	-	23,662	605,824
Central	73,476	-	-	-	-	3,740	77,216
Operation of Non-Instructional Services	-	-	-	-	-	515,417	515,417
Extracurricular Activities	130,158	-	-	-	-	127,613	257,771
Capital Outlay	-	-	129,749	-	-	839,117	968,866
Debt Service:							
Principal Retirement	34,492	62,211	-	-	-	-	96,703
Interest and Fiscal Charges	39,509	98,789	-	-	-	-	138,298
<i>Total Cash Disbursements</i>	<u>7,999,651</u>	<u>166,449</u>	<u>129,749</u>	<u>-</u>	<u>14,820</u>	<u>3,527,455</u>	<u>11,838,124</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>(201,522)</u>	<u>(811)</u>	<u>(129,536)</u>	<u>433</u>	<u>1,920</u>	<u>(1,086,876)</u>	<u>(1,416,392)</u>
OTHER FINANCING SOURCES AND USES:							
Transfers In	-	-	-	-	-	61,539	61,539
Advances In	-	-	149,842	-	-	46,775	196,617
Energy Conservation Notes Issued	-	-	-	-	-	998,947	998,947
Transfers Out	(64,143)	-	-	-	-	-	(64,143)
Advances Out	(46,775)	-	-	-	-	(149,842)	(196,617)
<i>Total Other Financing Sources and Uses</i>	<u>(110,918)</u>	<u>-</u>	<u>149,842</u>	<u>-</u>	<u>-</u>	<u>957,419</u>	<u>996,343</u>
<i>Net Change in Fund Balances</i>	<u>(312,440)</u>	<u>(811)</u>	<u>20,306</u>	<u>433</u>	<u>1,920</u>	<u>(129,457)</u>	<u>(420,049)</u>
<i>Fund Balances at Beginning of Year</i>	<u>425,218</u>	<u>197,673</u>	<u>76,328</u>	<u>82,124</u>	<u>167,674</u>	<u>262,316</u>	<u>1,211,333</u>
<i>Fund Balances at End of Year</i>	<u>\$ 112,778</u>	<u>\$ 196,862</u>	<u>\$ 96,634</u>	<u>\$ 82,557</u>	<u>\$ 169,594</u>	<u>\$ 132,859</u>	<u>\$ 791,284</u>

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

Southern Local School District
*Reconciliation of the Statement of Cash Receipts, Disbursements and Changes
in Fund Balances of Governmental Funds - Cash Basis to the Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2010*

Net Change in Fund Balances - Total Governmental Funds \$ (420,049)

Amounts reported for governmental activities in the statement of activities are different because:

The internal service fund used by management to account for their self-insurance program for employee dental and vision claims is not reported in the government-wide statement of activities. Governmental fund disbursements and the related internal service fund receipts are eliminated. The net receipt (disbursement) of the internal service fund is allocated among the governmental activities. (11,623)

Net Change in Net Assets of Governmental Activities \$ (431,672)

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

Southern Local School District
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget (Budgetary Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget
Total Cash Receipts and Other Financing Sources	\$ 7,201,552	\$ 7,790,699	\$ 7,798,129	\$ 7,430
Total Cash Disbursements and Other Financing Uses	7,492,524	8,215,917	8,176,507	39,410
Net Change in Fund Balance	(290,972)	(425,218)	(378,378)	46,840
Fund Balance at Beginning of Year	336,408	336,408	336,408	-
Prior Year Encumbrances Appropriated	88,810	88,810	88,810	-
Fund Balance at End of Year	\$ 134,246	\$ -	\$ 46,840	\$ 46,840

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

Southern Local School District
*Statement of Receipts, Disbursements and Changes
 In Fund Balance - Budget (Budgetary Basis) and Actual
 Classroom Maintenance Fund
 For the Fiscal Year Ended June 30, 2010*

	Original Budget	Final Budget	Actual	Variance with Final Budget
Total Cash Receipts and Other Financing Sources	\$ 16,850	\$ 16,739	\$ 16,740	\$ 1
Total Cash Disbursements and Other Financing Uses	181,761	181,650	14,820	166,830
Net Change in Fund Balance	(164,911)	(164,911)	1,920	166,831
Fund Balance at Beginning of Year	164,911	164,911	164,911	-
Prior Year Encumbrances Appropriated	2,763	2,763	2,763	-
Fund Balance at End of Year	\$ 2,763	\$ 2,763	\$ 169,594	\$ 166,831

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

Southern Local School District
Statement of Net Assets - Cash Basis
Governmental Activities - Internal Service Fund
June 30, 2010

	<u>Internal Service</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 84,136</u>
<i>Total Assets</i>	<u>84,136</u>
NET ASSETS:	
Unrestricted	<u>84,136</u>
<i>Total Net Assets</i>	<u><u>\$ 84,136</u></u>

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

Southern Local School District

*Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets - Cash Basis
Governmental Activities - Internal Service Fund
For the Fiscal Year Ended June 30, 2010*

	<u>Internal Service</u>
OPERATING RECEIPTS:	
Charges for Services	<u>\$ 82,118</u>
<i>Total Operating Receipts</i>	<u>82,118</u>
OPERATING DISBURSEMENTS:	
Purchased Services	85,035
Claims	<u>11,310</u>
<i>Total Operating Disbursements</i>	<u>96,345</u>
<i>Change in Net Assets Before Transfers</i>	<u>(14,227)</u>
Transfers In	<u>2,604</u>
<i>Change in Net Assets</i>	(11,623)
<i>Net Assets at Beginning of Year</i>	<u>95,759</u>
<i>Net Assets at End of Year</i>	<u><u>\$ 84,136</u></u>

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

Southern Local School District
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Fund
June 30, 2010

	<u>Agency Fund</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 32,629</u>
<i>Total Assets</i>	<u>32,629</u>
NET ASSETS:	
Unrestricted	<u>32,629</u>
<i>Total Net Assets</i>	<u><u>\$ 32,629</u></u>

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

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

1. DESCRIPTION OF THE ENTITY

The Southern Local School District, Perry County (the District), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Ohio Revised Code Section 3311.03. The District operates under an elected Board of Education (five members) and is responsible for the provision of public education to residents of the District. Average daily membership (ADM) as of October 1, 2009, was 925. The District employed 73 certificated employees and 35 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 District consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities.

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

The District is associated with the Southeastern Ohio Voluntary Educational 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 District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the District is not financially accountable for these entities nor are they fiscally dependent on the District:

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

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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 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 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 accounts. The 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 fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the 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 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.

Classroom Maintenance Fund

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

Bond Retirement Fund

The Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt.

Classroom Facilities Fund

This fund accounts for the financial resources used for the acquisition or construction of major capital facilities.

Building Project Construction Fund

The Project Construction Fund accounts for the capital improvements associated with the energy conservation measures the District is implementing.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 cash receipts over/(under) cash disbursements, changes in net assets, and cash basis financial position. Proprietary funds are classified as enterprise or internal service; the 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 District on a cost reimbursement basis. The District's only internal service fund accounts for the 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 District's only fiduciary fund is an agency fund.

Agency Fund 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 fund is used to account for student-managed activities.

Basis of Presentation

The 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 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 District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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 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 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 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 District.

Fund Financial Statements

During the year, the District segregates transactions related to certain 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 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 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

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement are based on estimates made before the end of the prior fiscal year. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

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

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 services that are the primary activity of the fund.

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, 2010. Individual fund balance integrity is maintained through the 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 2010, interest receipts amounted to \$2,336 of which \$1,690 was recorded in the General Fund \$213 was recorded in the Building Project Construction Fund, and \$433 was recorded in Classroom Facilities Fund.

Capital Assets and Depreciation

Capital assets acquired or constructed for the 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.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net cash assets represent the cash assets held by the 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 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 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, 2010, of the District's \$906,677 in restricted net assets, none was restricted by enabling legislation.

Fund Balance Reserves

The 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.

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 District for the purchase of textbooks and materials. See Note 13 for additional information regarding set-asides.

3. DEPOSITS AND INVESTMENTS

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

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

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

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

3. DEPOSITS AND INVESTMENTS (Continued)

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:

1. United States treasury notes, bills, bonds, or other obligations or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time;
9. Linked deposits as authorized by ordinance adopted pursuant to section 135.80 of the Revised Code;
10. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and
11. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations both the following apply: obligations are eligible for purchase by the federal reserve system and the obligations mature no later than one hundred eighty days after purchase.

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

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

3. DEPOSITS AND INVESTMENTS (Continued)

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

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

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the 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 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, 2010, the District’s bank balance of \$1,174,646 is either covered by FDIC or collateralized by the financial institution’s public entity deposit pool in the manner described above.

The District held no investments at June 30, 2010.

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 District’s General and Major Special Revenue Funds:

	General Fund	Classroom Maintenance
Budgetary Basis Fund Balance	\$ 46,840	\$169,594
Encumbrances	<u>65,938</u>	<u>0</u>
Fund Cash Balance	<u>\$112,778</u>	<u>\$169,594</u>

5. PROPERTY TAX

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2010 represents collections of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed value listed as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

5. PROPERTY TAX (Continued)

Public utility property tax revenue received in calendar year 2010 represents collections of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2010, and are collected in 2010 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar year 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after April 1, 2009, on the value as of December 31, 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

	Perry and Hocking Counties			
	2009 Second- Half Collections		2010 First- Half Collections	
	Amount	Percent	Amount	Percent
<u>Real Property</u>				
Resident/Agricultural	\$ 35,412,410	83.37%	\$ 35,655,180	83.24%
Commercial/Industrial	2,957,590	6.96%	3,207,230	7.49%
Public Utilities	118,150	0.28%	51,690	0.12%
Minerals	813,740	1.92%	916,800	2.14%
<u>Tangible Personal Property</u>				
Public Utilities	3,173,390	7.47%	3,005,780	7.02%
Total	<u>\$ 42,475,280</u>	<u>100.00%</u>	<u>\$ 42,836,680</u>	<u>100.00%</u>

The Perry and Hocking County Treasurers collect property taxes 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.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

6. DEBT OBLIGATIONS

Debt outstanding at June 30, 2010, consisted of the following:

<u>Debt</u>	<u>Beginning Balance 6/30/2009</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance 6/30/2010</u>	<u>Due in One Year</u>
School Improvement Advance Refunding Bonds, 3.7% to 9.6%	\$ 275,794	\$ -	\$ 54,046	\$ 221,748	\$ 50,975
School Facilities Improvement Notes, 5.0%	158,710	-	8,165	150,545	8,579
Energy Conservation Improvement Notes, 4.5% to 5.5%	-	998,947	12,777	986,170	49,414
Capital Lease*	100,687	-	21,715	78,972	24,223
Total	<u>\$ 535,191</u>	<u>\$ 998,947</u>	<u>\$ 96,703</u>	<u>\$ 1,437,435</u>	<u>\$ 133,191</u>

* Certain restatements were made to correctly reflect beginning balances. There was no effect on net assets.

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

The Energy Conservation Improvement Notes were issued in the amount of \$998,947 in 2010 for the purpose of purchasing and installing energy conservation measures. The notes are direct obligations of the District for which its full faith, credit and resources are pledged. Payments are made from the Bond Retirement fund.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

6. DEBT OBLIGATIONS (Continued)

The annual requirements to amortize debt outstanding as of June 30, 2010 are as follows:

Year Ending June 30	Advance Refunding Bonds		School Facilities Improvement Notes		Energy Conservation Improvement Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 50,975	\$ 94,025	\$ 8,579	\$ 7,421	\$ 49,414	\$ 101,446
2012	46,330	93,670	9,013	6,987	51,675	100,657
2013	43,844	96,156	9,469	6,531	53,201	102,687
2014	41,450	98,550	9,949	6,051	54,982	104,601
2015	39,149	100,852	10,452	5,548	57,782	106,400
2016-2020	-	-	60,756	19,244	330,803	19,244
2021-2024	-	-	42,327	5,796	388,313	5,796
Total	<u>\$ 221,748</u>	<u>\$ 483,253</u>	<u>\$ 150,545</u>	<u>\$ 57,578</u>	<u>\$ 986,170</u>	<u>\$ 540,831</u>

Year Ending June 30	Total	
	Principal	Interest
2011	\$ 108,968	\$ 152,735
2012	107,018	149,685
2013	106,514	149,338
2014	106,381	148,620
2015	107,383	147,618
2016-2020	391,559	175,560
2021-2024	430,640	58,769
Total	<u>\$ 1,358,463</u>	<u>\$ 982,325</u>

The District's overall legal debt margin was \$2,693,698 with an unvoted debt margin of \$42,837 at June 30, 2010.

7. LEASE OBLIGATION

In a previous fiscal year, the District entered into leases for security equipment and the use of copiers. The leases are being paid from the General fund. The annual requirements to amortize the lease obligations outstanding as of June 30, 2010, are as follows:

Year Ending June 30	Amount
2011	\$ 24,223
2012	22,034
2013	15,468
2014	15,468
2015	1,779
Total	<u>\$ 78,972</u>

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During the year ended June 30, 2010, the District contracted with the Ohio Casualty Company for property insurance and boiler and machinery coverage. Buildings and contents are 100 percent coinsured.

Vehicles are covered by the Ohio Casualty Company and include deductibles of \$500. Vehicle liability has a \$1,000,000 single occurrence limit. Professional and general liability is covered through the Ohio Casualty 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 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 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 District. Under the cash basis of accounting the District does not record a claims liability at fiscal year end, nor do they report claims liability information for previous years.

9. PENSION PLANS

School Employees Retirement System

The 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 or by calling toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under *Employer/Audit Resources*.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year 2010, the allocation to pension and death benefits is 12.78%. The remaining 1.22% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The District's required contributions for pension obligations to SERS for the years ended June 30, 2010, 2009, and 2008 were \$134,388, \$130,356, and \$128,760, respectively, which represents the required annual contribution for each year.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

9. PENSION PLANS (Continued)

State Teachers Retirement System

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

9. PENSION PLANS (Continued)

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or an equivalent lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

For fiscal years 2010, 2009, and 2008, plan members were required to contribute 10% of their annual covered salaries. The District was required to contribute 14%; 13% was the portion used to fund pension obligations.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$576,576, \$541,008, and \$518,832, respectively, which represents the required annual contribution for each year.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

9. PENSION PLANS (Continued)

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2010, one member of the Board of Education had elected Social Security. The Board's liability is 6.2 percent of wages paid.

10. POST-EMPLOYMENT BENEFITS

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan; and a combined plan, which is a hybrid of the defined benefit and defined contribution plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to Section 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll free (888) 227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2010, 2009, and 2008. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the District, these amounts equaled \$41,184, \$38,643, and \$37,059 for fiscal years 2010, 2009, and 2008, respectively, which equaled the required contributions for these years.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 for most participants, but could be as high as \$353.60 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal years 2010, 2009, and 2008, the actuarially required allocations were 0.76 percent, 0.75 percent, and 0.66 percent, respectively. For the District, contributions for the years ended June 30, 2010, 2009, and 2008, were \$7,295, \$6,983, and \$6,254, which equaled the required contributions for those years.

Health Care Plan

Ohio Revised Code 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

10. POST-EMPLOYMENT BENEFITS (Continued)

The Ohio Revised Code provides the statutory authority to fund SERS' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e).

Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2010, 2009, and 2008, the health care allocations were 0.46 percent, 4.16 percent, and 4.18 percent, respectively. For the District, the amounts contributed to fund health care benefits, including the surcharge, during the 2010, 2009, and 2008 fiscal years equaled \$22,551, \$56,115, and \$43,691, respectively, which equaled the required contributions for these years.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the minimum compensation level was established at \$35,800.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending upon the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS website at www.ohsers.org under *Employer/Audit Resources*.

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 28 participants consisting of 25 school districts and 3 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, Robert Lindsey, CEO/Director, at 221 North Columbus Road, Athens, Ohio 45701.

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 District and the District does not maintain an equity interest in or a financial responsibility for the Coalition.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

12. PURCHASING POOLS

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

The 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 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 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.

	Textbooks & Instructional Materials	Capital Acquisition	Total
Set-Aside Reserve Cash Balance as of June 30, 2009	\$ 146,236	\$ -	\$ 146,236
Current Year Set-Aside Requirement	140,842	140,842	281,684
Qualifying Disbursements	(58,907)	(66,247)	(125,154)
Prior Year Offset from Bond Proceeds	-	(74,595)	
Totals	228,171	-	302,766
Set-Aside Reserve Cash Balance as of June 30, 2010	\$ 228,171	\$ -	\$ 228,171

The amount presented for Prior Year Offset from Bond Proceeds is limited to an amount needed to reduce the reserve for capital improvements to zero. The School District is responsible for tracing the amount of the bond proceeds that may be used as an offset in future periods, which was \$2,573,491 at June 30, 2010.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

14. CONTINGENCIES

A. Grants

The 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 District at June 30, 2010.

B. Litigation

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

15. INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the year ended June 30, 2010, were as follows:

Funds:	Transfer To:	Transfer From:
Major		
General Fund	\$ -	\$ 64,143
Non-Major Special Revenue Fund		
Lunchroom	61,539	-
Internal Service Fund	2,604	-
Total	<u>\$ 64,143</u>	<u>\$ 64,143</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, 2010, were as follows:

Funds:	Advance To:	Advance From:
Major		
General Fund	\$ -	\$ 46,775
Building Project Construction	149,842	-
Non-Major Special Revenue Fund		
Lunchroom	46,775	-
Non-Major Capital Projects Fund		
Building Improvement	-	149,842
Total	<u>\$ 196,617</u>	<u>\$ 196,617</u>

The advance to the Lunchroom special revenue fund was made to provide support until a reimbursement from the food service vendor is received. The advance between capital projects funds is to repay a prior year advance.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

16. COMPLIANCE

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its financial report in accordance with accounting principles generally accepted in the United States of America (GAAP), the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. This is not in compliance with Ohio law.

Southern Local School District
Perry County

Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2010

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>						
<i>Nutrition Cluster:</i>						
National School Breakfast Program	05PU	10.553	\$ 130,241	\$ -	\$ 130,241	\$ -
National School Lunch Program	LLP4	10.555	176,515	19,140	176,515	19,140
Total Nutrition Cluster			306,756	19,140	306,756	19,140
Distance Learning Grant	N/A	10.855	-	-	2,566	-
Child Nutrition Discretionary Grants - ARRA	N/A	10.579	6,700	-	6,700	-
Total United States Department of Agriculture			313,456	19,140	316,022	19,140
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Title I Cluster</i>						
Title I Grants to Local Education Agencies	C1S1	84.010	300,729	-	340,923	-
Title I Grants to Local Education Agencies - ARRA	N/A	84.389	61,493	-	51,102	-
Total Title I Cluster			362,222	-	392,025	-
<i>Special Education Cluster</i>						
Special Education- Grants to States	6BSF	84.027	204,654	-	199,127	-
Special Education- Grants to States - ARRA	N/A	84.391	99,542	-	98,060	-
Total Special Education Cluster			304,196	-	297,187	-
Safe and Drug Free Schools and Communities State Grants	DRS1	84.186	3,777	-	4,196	-
Javits Gifted Grant	N/A	84.206	100	-	100	-
Twenty-First Century Community Learning Centers	T1S1	84.287	132,646	-	141,388	-
State Grants for Innovative Programs	C2S1	84.298	-	-	2,221	-
Education Technology State Grants	TJS1	84.318	288	-	5	-
Reading First State Grants	N/A	84.357	381,590	-	434,513	-
Rural Education	N/A	84.358	6,611	-	13,616	-
Improving Teacher Quality State Grants	TRS1	84.367	62,025	-	83,147	-
State Fiscal Stabilization Fund (SFSF) - Education State Grants, ARRA	N/A	84.394	431,868	-	431,868	-
Total United States Department of Education			1,018,905	-	1,111,054	-
Total Federal Financial Assistance			<u>\$ 1,992,079</u>	<u>\$ 19,140</u>	<u>\$ 2,116,288</u>	<u>\$ 19,140</u>

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

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

*Notes to Schedule of Federal Awards Receipts and Expenditures
For the Fiscal Year Ended June 30, 2010*

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards receipts and 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 value.

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 Required
by *Government Auditing Standards***

Southern Local School District
10397 State Route 155 SE #1
Corning, Ohio 45730

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Southern Local School District, Perry County (the School District) as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 28, 2010, wherein we noted that the School 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 the Comptroller General of the United States' *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for to opine on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and timely corrected.

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

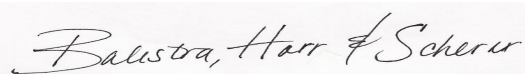
Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2010-001.

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

We noted certain non-compliance and other matter reported to the School District in a separate letter dated October 28, 2010.

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 others within the School District. We intend it for no one other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

October 28, 2010



**Report on Compliance With Requirements Applicable to Each Major Federal Program and
on Internal Control Over Compliance Required by OMB Circular A-133**

Southern Local School District
10397 State Route 155 SE #1
Corning, Ohio 45730

To the Board of Education:

Compliance

We have audited the compliance of the Southern Local School District, Perry County (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the Southern Local School District complied, in all material respects, with the requirements referred to above that are apply to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

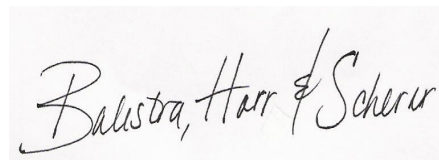
The School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of opining on compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

Internal Control Over Compliance (Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of 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 over compliance that might be deficiencies, 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.

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

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

Balestra, Harr & Scherer, CPAs, Inc.

October 28, 2010

SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY
JUNE 30, 2010

SCHEDULE OF FINDINGS
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 control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material 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 deficiencies in internal control 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):	Title I Cluster: Title I – Grants to Local Education Agencies – CFDA # 84.010 Title I – Grants to Local Education Agencies – ARRA – CFDA # 84.389 Nutrition Cluster – CFDA #10.553 & 10.555 Reading First State Grants – CFDA #84.357 State Fiscal Stabilization Fund – Education State Grants – ARRA – CFDA #84.394
(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, 2010

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505

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

Finding Number 2010-001

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, which further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. The District prepares its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

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, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2009-001	Ohio Revised Code Section 117.38 and Ohio Admin. Code Section 117-2- 03 (B), failing to prepare the School District's financial statements in accordance with generally accepted accounting principles.	No	Not Corrected
2009-002	Ohio Revised Code Section 5705.36(A)(2), appropriations exceeded the available resources.	Yes	

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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
JANUARY 13, 2011**