



Rea & associates *a brighter way*

# Southern Local School District Columbiana County, Ohio

## *Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2015





# Dave Yost • Auditor of State

Board of Education  
Southern Local School District  
38095 State Route 39 East  
Salineville, Ohio 43945

We have reviewed the *Independent Auditor's Report* of the Southern Local School District, Columbiana County, prepared by Rea & Associates, Inc., for the audit period July 1, 2014 through June 30, 2015. 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.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

May 13, 2016

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**Southern Local School District**  
**Columbiana County, Ohio**  
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**Columbiana County, Ohio**  
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February 10, 2016

To the Board of Education  
Southern Local School District  
Columbiana County, Ohio  
38095 State Road 39 East  
Salineville, OH 43945

## **Independent Auditor's Report**

### **Report on the Financial Statements**

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, Columbiana County, Ohio, (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Local School District, Columbiana County, Ohio, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in Note 3, the District restated net position balances to account for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to these matters.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of the District's Proportionate Share of the Net Pension Liability and Schedule of District Contributions* on pages 5-16, 63-64 and 65-68, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2016 on our consideration of the 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

*Hea & Associates, Inc.*

New Philadelphia, Ohio

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**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)**

The management discussion and analysis of the Southern Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2015 are as follows:

- In total, net position of governmental activities decreased \$237,808, which represents an 11.17% decrease from 2014 as restated in Note 3.A.
- General revenues accounted for \$8,497,463 in revenue or 74.27% of all revenues. Program specific revenues in the form of charges for services and sales, and operating grants and contributions accounted for \$2,943,980 or 25.73% of total revenues of \$11,441,443.
- The District had \$11,679,251 in expenses related to governmental activities; \$2,943,980 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,497,463 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and bond retirement fund. The general fund had \$9,545,226 in revenues and \$9,296,832 in expenditures and other financing uses. During fiscal year 2015 the general fund's fund deficit decreased \$248,394 from a deficit balance of \$606,488 to a deficit of \$358,094.
- The District's bond retirement fund had \$278,875 in revenues and \$249,376 in expenditures. During fiscal year 2015, the bond retirement fund's fund balance increased \$29,499 from \$514,698 to \$544,197.

**Using these Basic Financial Statements**

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

The *statement of net position* and *statement of activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and bond retirement fund are by far the most significant funds, and the only governmental funds reported as major funds.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)

**Reporting the District as a Whole**

***Statement of Net position and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2015?" The statement of net position and the statement of activities answer this question. These statements include *all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net position and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net position and statement of activities can be found on pages 17-18 of this report.

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

The analysis of the District's major governmental funds begins on page 14. Fund financial reports provide detailed information about the District's major funds. 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 and the bond retirement 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 year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net position and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 19-23 of this report.

***Proprietary Funds***

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical and dental self-insurance. The basic proprietary fund financial statements can be found on pages 24-26 of this report.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)**

***Reporting the District's Fiduciary Responsibilities***

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary assets and liabilities are reported in a separate statement of fiduciary assets and liabilities on page 27. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 28-62 of this report.

***Required Supplemental Information***

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net position liability. The required supplementary information can be found on pages 63-69 of this report.

**The District as a Whole**

The statement of net position provides the perspective of the District as a whole.

The table on the following page provides a summary of the District's net position at June 30, 2015 and June 30, 2014. The net position at June 30, 2014 has been restated as described in Note 3.A.

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**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)

	<b>Net Position</b>	
	Governmental	Restated
	Activities <u>2015</u>	Governmental Activities <u>2014</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 3,644,697	\$ 3,837,535
Capital assets, net	<u>11,121,737</u>	<u>11,751,502</u>
Total assets	<u>14,766,434</u>	<u>15,589,037</u>
<b><u>Deferred Outflows of Resources</u></b>		
Unamortized deferred charges on debt refunding	63,323	70,047
Pension	<u>719,641</u>	<u>581,172</u>
Total deferred outflows of resources	<u>782,964</u>	<u>651,219</u>
<b><u>Liabilities</u></b>		
Current liabilities	1,028,655	1,117,966
Long-term liabilities:		
Due within one year	328,780	277,751
Due within more than one year:		
Net pension liability	9,892,468	11,757,298
Other amounts	<u>2,929,268</u>	<u>3,167,760</u>
Total liabilities	<u>14,179,171</u>	<u>16,320,775</u>
<b><u>Deferred Inflows of Resources</u></b>		
Property taxes levied for the next fiscal year	1,944,499	2,048,793
Pension	<u>1,792,898</u>	<u>-</u>
Total deferred inflows of resources	<u>3,737,397</u>	<u>2,048,793</u>
<b><u>Net Position</u></b>		
Net investment in capital assets	8,438,701	8,801,400
Restricted	608,369	549,354
Unrestricted (deficit)	<u>(11,414,190)</u>	<u>(11,480,066)</u>
Total net position (deficit)	<u>\$ (2,367,120)</u>	<u>\$ (2,129,312)</u>

During 2015, the District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$9,046,814 to (\$2,129,312).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2015, the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by (\$2,367,120).

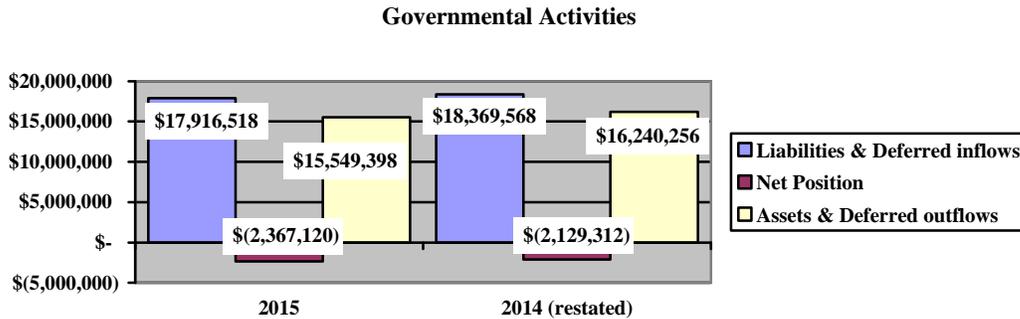
**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)**

At year-end, capital assets represented 75.32% of total assets. Capital assets include land, land improvements, buildings and improvements, infrastructure, furniture and equipment and vehicles. Net investment in capital assets was \$8,438,701. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

During fiscal year 2015, current assets and net capital assets decreased. This was due to the District's depreciation exceeding current year additions.

The graph below presents the District's governmental activities assets and deferred outflows, liabilities and deferred inflows, and net position at June 30, 2015 and June 30, 2014.



The table below shows the change in net position for fiscal year 2015 and 2014.

	<b>Change in Net Position</b>	
	Governmental Activities 2015	Restated Governmental Activities 2014
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 1,005,106	\$ 891,988
Operating grants and contributions	1,938,874	2,394,013
General revenues:		
Property taxes	2,092,352	2,056,873
Grants and entitlements	6,338,251	6,142,855
Investment earnings	2,635	1,861
Other	<u>64,225</u>	<u>122,365</u>
Total revenues	<u>11,441,443</u>	<u>11,609,955</u>

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)

	<b>Change in Net Position</b>	
	Governmental	Restated
	Activities	Governmental Activities
	<u>2015</u>	<u>2014</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 4,900,045	\$ 4,642,261
Special	1,521,814	1,267,038
Vocational	229,102	229,535
Other	24,472	411,110
Support services:		
Pupil	484,423	825,690
Instructional staff	338,256	561,673
Board of education	205,273	141,442
Administration	728,491	927,912
Fiscal	251,133	251,243
Business	79,849	66,038
Operations and maintenance	1,046,719	978,116
Pupil transportation	848,698	609,069
Central	32,262	76,836
Operation of non-instructional services:		
Food service operations	454,759	420,157
Other non-instructional services	24,338	27,110
Extracurricular activities	360,751	328,681
Interest and fiscal charges	<u>148,866</u>	<u>155,614</u>
Total expenses	<u>11,679,251</u>	<u>11,919,525</u>
Change in net position	<u>(237,808)</u>	<u>(309,570)</u>
Net position (deficit) at beginning of year (restated)	<u>(2,129,312)</u>	<u>N/A</u>
Net position (deficit) at end of year	<u>\$ (2,367,120)</u>	<u>\$ (2,129,312)</u>

**Governmental Activities**

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$581,172 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$415,835.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)**

Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$ 11,679,251
Pension expense under GASB 68	(415,835)
2015 contractually required contributions	<u>626,236</u>
Adjusted 2015 program expenses	11,889,652
Total 2014 program expenses under GASB 27	<u>11,919,525</u>
Decrease in program expenses not related to pension	<u>\$ (29,873)</u>

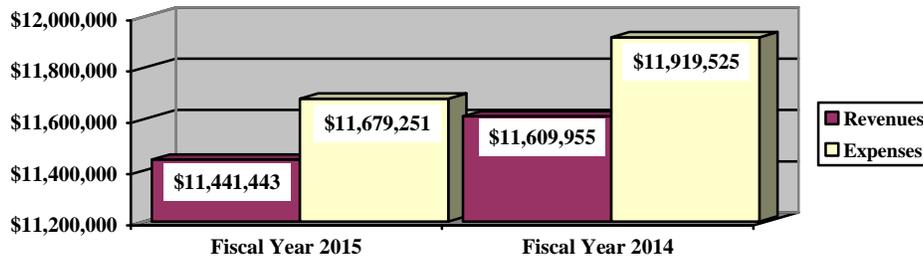
Net position of the District's governmental activities decreased \$237,808. Total governmental expenses of \$11,679,251 were offset by program revenues of \$2,943,980 and general revenues of \$8,497,463. Program revenues supported 25.21% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 73.68% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,675,433 or 57.16% of total governmental expenses for fiscal year 2015.

The graph below presents the District's governmental activities revenues and expenses for fiscal year 2015 and 2014.

**Governmental Activities - Revenues and Expenses**



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)**

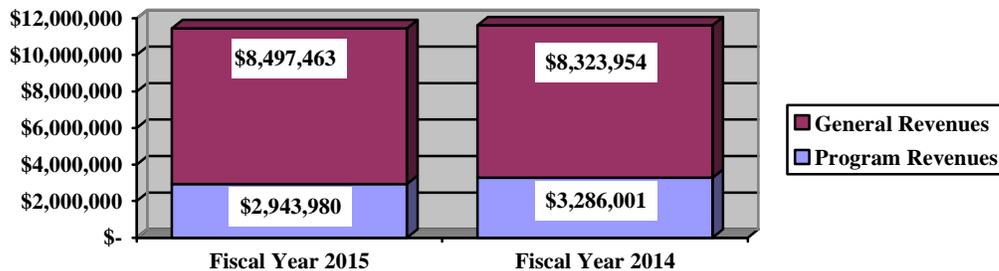
**Governmental Activities**

	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>	Total Cost of Services <u>2014</u>	Net Cost of Services <u>2014</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 4,900,045	\$ 4,073,765	\$ 4,642,261	\$ 3,929,568
Special	1,521,814	152,156	1,267,038	179,506
Vocational	229,102	198,640	229,535	189,673
Other	24,472	24,472	411,110	58,753
Support services:				
Pupil	484,423	479,957	825,690	662,135
Instructional staff	338,256	281,208	561,673	294,681
Board of education	205,273	205,273	141,442	141,442
Administration	728,491	659,383	927,912	861,376
Fiscal	251,133	251,133	251,243	251,243
Business	79,849	79,849	66,038	66,038
Operations and maintenance	1,046,719	1,043,119	978,116	974,516
Pupil transportation	848,698	846,836	609,069	606,287
Central	32,262	32,262	76,836	38,402
Food service operations	454,759	9,212	420,157	(23,170)
Other non-instructional services	24,338	(5,289)	27,110	1,477
Extracurricular activities	360,751	254,429	328,681	245,983
Interest and fiscal charges	148,866	148,866	155,614	155,614
<b>Total expenses</b>	<b><u>\$ 11,679,251</u></b>	<b><u>\$ 8,735,271</u></b>	<b><u>\$ 11,919,525</u></b>	<b><u>\$ 8,633,524</u></b>

The dependence upon tax and other general revenues for governmental activities is apparent, 66.65% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 74.79%. The District's taxpayers and unrestricted grants and entitlements from the State are by far the primary support for the District's students.

The graph below presents the District's governmental activities revenues for fiscal year 2015 and 2014.

**Governmental Activities - General and Program Revenues**



**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)

**The District's Funds**

The District's governmental funds reported a combined fund balance of \$456,036, which is higher than last year's total of \$93,681. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2015 and 2014.

	Fund Balance (Deficit) <u>June 30, 2015</u>	Fund Balance (Deficit) <u>June 30, 2014</u>	<u>Increase</u>	<u>Percentage Change</u>
General	\$ (358,094)	\$ (606,488)	\$ 248,394	40.96 %
Bond Retirement	544,197	514,698	29,499	5.73 %
Other Governmental	<u>269,933</u>	<u>185,471</u>	<u>84,462</u>	45.54 %
Total	<u>\$ 456,036</u>	<u>\$ 93,681</u>	<u>\$ 362,355</u>	386.80 %

**General Fund**

The District's general fund deficit decreased \$248,394 or 40.96%. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2015 Amount</u>	<u>2014 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 1,664,597	\$ 1,722,564	\$ (57,967)	(3.37) %
Tuition	729,895	644,849	85,046	13.19 %
Earnings on investments	-	112	(112)	(100.00) %
Intergovernmental	6,975,410	6,721,544	253,866	3.78 %
Other revenues	<u>175,324</u>	<u>219,498</u>	<u>(44,174)</u>	(20.13) %
Total	<u>\$ 9,545,226</u>	<u>\$ 9,308,567</u>	<u>\$ 236,659</u>	2.54 %
<b><u>Expenditures</u></b>				
Instruction	\$ 5,339,074	\$ 5,034,875	\$ 304,199	6.04 %
Support services	3,589,773	3,799,862	(210,089)	(5.53) %
Extracurricular activities	256,212	184,457	71,755	38.90 %
Debt service	<u>1,773</u>	<u>10,633</u>	<u>(8,860)</u>	(83.33) %
Total	<u>\$ 9,186,832</u>	<u>\$ 9,029,827</u>	<u>\$ 157,005</u>	1.74 %

The District experienced a \$236,659 or 2.54% increase in general fund revenues. Intergovernmental revenue increased \$253,866 or 3.78% primarily due to an increase in the current fiscal year of economic disadvantage funding. Tuition increased \$85,046 or 13.19% due to an increase in special education tuition received during the fiscal year. Other revenues decreased \$44,174 or 20.13% due to a decrease in miscellaneous receipts during fiscal year 2015. Expenditures in the general fund increased \$157,005 or 1.74%. Extracurricular activities increased \$71,755 or 38.90% due to the District adding wrestling as an extracurricular sport during fiscal year 2015. Debt service decreased \$8,860 or 83.33% due to the District paying off the remainder of a capital lease in the fiscal year 2015. Additionally, there were support service expenditures that were reviewed and determined to be better allocated to other functions. All other revenues and expenditures remained consistent with the prior year.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)

***Bond Retirement Fund***

The District's bond retirement fund balance increased \$29,499 from \$514,698 to \$544,197 at June 30, 2015. The increase in fund balance can be attributed to revenues of \$278,875 being greater than expenditures of \$249,376.

***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 the course of fiscal 2015, the District amended its general fund budget. For the general fund, original budgeted revenues and other financing sources were \$9,325,302. Final budgeted revenues and other financing sources were \$9,677,676 and remained the same for the actual revenues and other financing sources for fiscal year 2015.

General fund original appropriations (appropriated expenditures including other financing uses) were \$9,294,449. General fund final appropriations (appropriated expenditures including other financing uses) were \$9,477,283. The actual budget basis expenditures and other financing uses for fiscal year 2015 totaled \$9,442,705, which represents a decrease of \$34,578 over final budgeted appropriations and other financing uses.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2015, the District had \$11,121,737 invested in land, land improvements, buildings and improvements, furniture and equipment, infrastructure and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2015 balances compared to June 30, 2014:

**Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities	
	2015	2014
Land	\$ 84,670	\$ 84,670
Land improvements	300,279	334,938
Building and improvements	10,313,254	10,880,688
Furniture and equipment	139,975	144,296
Infrastructure	59,439	66,432
Vehicles	224,120	240,478
Total	\$ 11,121,737	\$ 11,751,502

The overall decrease in capital assets of \$629,765 is due to depreciation expense of \$693,437 exceeding capital outlays of \$63,672 during the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)

***Debt Administration***

At June 30, 2015, the District had \$1,912,948 in general obligation bonds and \$929,476 in lease purchase obligations outstanding. Of this total, \$269,625 is due within one year and \$2,572,799 is due in greater than one year. The following table summarizes the bonds outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities <u>2015</u>	Governmental Activities <u>2014</u>
General obligation bonds	\$ 1,912,948	\$ 2,039,879
Capital lease obligations	-	1,754
Lease purchase obligations	<u>929,476</u>	<u>1,020,692</u>
Total	<u>\$ 2,842,424</u>	<u>\$ 3,062,325</u>

At June 30, 2015, the District's overall legal debt margin was \$6,842,762, and an unvoted debt margin of \$89,040.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**Current Financial Related Activities**

The District faces many challenges in the future. As the preceding information shows, the District relies heavily upon grants and entitlements and property taxes. Since future grant and entitlement revenue is expected to decrease, the reliance upon local taxes is increasingly important. The District may also face a situation where an operating levy may have to be passed by District voters in the near future in order for the District to obtain the necessary funds to meet its operating expenses.

The last challenge facing the District is the future of State funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. At this time, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

The District's system of budgeting and internal controls is well regarded. All of the District's financial abilities will be needed to meet the financial challenges of the future.

**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 questions about this report or need additional financial information contact Mr. Greg Sabbato, Treasurer, Southern Local School District, 38095 State Route 39, Salineville, Ohio 43945.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

STATEMENT OF NET POSITION  
JUNE 30, 2015

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . .	\$ 1,285,453
Receivables:	
Property taxes . . . . .	2,182,937
Intergovernmental . . . . .	169,269
Prepayments . . . . .	484
Inventory held for resale. . . . .	6,554
Capital assets:	
Land . . . . .	84,670
Depreciable capital assets, net. . . . .	11,037,067
Capital assets, net. . . . .	11,121,737
Total assets. . . . .	14,766,434
<b>Deferred outflows of resources:</b>	
Unamortized deferred charges on debt refunding	63,323
Pension - STRS . . . . .	572,599
Pension - SERS . . . . .	147,042
Total deferred outflows of resources . . . . .	782,964
<b>Liabilities:</b>	
Accounts payable. . . . .	26,173
Accrued wages and benefits payable . . . . .	719,911
Intergovernmental payable . . . . .	39,530
Pension and postemployment benefits payable .	112,488
Accrued interest payable . . . . .	4,196
Claims payable. . . . .	126,357
Long-term liabilities:	
Due within one year. . . . .	328,780
Due in more than one year:	
Net pension liability . . . . .	9,892,468
Other amounts due in more than one year .	2,929,268
Total liabilities . . . . .	14,179,171
<b>Deferred inflows of resources:</b>	
Property taxes levied for the next fiscal year. .	1,944,449
Pension - STRS. . . . .	1,526,607
Pension - SERS. . . . .	266,291
Total deferred inflows of resources . . . . .	3,737,347
<b>Net position:</b>	
Net investment in capital assets . . . . .	8,438,701
Restricted for:	
Capital projects . . . . .	31,913
Classroom facilities maintenance . . . . .	27,527
Debt service. . . . .	368,920
State funded programs. . . . .	165
Federally funded programs . . . . .	27,501
Student activities . . . . .	16,572
Other purposes . . . . .	135,771
Unrestricted (deficit) . . . . .	(11,414,190)
Total net position (deficit). . . . .	\$ (2,367,120)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

		<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Position</b>
	<b>Expenses</b>	<b>Charges for Services and Sales</b>	<b>Operating Grants and Contributions</b>	<b>Governmental Activities</b>
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 4,900,045	\$ 717,258	\$ 109,022	\$ (4,073,765)
Special . . . . .	1,521,814	80,758	1,288,900	(152,156)
Vocational . . . . .	229,102	-	30,462	(198,640)
Other . . . . .	24,472	-	-	(24,472)
Support services:				
Pupil . . . . .	484,423	-	4,466	(479,957)
Instructional staff . . . . .	338,256	-	57,048	(281,208)
Board of education . . . . .	205,273	-	-	(205,273)
Administration . . . . .	728,491	-	69,108	(659,383)
Fiscal . . . . .	251,133	-	-	(251,133)
Business . . . . .	79,849	-	-	(79,849)
Operations and maintenance . . . . .	1,046,719	-	3,600	(1,043,119)
Pupil transportation . . . . .	848,698	-	1,862	(846,836)
Central . . . . .	32,262	-	-	(32,262)
Operation of non-instructional services:				
Other non-instructional services . . . . .	24,338	-	29,627	5,289
Food service operations . . . . .	454,759	100,768	344,779	(9,212)
Extracurricular activities . . . . .	360,751	106,322	-	(254,429)
Interest and fiscal charges . . . . .	148,866	-	-	(148,866)
<b>Total governmental activities . . . . .</b>	<b>\$ 11,679,251</b>	<b>\$ 1,005,106</b>	<b>\$ 1,938,874</b>	<b>(8,735,271)</b>
<b>General revenues:</b>				
Property taxes levied for:				
General purposes . . . . .				1,683,781
Debt service . . . . .				228,261
Facilities maintenance . . . . .				28,032
Capital projects . . . . .				152,278
Grants and entitlements not restricted to specific programs . . . . .				6,338,251
Investment earnings . . . . .				2,635
Miscellaneous . . . . .				64,225
<b>Total general revenues . . . . .</b>				<b>8,497,463</b>
<b>Change in net position . . . . .</b>				<b>(237,808)</b>
<b>Net position (deficit) at beginning of year (restated)</b>				<b>(2,129,312)</b>
<b>Net position (deficit) at end of year . . . . .</b>				<b>\$ (2,367,120)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents. . . . .	\$ 346,836	\$ 541,783	\$ 396,834	\$ 1,285,453
Receivables:				
Property taxes. . . . .	1,744,778	247,875	190,284	2,182,937
Interfund loans . . . . .	20,238	-	-	20,238
Intergovernmental. . . . .	70,276	-	98,993	169,269
Prepayments. . . . .	484	-	-	484
Inventory held for resale. . . . .	-	-	6,554	6,554
Due from other funds . . . . .	49,349	-	-	49,349
Total assets . . . . .	<u>\$ 2,231,961</u>	<u>\$ 789,658</u>	<u>\$ 692,665</u>	<u>\$ 3,714,284</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 13,320	\$ -	\$ 12,853	\$ 26,173
Accrued wages and benefits payable . . . . .	621,162	-	98,749	719,911
Compensated absences payable . . . . .	20,382	-	26,506	46,888
Intergovernmental payable . . . . .	36,646	-	2,884	39,530
Pension and postemployment benefits payable . . . . .	98,714	-	13,774	112,488
Interfund loans payable. . . . .	-	-	20,238	20,238
Due to other funds . . . . .	-	-	11,482	11,482
Total liabilities. . . . .	<u>790,224</u>	<u>-</u>	<u>186,486</u>	<u>976,710</u>
<b>Deferred inflows of resources:</b>				
Property taxes levied for the next fiscal year. . . . .	1,555,449	220,019	168,981	1,944,449
Delinquent property tax revenue not available. . . . .	174,106	25,442	19,491	219,039
Intergovernmental revenue not available. . . . .	70,276	-	47,774	118,050
Total deferred inflows of resources . . . . .	<u>1,799,831</u>	<u>245,461</u>	<u>236,246</u>	<u>2,281,538</u>
<b>Fund balances:</b>				
Nonspendable:				
Prepays. . . . .	484	-	-	484
Restricted:				
Debt service . . . . .	-	544,197	-	544,197
Capital improvements . . . . .	-	-	16,926	16,926
Classroom facilities maintenance . . . . .	-	-	24,450	24,450
Food service operations . . . . .	-	-	149,338	149,338
Special education . . . . .	-	-	794	794
Targeted academic assistance . . . . .	-	-	9,963	9,963
Other purposes. . . . .	-	-	12,881	12,881
Extracurricular. . . . .	-	-	16,572	16,572
Assigned:				
Capital improvements . . . . .	-	-	93,148	93,148
Unassigned (deficit) . . . . .	(358,578)	-	(54,139)	(412,717)
Total fund balances (deficit) . . . . .	<u>(358,094)</u>	<u>544,197</u>	<u>269,933</u>	<u>456,036</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 2,231,961</u>	<u>\$ 789,658</u>	<u>\$ 692,665</u>	<u>\$ 3,714,284</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2015

<b>Total governmental fund balances</b>		\$	456,036
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			11,121,737
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Taxes receivable	\$	219,039	
Intergovernmental receivable		118,050	
Total		337,089	337,089
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.			(164,224)
Unamortized premiums on bonds issued are not recognized in the funds.			(101,885)
Unamortized amounts on refundings are not recognized in the funds.			63,323
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(4,196)
The net pension liability is not due and payable in the current period; therefore, liability and related deferred inflows are not reported in governmental funds.			
Deferred outflows - Pension		719,641	
Deferred Inflows - Pension		(1,792,898)	
Net pension liability		(9,892,468)	
Total		(10,965,725)	(10,965,725)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds payable		(1,912,948)	
Lease purchase obligation payable		(929,476)	
Compensated absences		(266,851)	
Total		(3,109,275)	(3,109,275)
<b>Net position (deficit) of governmental activities</b>		\$	(2,367,120)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 1,664,597	\$ 236,108	\$ 181,213	\$ 2,081,918
Tuition . . . . .	729,895	-	-	729,895
Charges for services . . . . .	-	-	100,768	100,768
Extracurricular . . . . .	42,978	-	48,763	91,741
Contract services . . . . .	68,121	-	-	68,121
Other local revenues . . . . .	64,225	-	14,581	78,806
Intergovernmental - state . . . . .	6,929,215	42,767	195,465	7,167,447
Intergovernmental - federal . . . . .	46,195	-	1,054,348	1,100,543
Total revenues . . . . .	<u>9,545,226</u>	<u>278,875</u>	<u>1,595,138</u>	<u>11,419,239</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	4,186,428	-	109,022	4,295,450
Special . . . . .	891,414	-	569,142	1,460,556
Vocational . . . . .	236,237	-	-	236,237
Other . . . . .	24,995	-	-	24,995
Support services:				
Pupil . . . . .	472,346	-	3,032	475,378
Instructional staff . . . . .	253,839	-	56,268	310,107
Board of education . . . . .	207,848	-	-	207,848
Administration . . . . .	647,661	-	63,134	710,795
Fiscal . . . . .	241,562	7,023	5,410	253,995
Business . . . . .	79,849	-	-	79,849
Operations and maintenance . . . . .	906,913	-	176,701	1,083,614
Pupil transportation . . . . .	746,633	-	1,933	748,566
Central . . . . .	33,122	-	-	33,122
Operation of non-instructional services:				
Other operation of non-instructional . . . . .	-	-	24,338	24,338
Food service operations . . . . .	-	-	428,699	428,699
Extracurricular activities . . . . .	256,212	-	53,829	310,041
Debt service:				
Principal retirement . . . . .	1,754	170,000	91,216	262,970
Interest and fiscal charges . . . . .	19	72,353	37,952	110,324
Total expenditures . . . . .	<u>9,186,832</u>	<u>249,376</u>	<u>1,620,676</u>	<u>11,056,884</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>358,394</u>	<u>29,499</u>	<u>(25,538)</u>	<u>362,355</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	-	-	110,000	110,000
Transfers (out) . . . . .	(110,000)	-	-	(110,000)
Total other financing sources (uses) . . . . .	<u>(110,000)</u>	<u>-</u>	<u>110,000</u>	<u>-</u>
Net change in fund balances . . . . .	248,394	29,499	84,462	362,355
<b>Fund balances (deficit) at beginning of year .</b>	<u>(606,488)</u>	<u>514,698</u>	<u>185,471</u>	<u>93,681</u>
<b>Fund balances (deficit) at end of year . . . .</b>	<u>\$ (358,094)</u>	<u>\$ 544,197</u>	<u>\$ 269,933</u>	<u>\$ 456,036</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<b>Net change in fund balances - total governmental funds</b>	\$	362,355
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 63,672	
Current year depreciation	(693,437)	
Total		(629,765)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(61,752)	
Intergovernmental	79,654	
Total		17,902
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		262,970
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Accrued interest payable	431	
Accreted interest	(43,069)	
Amortization of bond premiums	10,820	
Amortization of deferred charges	(6,724)	
Total		(38,542)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(3,558)
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		626,236
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(415,835)
An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		(419,571)
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b>(237,808)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 1,711,600	\$ 1,715,566	\$ 1,715,566	\$ -
Tuition. . . . .	605,154	729,895	729,895	-
Contract services. . . . .	67,850	68,121	68,121	-
Other local revenues . . . . .	120,500	54,124	54,124	-
Intergovernmental - state . . . . .	6,711,238	6,934,757	6,934,757	-
Intergovernmental - federal . . . . .	-	46,195	46,195	-
Total revenues . . . . .	<u>9,216,342</u>	<u>9,548,658</u>	<u>9,548,658</u>	<u>-</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	2,975,123	4,287,152	4,282,956	4,196
Special. . . . .	875,572	897,113	896,235	878
Vocational. . . . .	238,152	245,275	245,035	240
Other. . . . .	28,262	24,993	24,969	24
Support services:				
Pupil. . . . .	477,803	478,364	477,896	468
Instructional staff . . . . .	275,922	253,598	253,350	248
Board of education . . . . .	1,279,618	208,182	207,978	204
Administration. . . . .	672,938	659,513	658,868	645
Fiscal . . . . .	211,578	242,600	242,363	237
Business . . . . .	56,000	81,702	81,622	80
Operations and maintenance. . . . .	942,421	940,522	914,144	26,378
Pupil transportation . . . . .	844,359	752,652	751,916	736
Central. . . . .	31,726	33,114	33,082	32
Extracurricular activities. . . . .	179,975	216,782	216,570	212
Total expenditures . . . . .	<u>9,089,449</u>	<u>9,321,562</u>	<u>9,286,984</u>	<u>34,578</u>
Excess of revenues over expenditures. . . . .	<u>126,893</u>	<u>227,096</u>	<u>261,674</u>	<u>34,578</u>
<b>Other financing sources (uses):</b>				
Refund of prior year's expenditures . . . . .	65,529	76,487	76,487	-
Refund of prior year's receipts. . . . .	-	(25,483)	(25,483)	-
Transfers (out). . . . .	(180,000)	(110,000)	(110,000)	-
Advances in. . . . .	43,431	43,431	43,431	-
Advances (out) . . . . .	(25,000)	(20,238)	(20,238)	-
Sale of capital assets . . . . .	-	9,100	9,100	-
Total other financing sources (uses) . . . . .	<u>(96,040)</u>	<u>(26,703)</u>	<u>(26,703)</u>	<u>-</u>
Net change in fund balance . . . . .	30,853	200,393	234,971	34,578
<b>Fund balance at beginning of year . . . . .</b>	<b>107,245</b>	<b>107,245</b>	<b>107,245</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>9,095</b>	<b>9,095</b>	<b>9,095</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b>\$ 147,193</b>	<b>\$ 316,733</b>	<b>\$ 351,311</b>	<b>\$ 34,578</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2015

		<b>Governmental Activities - Internal Service Fund</b>
<b>Liabilities:</b>		
Claims payable . . . . .	\$	126,357
Due to other funds . . . . .		37,867
		<hr/>
Total liabilities . . . . .		164,224
		<hr/>
<b>Net position:</b>		
Unrestricted (deficit) . . . . .		(164,224)
		<hr/>
Total net position (deficit) . . . . .	\$	(164,224)
		<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Charges for services . . . . .	\$ 1,549,623
Total operating revenues . . . . .	1,549,623
<b>Operating expenses:</b>	
Personal services. . . . .	424,810
Claims . . . . .	1,547,019
Total operating expenses. . . . .	1,971,829
Operating loss . . . . .	(422,206)
<b>Nonoperating revenues:</b>	
Interest revenue . . . . .	2,635
Total nonoperating revenues. . . . .	2,635
Change in net position . . . . .	(419,571)
<b>Net position at beginning of year. . . . .</b>	<b>255,347</b>
<b>Net position (deficit) at end of year . . . . .</b>	<b>\$ (164,224)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services. . . . .	\$ 1,549,623
Cash payments for purchased services. . . . .	(424,810)
Cash payments for claims . . . . .	<u>(1,580,890)</u>
Net cash used in operating activities . . . . .	<u>(456,077)</u>
<b>Cash flows from noncapital financing activities:</b>	
Cash received from interfund loans. . . . .	<u>37,867</u>
Net cash provided by noncapital financing activities. . . . .	<u>37,867</u>
<b>Cash flows from investing activities:</b>	
Interest received. . . . .	<u>2,635</u>
Net cash provided by investing activities . . . . .	<u>2,635</u>
Net decrease in cash with fiscal agent . . . . .	(415,575)
<b>Cash and cash equivalents at beginning of year . .</b>	<u>415,575</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u><u>\$ -</u></u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss . . . . .	\$ (422,206)
Changes in assets and liabilities:	
Decrease in claims payable . . . . .	<u>(33,871)</u>
Net cash used in operating activities . . . . .	<u><u>\$ (456,077)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
JUNE 30, 2015

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 39,424
Total assets. . . . .	<u>\$ 39,424</u>
<b>Liabilities:</b>	
Due to students. . . . .	\$ 39,424
Total liabilities . . . . .	<u>\$ 39,424</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

Southern Local School District (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 ranks as the 504<sup>th</sup> largest by total enrollment among the 918 public school districts and community schools in the State. The District operates under a locally-elected five-member Board form of government. Each member is elected to a four-year term. The District provides educational services as authorized by and further mandated by State and/or Federal agencies. The Board of Education controls the District's 2 instructional/support facilities staffed by 41 classified employees and 72 certified employees who provide services to 887 students and other community members.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government 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 of the District.

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 organization's 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 organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The following organizations are described due to their relationship to the District:

*JOINTLY GOVERNED ORGANIZATIONS*

Ohio Mid-Eastern Regional Educational Services Agency (OME-RESA)

OME-RESA is a not-for-profit computer service organization whose primary function is to provide information technology services to its member school districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by the OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records and test scoring.

The OME-RESA is one of 23 regional service organizations serving over 600 public school districts in the State of Ohio that make up the Ohio Educational Computer Network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code and their member school districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio school districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

Columbiana County Career and Technical Center - The Columbiana County Career and Technical Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected Boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Columbiana County Career Center, Treasurer, 9364 State Route 45, Lisbon, Ohio 44432.

*PUBLIC ENTITY RISK POOL*

Ohio Association of School Business Officials

The District participates in a group rating plan (GRP) for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniservice Inc. provides administrative, cost control and actuarial services to the GRP. Each year, the District pays an enrollment fee to the GRP to cover the costs of administering the program.

*INSURANCE PURCHASING POOLS*

Jefferson Health Plan

The District is a member of the Jefferson Health Plan, a partially self-insured consortium of public employers in Ohio. The consortium has over 100 member organizations participating. Monthly accruals are paid to a custodian bank, U.S. Bank, acting as trustee on behalf of the fiscal agent. The trustees disburse payments to vendors for services rendered and to satisfy claim reimbursements for covered plan participants.

The Jefferson Health Plan is located at 2023 Sunset Blvd., Steubenville, Ohio 43952. The Jefferson County Educational Service Center is one of Jefferson Health Plan's member districts and acts in the capacity of fiscal agent for Jefferson Health Plan.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority Board (SORSA), an insurance purchasing pool. SORSA's business affairs are conducted by a nine member Board of directors consisting of a President, Vice President, Secretary, Treasurer and five delegates. SORSA was created to provide joint self-insurance coverage and to assist members to prevent and reduce losses and injuries to the District's property and person. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a nonprofit corporation under provisions of Ohio Revised Code 2744.

**B. Fund Accounting**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and 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 purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the District's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond retirement fund - The bond retirement fund is used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources when the government is obligated in some manner for payment.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal service fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical/surgical and dental benefits to employees.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**C. Basis of Presentation and Measurement Focus**

Government-Wide Financial Statements - The statement of net position 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. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of 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. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the District are included on the statement of net position.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange Transactions - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources have been reported for the following two items related the District's net pension liability: (1) the difference between expected and actual experience of the pension systems, and (2) the District's contributions to the pension systems subsequent to the measurement date. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2015, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

The District also reports a deferred inflow of resources for the net difference between projected and actual earnings on pension plan investments related to the District's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**E. Budgets**

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2015 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Columbiana County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificates of estimated resources issued for fiscal year 2015.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary comparison statements at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2015; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be re-appropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

**F. Cash and Cash Equivalents**

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2015 amounted to \$0.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**G. Inventory**

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

**H. Capital Assets**

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2015, the District maintained its capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Land improvements	20 years
Buildings and improvements	20 - 50 years
Infrastructure	50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

**I. Interfund Balances**

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivable/payable". Receivables and payables resulting from short-term interfund loans from the general fund to cover negative cash balances in other governmental funds are classified as "due to/from other funds". These amounts are eliminated in the governmental activities column on the statement of net position.

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, employees age fifty or greater with ten years of service or any age with twenty years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The total liability for vacation and sick leave has been calculated using pay rates in effect at June 30, 2015 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

**L. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

*Restricted* - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

*Committed* - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**M. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its 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. The amount restricted for other purposes represents amounts restricted for the food service fund.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**N. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**O. Estimates**

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**P. Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses 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 and after nonoperating revenues/expenses in proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

**Q. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2015, the District had no extraordinary or special items.

**S. Bond Premium and Discount/Accounting Gain or Loss**

Bond premiums are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter and is presented as deferred outflows of resources. On the governmental fund financial statements, bond premiums are recognized in the current period.

A reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 10.A.

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles/Restatement of Net Position**

For fiscal year 2015, the District has implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27", GASB Statement No. 69 "Government Combinations and Disposals of Government Operations", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68".

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the District.

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 affected the District's pension plan disclosures, as presented in Note 13 to the financial statements, and added required supplementary information which is presented on pages 63-69.

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

A net position restatement is required in order to implement GASB Statement No 68 and 71. The governmental activities at July 1, 2014 have been restated as follows:

	Governmental Activities
Net position as previously reported	\$ 9,046,814
Deferred outflows - payments subsequent to measurement date	581,172
Net pension liability	(11,757,298)
Restated net position (deficit) at July 1, 2014	\$ (2,129,312)

Other than employer contributions subsequent to the measurement date, the District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available. The restatement had no effect on fund balances.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**B. Deficit Fund Balances/ Net Position**

Fund balances/ net position at June 30, 2015 included the following individual fund deficits:

	<u>Deficit</u>
General	\$ 358,094
<u>Nonmajor governmental funds</u>	
Title I	45,478
Improving Teacher Quality	8,661
<u>Proprietary fund</u>	
Self-Insurance	164,224

The deficit fund balances resulted from adjustments for accrued liabilities.

**NOTE 4 - 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.

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

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any 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;

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool the State Treasury Asset Reserve of Ohio (STAR Ohio and STAR Plus);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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.

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.

**A. Cash with Fiscal Agent**

The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposits, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2015, was (\$37,867). This deficit balance was covered by amounts due from the general fund (See Note 5.C).

**B. Deposits with Financial Institutions**

At June 30, 2015, the carrying amount of all District deposits was \$1,324,877. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", \$874,841 of the District's bank balance of \$1,374,841 was exposed to custodial risk as discussed below, while \$500,000 was covered by the FDIC.

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**C. Reconciliation of Cash and Investments to the Statement of Net Position**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2015:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,324,877
Total	<u>\$ 1,324,877</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 1,285,453
Agency fund	<u>39,424</u>
Total	<u>\$ 1,324,877</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A.** Interfund balances at June 30, 2015 as reported on the fund statements consist of the following individual interfund loans receivable and payable.

<u>Receivable fund</u>	<u>Payable funds</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 20,238</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore no internal balances at June 30, 2015 are reported on the statement of net position.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

- B.** Interfund transfers for the year ended June 30, 2015, consisted of the following, as reported on the fund financial statements:

<u>Transfers to nonmajor governmental funds from:</u>	<u>Amount</u>
General	\$ 110,000

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

- C.** Due from/to other funds consisted of the following at June 30, 2015, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Self-insurance	\$ 37,867
General	Nonmajor governmental	<u>11,482</u>
		<u>\$ 49,349</u>

The balance resulted from a negative cash balance in the self-insurance fund and permanent improvement fund (a nonmajor governmental fund) at fiscal year-end. The balances are eliminated on the government-wide financial statements.

**NOTE 6 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the 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 property and public utility property. Real property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed values as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Public utility real and personal property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2014, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 6 - PROPERTY TAXES - (Continued)**

The District receives property taxes from Columbiana and Jefferson Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2015, are available to finance fiscal year 2015 operations. The amount available as an advance at June 30, 2015 was \$15,223 in the general fund, \$2,414 in the bond retirement fund, \$1,532 in the permanent improvement fund (a nonmajor governmental fund) and \$280 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2014 was \$66,192 in the general fund, \$10,155 in the bond retirement fund, \$6,535 in the permanent improvement fund (a nonmajor governmental fund) and \$1,187 in the classroom facilities maintenance fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2015 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been reported as a deferred inflow.

The assessed values upon which the fiscal year 2015 taxes were collected are:

	2014 Second Half Collections		2015 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 80,435,100	91.96	\$ 81,605,590	91.65
Public utility personal	<u>7,036,690</u>	<u>8.04</u>	<u>7,433,998</u>	<u>8.35</u>
Total	<u>\$ 87,471,790</u>	<u>100.00</u>	<u>\$ 89,039,588</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$39.44		\$39.44	

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2015 consisted of taxes and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net position follows:

**Governmental activities:**

Taxes	\$ 2,182,937
Intergovernmental	<u>169,269</u>
Total	<u>\$ 2,352,206</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance 06/30/14	Additions	Deductions	Balance 06/30/15
<b>Governmental activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 84,670	\$ -	\$ -	\$ 84,670
Total capital assets, not being depreciated	<u>84,670</u>	<u>-</u>	<u>-</u>	<u>84,670</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	730,388	-	-	730,388
Buildings and improvements	17,666,808	23,590	-	17,690,398
Furniture and equipment	450,437	17,591	-	468,028
Infrastructure	139,856	-	-	139,856
Vehicles	<u>1,157,568</u>	<u>22,491</u>	<u>-</u>	<u>1,180,059</u>
Total capital assets, being depreciated	<u>20,145,057</u>	<u>63,672</u>	<u>-</u>	<u>20,208,729</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(395,450)	(34,659)	-	(430,109)
Buildings and improvements	(6,786,120)	(591,024)	-	(7,377,144)
Furniture and equipment	(306,141)	(21,912)	-	(328,053)
Infrastructure	(73,424)	(6,993)	-	(80,417)
Vehicles	<u>(917,090)</u>	<u>(38,849)</u>	<u>-</u>	<u>(955,939)</u>
Total accumulated depreciation	<u>(8,478,225)</u>	<u>(693,437)</u>	<u>-</u>	<u>(9,171,662)</u>
Governmental activities capital assets, net	<u>\$ 11,751,502</u>	<u>\$ (629,765)</u>	<u>\$ -</u>	<u>\$ 11,121,737</u>

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 8 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 559,953
<u>Support services:</u>	
Instructional staff	1,403
Administration	7,675
Operations and maintenance	22,130
Pupil transportation	39,229
Food service operations	4,691
Extracurricular activities	<u>58,356</u>
Total depreciation expense	<u>\$ 693,437</u>

**NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE**

**A.** In a prior year, the District entered into a capital lease for the acquisition of copiers. At inception, the lease was accounted for as an other financing source and as capital outlay expenditure in the general fund. Capital lease payments have been reclassified and shown as debt service expenditures in the general fund. These expenditures will be reflected as function expenditures on a budgetary basis. The general capital assets acquired by this capital lease have been capitalized in the governmental activities on the statement of net position in the amount of \$43,707, which is equal to the present value of the future minimum lease payments as of the date of their inception. Accumulated depreciation as of June 30, 2015 was \$43,707, leaving a current book value of \$0. A corresponding liability has been recorded in the governmental activities on the statement of net position. Principal payments made during fiscal year 2015 totaled \$1,754. This lease was fully paid in the current fiscal year and has no further outstanding liability for the District.

**B.** During fiscal year 2013, the District entered into lease-purchase agreement with the Ohio School Building Leasing Corporation to finance football field renovations, bleachers and a building at the District. The source of revenue to fund the principal and interest payments is derived from a permanent improvement tax levy.

A liability in the amount of the present value of minimum lease payments has been recorded in the governmental activities of the District.

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)**

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2015.

Fiscal Year Ending <u>June 30</u>	<u>Amount</u>
2016	\$ 129,168
2017	129,168
2018	129,170
2019	129,169
2020	129,168
2021 - 2024	<u>450,602</u>
Total	1,096,445
Less: amount representing interest	<u>(166,969)</u>
Present value of minimum lease payments	<u>\$ 929,476</u>

**NOTE 10 - LONG-TERM OBLIGATIONS**

A. During fiscal year 2015, the following changes occurred in governmental activities long-term obligations. The long-term obligations at June 30, 2014 have been restated as described in Note 3.A.

	Restated Balance Outstanding <u>06/30/14</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/15</u>	Amounts Due in <u>One Year</u>
<b>Governmental activities:</b>					
Refunding bonds - Series 2007					
Current interest	\$ 1,820,000	\$ -	\$ (170,000)	\$ 1,650,000	\$ 175,000
Capital appreciation	64,998	-	-	64,998	-
Accreted interest	<u>154,881</u>	<u>43,069</u>	-	<u>197,950</u>	-
Total general obligation bonds	<u>2,039,879</u>	<u>43,069</u>	<u>(170,000)</u>	<u>1,912,948</u>	<u>175,000</u>
Compensated absences	270,481	50,446	(7,188)	313,739	59,155
Capital lease obligation	1,754	-	(1,754)	-	-
Lease purchase obligation	1,020,692	-	(91,216)	929,476	94,625
Net pension liability	<u>11,757,298</u>	<u>-</u>	<u>(1,864,830)</u>	<u>9,892,468</u>	<u>-</u>
Total	<u>\$ 15,090,104</u>	<u>\$ 93,515</u>	<u>\$ (2,134,988)</u>	13,048,631	<u>\$ 328,780</u>
Add: Unamortized premium on refunding				<u>101,885</u>	
Total on statement of net position				<u>\$ 13,150,516</u>	

Compensated absences: Compensated absences will be paid from the fund from which the employees' salaries are paid, which, for the District, is primarily the general fund.

Capital leases: See Note 9 for details.

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**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

*Net Pension Liability:* Set Note 13 for details.

*Series 2007 Refunding General Obligation Bonds:* On August 21, 2007, the District issued general obligation bonds (Series 2007 refunding bonds) to advance refund the callable portion (\$2,465,000) of the Series 2001 general obligation bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position.

The refunding issue is comprised of both current interest bonds, par value \$2,400,000 and capital appreciation bonds par value \$64,998. The interest rates on the current interest bonds range from 3.75% - 4.35%. The capital appreciation bonds mature on December 1, 2016 and December 1, 2017 (stated interest rates 18.783%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds maturing December 1, 2016 and December 1, 2017 is \$375,000. Total accreted interest of \$197,950 has been included in the statement of net position at June 30, 2015.

The general obligation bonds will be paid from property tax revenues of the bond retirement – debt service fund.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2024.

Fiscal Year Ending June 30	Current Interest Bonds - Series 2007			Capital Appreciation Bonds - Series 2007		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 175,000	\$ 65,021	\$ 240,021	\$ -	\$ -	\$ -
2017	-	61,303	61,303	34,978	150,022	185,000
2018	-	61,303	61,303	30,020	159,980	190,000
2019	185,000	57,487	242,487	-	-	-
2020	195,000	49,649	244,649	-	-	-
2021 - 2025	<u>1,095,000</u>	<u>118,674</u>	<u>1,213,674</u>	-	-	-
Total	<u>\$ 1,650,000</u>	<u>\$ 413,437</u>	<u>\$ 2,063,437</u>	<u>\$ 64,998</u>	<u>\$ 310,002</u>	<u>\$ 375,000</u>

**B. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2015, are a voted debt margin of \$6,842,762, (including available funds of \$544,197) and an unvoted debt margin of \$89,040.

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**NOTE 11 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn 5 to 25 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment.

Principals, teachers, aides, secretaries, bus drivers and cafeteria workers do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to the number of annual work days per contract plus 90 days, not to exceed 300 days for certified employees and 280 for non-certified employees. Upon retirement, certified employees are paid for one-fourth of their total sick leave accumulation, up to their maximum accumulation, and classified employees are paid for one-fourth of their total sick leave accumulation, up to their maximum accumulation.

**B. Life Insurance**

The District provides life insurance and accidental death and dismemberment insurance to most employees through Epic Life Insurance Company. Each full-time employee receives \$30,000 in coverage.

**NOTE 12 - RISK MANAGEMENT**

**A. Comprehensive**

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. For fiscal year 2015, the District contracted with Schools of Ohio Risk Sharing Authority (SORSA) for property, boiler and inland marine insurance. This risk policy has a \$1,000 deductible.

General liability is protected by Schools of Ohio Risk Sharing Authority (SORSA) with a \$1,000,000 single occurrence limit and \$5,000,000 aggregate and no deductible. Vehicles, including school buses, are covered by Schools of Ohio Risk Sharing Authority (SORSA) and hold a \$1,000 deductible for comprehensive and collision. There is a \$1,000,000 combined single limit of liability.

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

**B. Workers' Compensation Plan**

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan, an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. Participants in the Plan are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the State based on the rate for its Plan tier rather than its individual rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Sheakley UniService, Inc. provides administrative, cost control, assistance with safety programs, and actuarial services to the Plan.

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**NOTE 12 - RISK MANAGEMENT - (Continued)**

**C. Medical, Vision, Dental and Prescription Insurance**

Medical, vision, dental and prescription insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of several Districts within the Eastern Region, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. The claims liability of \$126,357 reported in the internal service fund at June 30, 2015, is based on an estimate provided by Professional Risk Management (the third party administrator) and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims.

Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2015	\$ 160,228	\$ 1,547,019	\$ (1,580,890)	\$ 126,357
2014	164,962	1,511,850	(1,516,584)	160,228

**NOTE 13 - DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees' services in exchange for compensation including pension.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

***Plan Description - School Employees Retirement System (SERS)***

Plan Description –District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

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**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$133,078 for fiscal year 2015. Of this amount \$11,448 is reported as pension and postemployment benefits payable.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$493,158 for fiscal year 2015. Of this amount, \$74,428 is reported as pension and postemployment benefits payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportionate share of the net pension liability	\$ 1,640,707	\$ 8,251,761	\$ 9,892,468
Proportion of the net pension liability	0.03241900%	0.03392511%	
Pension expense	\$ 95,745	\$ 320,090	\$ 415,835

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ 13,964	\$ 79,441	\$ 93,405
District contributions subsequent to the measurement date	<u>133,078</u>	<u>493,158</u>	<u>626,236</u>
Total deferred outflows of resources	<u>\$ 147,042</u>	<u>\$ 572,599</u>	<u>\$ 719,641</u>
<b>Deferred inflows of resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 266,291</u>	<u>\$ 1,526,607</u>	<u>\$ 1,792,898</u>

\$626,236 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2016	\$ (63,082)	\$ (361,792)	\$ (424,874)
2017	(63,082)	(361,792)	(424,874)
2018	(63,082)	(361,792)	(424,874)
2019	<u>(63,081)</u>	<u>(361,790)</u>	<u>(424,871)</u>
Total	<u>\$ (252,327)</u>	<u>\$ (1,447,166)</u>	<u>\$ (1,699,493)</u>

**Actuarial Assumptions - SERS**

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 2,340,801	\$ 1,640,707	\$ 1,051,867

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 11,813,295	\$ 8,251,761	\$ 5,239,901

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 14 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. 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 2015, the District's surcharge obligation was \$17,256.

The District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$25,215, \$18,906, and \$16,082, respectively. For fiscal year 2015, 92.31 percent has been contributed, with the balance being reported as pension and postemployment benefits payable. The full amount has been contributed for fiscal years 2014 and 2013.

**B. State Teachers Retirement System**

Plan Description - The District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE 14 - POSTEMPLOYMENT BENEFITS (Continued)**

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$34,707, and \$36,508 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis)
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ 234,971
Net adjustment for revenue accruals	(47,410)
Net adjustment for expenditure accruals	111,132
Net adjustment for other sources/uses	(83,297)
Funds budgeted elsewhere	6,722
Adjustment for encumbrances	<u>26,276</u>
GAAP basis	<u>\$ 248,394</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the public school support fund.

**NOTE 16 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement 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 District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

The District is not involved in material litigation as either plaintiff or defendant.

**C. Foundation Funding**

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional Districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 17 - SET-ASIDES**

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2014	\$ -
Current year set-aside requirement	153,636
Current year qualifying expenditures	<u>(193,724)</u>
Total	<u>\$ (40,088)</u>
Balance carried forward to fiscal year 2016	<u>\$ -</u>
Set-aside balance June 30, 2015	<u>\$ -</u>

**NOTE 18 - OTHER COMMITMENTS**

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 17,912
Other governmental	<u>14,109</u>
Total	<u>\$ 32,021</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TWO FISCAL YEARS (1)

	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability	0.03241900%	0.03241900%
District's proportionate share of the net pension liability	\$ 1,640,707	\$ 1,927,854
District's covered-employee payroll	\$ 942,027	\$ 1,003,324
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	174.17%	192.15%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

(1) Information prior to fiscal year 2013 was unavailable.

Note: Amounts presented as of the District's measurement date which is the prior fiscal year end.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS (1)

	<b>2014</b>	<b>2013</b>
District's proportion of the net pension liability	0.03392511%	0.03392511%
District's proportionate share of the net pension liability	\$ 8,251,761	\$ 9,829,444
District's covered-employee payroll	\$ 3,466,208	\$ 3,650,815
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	238.06%	269.24%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%

(1) Information prior to fiscal year 2013 was unavailable.

Note: Amounts presented as of the District's measurement date which is the prior fiscal year end.

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 133,078	\$ 130,565	\$ 138,860	\$ 134,070
Contributions in relation to the contractually required contribution	<u>(133,078)</u>	<u>(130,565)</u>	<u>(138,860)</u>	<u>(134,070)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 1,009,697	\$ 942,027	\$ 1,003,324	\$ 996,803
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 120,110	\$ 129,798	\$ 89,607	\$ 88,976	\$ 95,016	\$ 90,104
<u>(120,110)</u>	<u>(129,798)</u>	<u>(89,607)</u>	<u>(88,976)</u>	<u>(95,016)</u>	<u>(90,104)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 955,529	\$ 958,626	\$ 910,640	\$ 906,069	\$ 889,663	\$ 851,645
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 493,158	\$ 450,607	\$ 474,606	\$ 483,147
Contributions in relation to the contractually required contribution	<u>(493,158)</u>	<u>(450,607)</u>	<u>(474,606)</u>	<u>(483,147)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 3,522,557	\$ 3,466,208	\$ 3,650,815	\$ 3,716,515
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 433,696	\$ 439,066	\$ 416,403	\$ 404,420	\$ 382,180	\$ 390,942
<u>(433,696)</u>	<u>(439,066)</u>	<u>(416,403)</u>	<u>(404,420)</u>	<u>(382,180)</u>	<u>(390,942)</u>
<u>\$ -</u>					
\$ 3,336,123	\$ 3,377,431	\$ 3,203,100	\$ 3,110,923	\$ 2,939,846	\$ 3,007,246
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financial statements for the methods and assumptions in this calculation.

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financial statements for the methods and assumptions in this calculation.

February 10, 2016

To the Board of Education  
Southern Local School District  
Columbiana County, Ohio  
38095 State Road 39 East  
Salineville, OH 43945

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Columbiana County, Ohio (the "District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 10, 2016, in which we noted the District restated net position balances to account for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rea & Associates, Inc.*

New Philadelphia, Ohio

February 10, 2016

To the Board of Education  
Southern Local School District  
Columbiana County, Ohio  
38095 State Road 39 East  
Salineville, OH 43945

**Independent Auditor's Report on Compliance for Each Major Federal Program and  
Report on Internal Control over Compliance Required by OMB Circular A-133**

***Report on Compliance for Each Major Federal Program***

We have audited Southern Local School District's, Columbiana County, Ohio (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

***Basis for Qualified Opinion on Title I and Title VI-B – Special Education Grants***

As described in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding CFDA 84.010 Title I and CFDA 84.027 Title VI-B – Special Education as described in finding number 2015-001 for Reporting and Period of Availability and finding number 2015-002 for Allowability. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

***Qualified Opinion on Title I and Title VI-B – Special Education Grants***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Title I and Title VI-B – Special Education for the year ended June 30, 2015.

**Report on Internal Control over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2015-001 and 2015-002, which we consider to be material weaknesses.

Southern Local School District  
Independent Auditor's Report on Compliance for Each Major Federal Program and  
Report on Internal Control over Compliance Required by OMB Circular A-133  
Page 3 of 3

The District's response to the non-compliance and internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Rea & Associates, Inc.*

New Philadelphia, Ohio

**Southern Local School District**  
**Columbiana County, Ohio**  
*Schedule of Expenditures of Federal Awards*  
*For the Fiscal Year Ended June 30, 2015*

Federal Grantor/Pass Through Grantor Program Title	Grant Year	CFDA Number	Federal Receipts	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<i>Passed Through Ohio Department of Education:</i>				
Title I	2014	84.010	\$ 42,554	\$ 30,383
Title I	2015	84.010	316,161	327,441
School Improvement Sub A, Title I	2015	84.010	66,659	60,949
Total Title I			<u>425,374</u>	<u>418,773</u>
Title VI-B - Special Education	2014	84.027	18,838	14,303
Title VI-B - Special Education	2015	84.027	173,332	172,671
Total Title VI-B - Special Education			<u>192,170</u>	<u>186,974</u>
Title VI-B - Rural and Low Income	2014	84.358	8,490	2,000
Title VI-B - Rural and Low Income	2015	84.358	14,215	13,042
Total Title VI-B - Rural and Low Income			<u>22,705</u>	<u>15,042</u>
Title II-A - Improving Teacher Quality	2014	84.367	4,826	2,126
Title II-A - Improving Teacher Quality	2015	84.367	42,477	42,775
Total Title II-A - Improving Teacher Quality			<u>47,303</u>	<u>44,901</u>
School Improvement Grants	2014	84.377	9,435	4,631
School Improvement Grants	2015	84.377	11,328	11,328
Total School Improvement Grants			<u>20,763</u>	<u>15,959</u>
<b>Total U.S. Department of Education</b>			<b><u>708,315</u></b>	<b><u>681,649</u></b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
<i>Passed Through Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
<i>Non-Cash Assistance (Food Distribution):</i>				
National School Lunch Program	2015	10.555	29,603	29,603
<i>Cash Assistance:</i>				
School Breakfast Program	2015	10.553	83,187	83,187
National School Lunch Program	2015	10.555	225,454	225,454
<i>Cash Assistance Subtotal</i>			<u>308,641</u>	<u>308,641</u>
<i>Total Child Nutrition Cluster</i>			<u>338,244</u>	<u>338,244</u>
<b>Total U.S. Department of Agriculture</b>			<b><u>338,244</u></b>	<b><u>338,244</u></b>
<b>TOTAL FEDERAL ASSISTANCE</b>			<b><u>\$ 1,046,559</u></b>	<b><u>\$ 1,019,893</u></b>

See accompanying notes to this schedule.

**Southern Local School District**  
**Columbiana County, Ohio**  
*Notes to the Schedule of Expenditures of Federal Awards*  
*For the Fiscal Year Ended June 30, 2015*

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**Note A – Significant Accounting Policies**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) reports the federal award programs’ receipts and disbursements. The schedule has been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred.

**Note B – Commingled Funds**

Federal money is commingled with state subsidy reimbursements for the Child Nutrition Cluster. It is assumed federal moneys are expended first.

**Note C – Food Donation Program**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance and related expenditures are reported in this Schedule at the value of the commodities received as assessed by the U.S. Department of Agriculture (entitlement value).

**Note D – Ohio Bureau of Workers’ Compensation Rebate**

Ohio’s workers’ compensation system serves as an insurance program for both employers and employees alike. For those who contribute premiums, the Ohio Bureau of Workers’ Compensation (BWC) covers the payment of compensation and medical costs related to industrial accidents and diseases. In 2014, the Ohio BWC Board of Directors authorized a \$1 billion rebate to 3,800 local governments and 184,000 private sector employers paying into Ohio’s workers’ compensation system. Each employer’s rebate reflected 60% of what they were billed during the last policy period (2012 calendar year for public-taxing districts). The District has receipted the rebate to the general fund only, although other funds initially paid portions of the 2012 policy year premiums. Any rebate due to federal and other funds were clearly trivial and no rebates were reflected in federal funds or on the Schedule.

**Southern Local School District**  
**Columbiana County, Ohio**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133, Section .505*  
*June 30, 2015*

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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(d) (1) (i)	Type of Financial Statement Opinion	Unmodified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Was there any material internal control weakness conditions reported for major federal programs?	Yes
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Qualified – Title VI-B & Title I
(d) (1) (vi)	Are there any reportable findings under Section .510?	Yes
(d) (1) (vii)	Major Programs (list):  Title VI-B – Special Education Title I: Title I – Grants to Local Educational Agencies School Improvement Sub A, Title I	CFDA #  84.027  84.010 84.010
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

**Southern Local School District**  
**Columbiana County, Ohio**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133, Section .505*  
*June 30, 2015*

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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None noted.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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**Finding Number: 2015-001**

**Program Information:**

Federal Programs and CFDA Numbers: Title VI-B: 84.027 and Title I: 84.010  
Federal Award Number/Program Year: 2015  
Federal Agency: U.S. Department of Education  
Pass Through Entity: Ohio Department of Education

**Noncompliance/Material Weakness – Reporting and Period of Availability**

**Criteria:** A-102 Common rule. Where a funding period is specified, a nonfederal entity may charge to the award only costs resulting from obligations incurred during the funding period and pre-award costs authorized by the federal awarding agency. Obligations mean the amount of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the non-federal entity during the same or a future period.

**Condition:** The funding period end date for the program year 2015 Title I and Special Education grants was June 30, 2015. The School District has charged expenditures for obligations made in fiscal year 2014 and 2016 to the grant year 2015 program in the amount of \$13,046 and \$14,319, respectively, for the Title I grant and \$24,335 and \$1,042, respectively, for the Special Education grant. As a result, the Federal Expenditure Report for the grant year 2015 program improperly included expenditures for obligations made in fiscal year 2014 and 2016.

**Cause:** Title I and Special Education payroll expenditures are not being recorded to the appropriate special cost center that correlates with the grant year.

**Effect:** Costs incurred before and after the fiscal year 2015 funding period were charged to the program year 2015, when in fact, they should have been charged to the 2014 and 2016 program years. As a result, the 2015 program expenditures were improperly reported on the Final Expenditure Report

**Recommendation:** Costs incurred after the funding period shall not be charged to the grant program. We recommend that the program directors closely monitor federal grant expenditures, especially those occurring between the funding period of June 30, and the liquidation period, September 30, for current and future, to ensure the proper grant year is being charged. We also recommend that these expenditures are properly reflected on the Final Expenditure Report.

**School District’s Response:** See Corrective Action Plan.

**Southern Local School District**  
**Columbiana County, Ohio**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133, Section .505*  
*June 30, 2015*

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (continued)</b>
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**Finding Number: 2015-002**

**Program Information:**

Federal Programs and CFDA Numbers: Title VI-B: 84.027 and Title I: 84.010  
 Federal Award Number/Program Year: 2015  
 Federal Agency: U.S. Department of Education  
 Pass Through Entity: Ohio Department of Education

**Noncompliance/Material Weakness – Allowability**

**Criteria:** Federal Regulations (Appendix A to 2 CFR 225 (C)(1)(c)) include the following requirements: "to be allowable under Federal awards, costs must meet a) be necessary and reasonable for proper and efficient performance and administration of Federal Awards, b) be allocable to Federal awards under the provisions of 2 CFR part 225, c) be authorized and not prohibited under State or local laws or regulations and d) be adequately documented."

In a targeted assistance school, funds available under Part A may be used only for programs that are designed to help participating children meet the State’s student academic achievement standards expected of all children. Allowable activities in these schools include, but are not limited to, instructional programs, counseling, mentoring, other pupil services, college and career awareness and preparation, services to prepare students for the transition from school to work, services to assist preschool children in the transition to elementary school, parental involvement activities, and professional staff development. If health, nutrition, and other social services are not otherwise available from other sources to participating children, Part A funds may be used as a last resort to provide such services. The LEA’s plan will provide a description of the general nature of the services to be provided with Part A funds. However, each Title I, Part A school determines the actual program it will provide (Title I, Section 1115 of ESEA (20 USC 6315)).

**Condition:**

- During our testing over the allowability of Title I and Special Education grant expenditures, we noted issues related to both adjusting entries and payroll expenses. Lack of documentation existed for certain adjusting entries for both programs and unallowable costs related to professional development existed for Title I. The following is a summary of known and likely questioned costs:

		<b>Program</b>				
		<b>Special Education</b>	<b>Title I</b>	<b>Title I</b>	<b>Total Title I</b>	
		Adjusting Entries	Adjusting Entries	Payroll		
<b>Known</b>	\$	2,798	\$ 4,280	\$ 585	\$	4,865
<b>Likely</b>		Greater than \$10,000	\$ 4,592	\$ 6,840		Greater than \$10,000

**Southern Local School District**  
**Columbiana County, Ohio**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133, Section .505*  
*June 30, 2015*

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (continued)</b>
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**Cause:**

- Lack of adequate documentation of adjusting entries between federal grants.
- Lack of adherence to the targeted assistance program in the junior/senior high school for professional development of teacher

**Effect:**

- There is an increased risk of expenditures not being allowable if adequate documentation is not maintained.
- Unallowable professional development stipends for teachers paid from the junior/senior high school targeted assistance program.

**Recommendation:** The School District should:

- Maintain adequate documentation for adjusting entries.
- Adhere to only paying Title I funds for a targeted assistance program for the purpose of benefiting the students identified for the assistance.

**School District's Response:** See Corrective Action Plan.

**Southern Local School District**  
**Columbiana County, Ohio**  
*Schedule of Prior Audit Findings*  
*OMB Circular A-133, Section .315(b)*  
*June 30, 2015*

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain</b>
2014-001	Non-compliance /Material Weakness regarding establishing the classroom facilities maintenance fund and properly allocating required revenues to the fund and following the OFCC maintenance plan.	Yes	Corrected
2014-002	Material Weakness in capital asset reporting due to not capitalizing assets and improper classifications.	No	Partially corrected; issued as a management letter comment

**Southern Local School District**  
**Columbiana County, Ohio**  
*Corrective Action Plan*  
*OMB Circular A-133, Section .315(c)*  
*June 30, 2015*

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
<b>2015-001</b>	The school district will now close out the grant year based on the costs there were incurred as of June 30th for the grants. Any expenses that were not submitted in time will be paid out of the next grant year.	September 30, 2016	Greg Sabbato, Treasurer
<b>2015-002</b>	The school district will be making adjusting entries with the proper documentation. There was a misunderstanding of how title funds were to be applied, and now in FY 16 the JR/SR high is now a school wide plan.	Complete at time of audit	Greg Sabbato, Treasurer

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# Dave Yost • Auditor of State

**SOUTHERN LOCAL SCHOOL DISTRICT**

**COLUMBIANA 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  
MAY 26, 2016**