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PERRY & Associates

Certified Public Accountants, A.C.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY
Single Audit
For the Year Ended June 30, 2016**

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...“bringing more to the table”

Tax – Accounting – Audit – Review – Compilation – Agreed Upon Procedure – Consultation – Bookkeeping – Payroll
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- Association of Certified Anti - Money Laundering Specialists •



Dave Yost • Auditor of State

Board of Education
Southern Local School District
106 Broadway Street, Suite 1
Racine, Ohio 45771

We have reviewed the *Independent Auditor's Report* of the Southern Local School District, Meigs County, Ohio, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period July 1, 2015 through June 30, 2016. 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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

May 8, 2017

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**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

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**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

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INDEPENDENT AUDITOR'S REPORT

January 27, 2017

Southern Local School District
Meigs County
106 Broadway Street, Suite 1
Racine, OH 45771

To the Board of Education:

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 **Southern Local School District**, Meigs County, Ohio (the School District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

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Opinion

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 Southern Local School District, Meigs County, Ohio, as of June 30, 2016, and the respective changes in its financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the School District's basic financial statements taken as a whole.

The Schedule of Federal Awards Receipts and Expenditures presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2017, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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 the School District's internal control over financial reporting and compliance.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited**

The discussion and analysis of the Southern Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2016 are as follows:

- Net position of governmental activities increased \$588,218.
- General revenues accounted for \$7,821,822 in revenue, or 79% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$2,077,565, or 21% of total revenues of \$9,899,387.
- The School District had \$9,311,169 in expenses related to governmental activities; only \$2,077,565 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$7,821,822 were adequate to provide for these programs.
- The School District's major funds were the General Fund and the Bond Retirement Fund. The General Fund had \$7,335,885 in revenues and \$7,678,137 in expenditures and other financing uses. The General Fund's balance decreased \$342,252. The Bond Retirement Fund had \$639,657 in revenues and \$532,800 in expenditures and other financing uses. The Bond Retirement Fund's balance increased \$106,857.

Using this Annual Financial Report

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 Southern Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School 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 School District's most significant funds with all other non-major funds presented in total in one column.

Reporting the School District as a Whole

Statement of Net Position and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2016?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited
(Continued)**

regardless of when cash is received or paid.

These two statements report the School District's net position and changes in those assets. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School 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 School 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, all of the School District's programs and services are reported as governmental activities including instruction, support services, operation of non instructional services, bond service operations, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 10. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Bond Retirement Fund.

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal yearend 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 that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer 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 financial statements.

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. The School District's only fund of this type is the Self-Insurance Internal Service Fund. However, the activity of this fund is combined with the Governmental Activities on the entity-wide financial statements.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. They are not reflected on the government-wide financial statements because the resources from those funds are not available to support the School District's programs. The School District uses the accrual basis of accounting to report its fiduciary funds.

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2016 compared to 2015.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited
(Continued)**

**Table 1
Net Position
Governmental Activities**

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Assets			
Current and Other Assets	\$7,420,949	\$6,614,816	\$806,133
Capital Assets	19,507,322	20,224,717	(717,395)
Total Assets	<u>26,928,271</u>	<u>26,839,533</u>	<u>88,738</u>
Deferred Outflows of Resources			
Pension	947,740	687,292	260,448
Total Deferred Outflows of Resources	<u>947,740</u>	<u>687,292</u>	<u>260,448</u>
Liabilities			
Current and Other Liabilities	1,001,155	1,073,868	(72,713)
Long-Term Liabilities:			
Due Within One Year	276,818	124,995	151,823
Due Within More Than One Year:			
Net Pension Liability	9,255,491	8,168,124	1,087,367
Other Amounts	5,424,172	6,053,786	(652,113)
Total Liabilities	<u>15,957,636</u>	<u>15,420,773</u>	<u>514,364</u>
Deferred Inflows of Resources			
Property Taxes	1,806,302	1,711,522	94,780
Pension	602,218	1,472,893	(870,675)
Total Deferred Inflows of Resources	<u>2,408,520</u>	<u>3,184,415</u>	<u>(775,895)</u>
Net Position			
Net Investment in Capital Assets	14,394,739	14,977,145	(582,406)
Restricted	1,080,248	777,248	303,000
Unrestricted	(5,965,132)	(6,832,756)	867,624
Total Net Position	<u>\$9,509,855</u>	<u>\$8,921,637</u>	<u>\$588,218</u>

For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to 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.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited
(Continued)**

Under the new standards required by GASB 68, the net pension liability equals the School 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 School 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 School 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.

Total assets increased \$88,738. The increase in current and other assets was \$806,133. The decrease in capital assets was \$717,395.

Long-term liabilities increased \$514,364 due primarily to payment for the outstanding debt and the increase in net pension liability. The decrease in other liabilities is the additional decrease of \$72,713.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2016 and 2015.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited
(Continued)**

**Table 2
Change in Net Position
Governmental Activities**

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Revenues			
Program Revenues:			
Charges for Services and Sales	\$543,511	\$452,160	\$91,351
Operating Grants and Contributions	1,534,054	2,209,268	(675,214)
Total Program Revenues	<u>2,077,565</u>	<u>2,661,428</u>	<u>(583,863)</u>
General Revenues:			
Property Taxes	2,512,502	2,770,388	(257,886)
Grants and Entitlements	5,249,513	4,462,512	787,001
Gifts and Donations	5,147	27,251	(22,104)
Investment Earnings	14,896	17,423	(2,527)
Miscellaneous	33,075	251,416	(218,341)
Proceeds from Sale of Capital Assets	6,689	371	6,318
Total General Revenues	<u>7,821,822</u>	<u>7,529,361</u>	<u>292,461</u>
Total Revenues	<u>9,899,387</u>	<u>10,190,789</u>	<u>(291,402)</u>
Program Expenses			
Instruction:			
Regular	2,812,193	2,600,058	212,135
Special	987,932	753,727	234,205
Vocational	161,631	159,071	2,560
Student Intervention Services	12,494	34,390	(21,896)
Other	865,056	865,970	(914)
Support Services:			
Pupils	447,297	517,330	(70,033)
Instructional Staff	326,129	355,106	(28,977)
Board of Education	6,798	39,934	(33,136)
Administration	523,509	503,680	19,829
Fiscal	307,084	303,676	3,408
Operation and Maintenance of Plant	1,154,292	885,772	268,520
Pupil Transportation	661,701	560,636	101,065
Central	226,552	278,366	(51,814)
Operation of Non-Instructional Services	429,417	402,304	27,113
Extracurricular Activities	209,775	678,076	(468,301)
Interest and Fiscal Charges	179,309	203,787	(24,478)
Total Expenses	<u>9,311,169</u>	<u>9,141,883</u>	<u>169,286</u>
Increase/(Decrease) in Net Position	<u>588,218</u>	<u>1,048,906</u>	<u>(460,688)</u>
Net Position Beginning of Year	<u>8,921,637</u>	<u>7,872,731</u>	<u>1,048,906</u>
Net Position End of Year	<u>\$9,509,855</u>	<u>\$8,921,637</u>	<u>\$588,218</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited
(Continued)**

During fiscal year 2016, the School District saw an increase in grants and entitlements. The School District receives nearly 69% of its funds from the State due to area demographics and overall tax base of the School District.

The Statement of Activities shows the cost of program services and the charges for services, grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

**Table 3
Governmental Activities**

	Total Cost of Services 2016	Net Cost of Services 2016	Total Cost of Services 2015	Net Cost of Services 2015
Instruction:				
Regular	\$2,812,193	\$2,157,708	\$2,600,058	\$1,857,826
Special	987,932	439,715	753,727	(157,268)
Vocational	161,631	111,086	159,071	116,913
Student Intervention Services	12,494	5,197	34,390	21,337
Other	865,056	726,744	865,970	661,769
Support Services:				
Pupils	447,297	413,142	517,330	470,034
Instructional Staff	326,129	276,934	355,106	281,019
Board of Education	6,798	6,798	39,934	39,934
Administration	523,509	493,523	503,680	449,662
Fiscal	307,084	303,484	303,676	300,076
Operation and Maintenance of Plant	1,154,292	1,138,121	885,772	869,601
Pupil Transportation	661,701	628,241	560,636	522,080
Central	226,552	151,743	278,366	182,833
Operation of Non-Instructional Services	429,417	65,307	402,304	47,589
Extracurricular Activities	209,775	136,552	678,076	613,263
Interest and Fiscal Charges	179,309	179,309	203,787	203,787
Total Expenses	<u>\$9,311,169</u>	<u>\$7,223,604</u>	<u>\$9,141,883</u>	<u>\$6,480,455</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2016, 71% of instructional activities were supported through taxes and other general revenues.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited
(Continued)**

The School District Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$9,374,739 and expenditures and other financing uses of \$9,626,821. The School District is focusing its efforts to reduce expenditures, first through strict monitoring of its discretionary budgets, such as supplies, purchased services and capital outlay, and also through the retirement of several staff members. Also, the School District joined OME-RESA health consortium, effective July 1, 2008, therefore pooling the risk with 10,000 consortium members. The School District passed its renewal levy in November, 2013, for five years. Additionally, the School District recently passed a \$3,950,000 bond levy in August, 2010, for the construction of a new high school facility. The new high school addition opened for classes in September 2013.

General Fund Budgeting Highlights

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

During the course of fiscal year 2016, the School District amended its General Fund budget, but not significantly. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, final budget basis revenue and other financing sources were \$7,824,857 and actual were \$7,823,886. Original estimated revenues were increased \$1,088,888 mainly in intergovernmental revenue areas due to more than expected state foundation and tax monies. Actual expenditures were \$334,963 under final appropriations. Original appropriations were increased \$874,119 due to increases in technology purchases and union contract incentives.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the School District had \$19,507,322 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2016 balances compared to 2015.

**Table 4
Capital Assets
(Net of Depreciation)**

	Governmental Activities	
	2016	2015
Land	\$199,100	\$199,100
Land Improvements	1,175,787	1,252,671
Buildings and Improvements	16,912,403	17,571,373
Furniture and Equipment	929,438	1,015,929
Vehicles	290,594	185,644
Totals	<u>\$19,507,322</u>	<u>\$20,224,717</u>

See Note 12 to the basic financial statements for more information on capital assets.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited
(Continued)**

Debt

At June 30, 2016, the School District had the following debt outstanding.

**Table 5
Outstanding Debt, At Fiscal Year End**

	Governmental Activities	
	2016	2015
2009 Classroom Facilities Refunding Bonds	\$1,518,336	\$1,692,967
2010 School Improvement Bonds	3,816,704	3,963,742
Totals	<u>\$5,335,040</u>	<u>\$5,656,709</u>

See Note 16 to the basic financial statements for more information on debt.

Current Issues

Over the past five years, the School District has experienced several formula changes in state funding. Historically, funding formulas have been inconsistent and calculated using various components, but have maintained that Ohio's school funding formula is centered on the needs of students. FY16 introduced the states new biennium budget (HB64) and new funding formula. The goals of this funding formula is to work with the existing formula enacted under HB59, make appropriate adjustments to the per pupil amount based on the needs of students, direct additional resources to districts with the lowest capacity, and make progress at eliminating short circuits in the formula (funding caps and guarantees). The School District forecast projects state funding for FY16 and beyond based on the formula established under HB64 and applying projected enrollment. It assumes the HB64 formula will stay in place.

The new component "Capacity Aid" is where the School District received the biggest increase of funding. This funding is very similar to former aims to manage low property wealth and in the past this funding has not been sustained. The School District must consider its sustainability with the next biennium budget and funding formula. "Economic Disadvantaged" is also another key revenue component for the School District. Changes in the number of students and their needs, those who are economically disadvantaged, impacts the amount of funding each district receives. The School District must make sure to have all families/students that are eligible complete necessary paperwork for classification. The 1991 Current Expense 4.0 mills (renews every five years) expires tax year 2018 and is up for renewal; this renewal is imperative. Open enrollment in and out of the School District is a major source of revenue, as well as, an expense, and the School District must closely monitor the effects upon the School District.

Personnel Services must be monitored by administration and the board in order to hold expenditures within budget availability. Management and Labor, along with the insurance committee must maintain efforts to discuss continued changes to insurance plan design and healthcare costs and prevent meeting costly penalties. The School District must monitor purchase services for continued and new agreements that will lower expenses and enrollment projections. Transfers out to cover deficits is of great importance to the School District.

The School District's forecast projects in FY19, FY20, and FY21 the School District will experience "overspending". Seeing deficits in future years is not uncommon given the uncertainty of future state budgets, local economic factors, state and federal mandates, etc. The School District must focus on recognizing how these conditions relate to current operations and identify future year's deficits and engage in planning for those conditions prior to their arrival and eliminate the projected deficit.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited
(Continued)**

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Christi Hendrix, Treasurer, at Southern Local School District, PO Box 147, Racine, Ohio 45771, or E-Mail at Christi.Hendrix@southernlocal.net.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Net Position
June 30, 2016**

		Governmental Activities
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$	2,397,784
Cash and Cash Equivalents with Fiscal Agents		964,121
Materials and Supplies Inventory		6,850
Accrued Interest Receivable		630
Accounts Receivable		1,671
Intergovernmental Receivable		208,867
Taxes Receivable		3,841,026
Non-Depreciable Capital Assets		199,100
Depreciable Capital Assets, net		19,308,222
Total Assets		<u>26,928,271</u>
Deferred Outflows of Resources:		
Pension		947,740
Total Deferred Outflows of Resources		<u>947,740</u>
LIABILITIES:		
Accounts Payable		71,578
Accrued Wages and Benefits		588,408
Intergovernmental Payable		174,295
Accrued Interest Payable		33,292
Accrued Vacation Leave Payable		22,506
Claims Payable		111,076
Long-Term Liabilities:		
Due Within One Year		276,818
Due in More Than One Year		5,424,172
Net Pension Liability		9,255,491
Total Liabilities		<u>15,957,636</u>
Deferred Inflows of Resources:		
Property Taxes Receivable		1,806,302
Pension		602,218
Total Deferred Inflows of Resources		<u>2,408,520</u>
Net Position:		
Net Investment in Capital Assets		14,394,739
Restricted for Debt Service		827,806
Restricted for Capital Outlay		92,291
Restricted for Other		159,710
Restricted for Unclaimed Monies		441
Unrestricted (Deficit)		(5,965,132)
Total Net Position	\$	<u><u>9,509,855</u></u>

See Accompanying Notes to the Basic Financial Statements

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2016**

	Program Revenues			Net(Expense) Revenue and Changes in Net Position
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:				
Instruction:				
Regular	\$ 2,812,193	\$ 415,302	\$ 239,183	\$ (2,157,708)
Special	987,932	-	548,217	(439,715)
Vocational	161,631	-	50,545	(111,086)
Student Intervention Services	12,494	-	7,297	(5,197)
Other	865,056	-	138,312	(726,744)
Support Services:				
Pupils	447,297	-	34,155	(413,142)
Instructional Staff	326,129	-	49,195	(276,934)
Board of Education	6,798	-	-	(6,798)
Administration	523,509	-	29,986	(493,523)
Fiscal	307,084	-	3,600	(303,484)
Operation and Maintenance of Plant	1,154,292	-	16,171	(1,138,121)
Pupil Transportation	661,701	-	33,460	(628,241)
Central	226,552	-	74,809	(151,743)
Operation of Non-Instructional Services	429,417	72,101	292,009	(65,307)
Extracurricular Activities	209,775	56,108	17,115	(136,552)
Interest and Fiscal Charges	179,309	-	-	(179,309)
Totals	\$ 9,311,169	\$ 543,511	\$ 1,534,054	(7,233,604)
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				1,801,247
Property Taxes, Levied for Debt Service				683,405
Property Taxes, Levied for Other				27,850
Grants and Entitlements not Restricted to Specific Programs				5,249,513
Gifts and Donations not Restricted to Specific Programs				5,147
Investment Earnings				14,896
Miscellaneous				33,075
Proceeds from Sale of Capital Assets				6,689
Total General Revenues				7,821,822
Change in Net Position				588,218
Net Position Beginning of Year				8,921,637
Net Position End of Year				\$ 9,509,855

See Accompanying Notes to the Basic Financial Statements

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2016**

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 1,540,268	\$ 688,745	\$ 168,330	\$ 2,397,343
Materials and Supplies Inventory	2,883	-	3,967	6,850
Accrued Interest Receivable	630	-	-	630
Accounts Receivable	1,501	-	170	1,671
Interfund Receivable	28,379	-	-	28,379
Intergovernmental Receivable	-	-	208,867	208,867
Taxes Receivable	2,849,496	939,967	51,563	3,841,026
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	441	-	-	441
Total Assets	\$ 4,423,598	\$ 1,628,712	\$ 432,897	\$ 6,485,207
Liabilities				
Current Liabilities:				
Accounts Payable	\$ 71,555	\$ -	\$ 23	\$ 71,578
Accrued Wages and Benefits	484,672	-	103,736	588,408
Interfund Payable	-	-	28,379	28,379
Intergovernmental Payable	152,338	-	21,957	174,295
Total Liabilities	708,565	-	154,095	862,660
Deferred Inflow of Resources				
Property Levied for the Next Fiscal Year	2,487,130	815,852	46,006	3,348,988
Unavailable Revenue	-	-	94,722	94,722
Total Deferred Inflows of Resources	2,487,130	815,852	140,728	3,443,710
Total Liabilities and Deferred Inflows of Resources	3,195,695	815,852	294,823	4,306,370
Fund Balances				
Nonspendable	3,324	-	3,967	7,291
Restricted	-	812,860	171,544	984,404
Assigned	846,741	-	7,104	853,845
Unassigned	377,838	-	(44,541)	333,297
Total Fund Balances	1,227,903	812,860	138,074	2,178,837
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 4,423,598	\$ 1,628,712	\$ 432,897	\$ 6,485,207

See Accompanying Notes to the Basic Financial Statements

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
June 30, 2016**

Total Governmental Fund Balances	\$	2,178,837
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Amounts reported for governmental activities on the statement of net position are different because of the following:

The net pension liability is not due in the current period therefore, the liability and related deferree inflows/outflows are not reported in governmental funds:

Deferred Outflows - Pension	947,740	
Deferred Inflows - Pension	(602,218)	
Net Pension Liability	(9,255,491)	(8,909,969)

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	19,507,322
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	
Property Taxes	1,542,686
Grants and Intergovernmental Revenues	94,722
	1,637,408

Accrued Interest Payable is recognized for outstanding long-term liabilities with interest accruals that are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(33,292)
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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 in the statement of net position.	853,045
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Accrued Vacation Leave Payable is recognized for earned vacation benefits that are to be used within one year but it not recognized on the balance sheet until due.	(22,506)
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Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:	
School Construction Refunding Bonds	(1,518,336)
School Construction Bonds	(3,816,704)
Sick Leave Benefits Payable	(365,950)
	(5,700,990)

Net Position of Governmental Activities	\$	9,509,855
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See Accompanying Notes to the Basic Financial Statements

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Property and Other Local Taxes	\$ 1,377,451	\$ 543,510	\$ 20,681	\$ 1,941,642
Intergovernmental	5,488,387	96,147	1,153,899	6,738,433
Interest	14,238	-	801	15,039
Tuition and Fees	415,302	-	-	415,302
Extracurricular Activities	2,285	-	53,823	56,108
Gifts and Donations	5,147	-	17,115	22,262
Customer Sales and Services	-	-	72,101	72,101
Miscellaneous	33,075	-	10,736	43,811
Total Revenues	<u>7,335,885</u>	<u>639,657</u>	<u>1,329,156</u>	<u>9,304,698</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,442,419	-	208,425	2,650,844
Special	796,237	-	249,926	1,046,163
Vocational	168,845	-	75	168,920
Student Intervention Services	980	-	7,297	8,277
Other	736,207	-	138,312	874,519
Support Services:				
Pupils	441,304	-	33,498	474,802
Instructional Staff	273,504	-	49,588	323,092
Board of Education	6,148	-	650	6,798
Administration	498,606	-	39,105	537,711
Fiscal	292,355	22,611	-	314,966
Operation and Maintenance of Plant	672,175	-	63,905	736,080
Pupil Transportation	756,816	-	33,460	790,276
Central	160,026	-	78,426	238,452
Operation of Non-Instructional Services	11,032	-	417,032	428,064
Extracurricular Activities	138,082	-	66,185	204,267
Capital Outlay	-	-	30,000	30,000
Debt Service:				
Principal	214,172	350,000	-	564,172
Interest	5,877	160,189	-	166,066
Total Expenditures	<u>7,614,785</u>	<u>532,800</u>	<u>1,415,884</u>	<u>9,563,469</u>
Excess of Revenues Over (Under) Expenditures	<u>(278,900)</u>	<u>106,857</u>	<u>(86,728)</u>	<u>(258,771)</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	-	-	63,352	63,352
Proceeds from Sale of Capital Assets	-	-	6,689	6,689
Transfers Out	(63,352)	-	-	(63,352)
Total Other Financing Sources and Uses	<u>(63,352)</u>	<u>-</u>	<u>70,041</u>	<u>6,689</u>
Net Change in Fund Balances	<u>(342,252)</u>	<u>106,857</u>	<u>(16,687)</u>	<u>(252,082)</u>
Fund Balance at Beginning of Year	1,570,155	706,003	154,761	2,430,919
Fund Balance at End of Year	<u>\$ 1,227,903</u>	<u>\$ 812,860</u>	<u>\$ 138,074</u>	<u>\$ 2,178,837</u>

See Accompanying Notes to the Basic Financial Statements

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement Activities
For the Fiscal Year Ended June 30, 2016**

Net Change in Fund Balances - Total Governmental Funds	\$	(252,082)
<p>Amounts reported for governmental activities on the statement of activities are different because of the following:</p>		
<p>Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.</p>		
		623,775
<p>Except for amounts reported as deferred inflows/outflows, changes in the net position liability are reported as pension expense in the statement of activities.</p>		
		(575,404)
<p>Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlay in the current year.</p>		
Capital Outlay - Depreciable Capital Assets	277,046	
Depreciation	<u>(994,441)</u>	
		(717,395)
<p>Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:</p>		
Intergovernmental	17,140	
Property Taxes	<u>570,860</u>	
		588,000
<p>Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the Statements of Activities.</p>		
		564,172
<p>Internal Service Fund is used by management to charge the costs of insurance to individual funds 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 governmental activities.</p>		
		436,520
<p>Interest is reported as an expenditure when due in governmental funds, but is accrued on outstanding debt on the statement of activities. Premiums and discounts are reported as revenues and expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities:</p>		
Annual Accretion	(80,329)	
Accrued Interest Payable	33,292	
Amortization of Refunding	(6,625)	
Amortization of Premium	39,107	
Amortization of Discount	<u>(3,303)</u>	
		(17,858)
<p>Some expenses reported on the statement of activities, such as compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:</p>		
Accrued Vacation Leave Payable	(3,460)	
Compensated Absences Payable	<u>(58,050)</u>	
		<u>(61,510)</u>
Change in Net Position of Governmental Activities	\$	<u><u>588,218</u></u>

See Accompanying Notes to the Basic Financial Statements

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
June 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Property Taxes	\$ 1,876,115	\$ 1,873,415	\$ 1,873,789	\$ 374
Intergovernmental	4,485,507	5,486,595	5,488,387	1,792
Interest	22,000	16,000	14,720	(1,280)
Tuition and Fees	337,347	417,347	415,302	(2,045)
Miscellaneous	15,000	2,500	2,492	(8)
Total Revenues	6,735,969	7,795,857	7,794,690	(1,167)
Expenditures:				
Current:				
Instruction:				
Regular	2,401,340	2,501,975	2,443,152	58,823
Special	683,790	815,476	785,432	30,044
Vocational	168,445	177,860	170,332	7,528
Student Intervention Services	4,110	4,110	980	3,130
Other	673,478	674,290	736,220	(61,930)
Support services:				
Pupils	457,004	450,078	435,629	14,449
Instructional Staff	289,800	291,150	278,645	12,505
Board of Education	142,355	130,774	45,547	85,227
Administration	518,916	533,023	501,224	31,799
Fiscal	294,314	303,982	279,487	24,495
Operation and Maintenance of Plant	638,931	692,168	667,191	24,977
Pupil Transportation	556,272	793,888	748,047	45,841
Central	188,288	226,866	186,204	40,662
Operation of Non-Instructional/Shared Services	6,600	11,490	9,519	1,971
Extracurricular activities	144,128	153,711	138,269	15,442
Debt Service:				
Principal	12,176	214,172	214,172	-
Interest	6,799	5,877	5,877	-
Total Expenditures	7,186,746	7,980,890	7,645,927	334,963
Excess of Revenues Over (Under) Expenditures	(450,777)	(185,033)	148,763	333,796
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Refund of Prior Year Expenditures	-	29,000	29,196	196
Transfers Out	-	(63,352)	(63,352)	-
Advances Out	-	(16,623)	(16,623)	-
Total Other Financing Sources (Uses)	-	(50,975)	(50,779)	196
Net Change in Fund Balance	(450,777)	(236,008)	97,984	333,992
Fund Balance at Beginning of Year	1,314,225	1,314,225	1,314,225	-
Prior Year Encumbrances Appropriated	111,182	111,182	111,182	-
Fund Balance at end of Year	\$ 974,630	\$ 1,189,399	\$ 1,523,391	\$ 333,992

See Accompanying Notes to Basic Financial Statements

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Fund Net Position
Internal Service Fund
June 30, 2016**

	<u>Internal Service</u>
Current Assets:	
Equity in Pooled Cash and Cash Equivalents with Fiscal Agents	\$ <u>964,121</u>
Current Liabilities:	
Claims Payable	<u>111,076</u>
Net Position:	
Unrestricted	\$ <u>853,045</u>

See Accompanying Notes to Basic Financial Statements

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Revenues, Expenses and Changes in Fund Net Position
Internal Service Fund
June 30, 2016**

OPERATING REVENUES:	
Charges for Services	\$ <u>1,372,351</u>
OPERATING EXPENSES:	
Purchased Services	452,876
Claims	<u>482,955</u>
Total Operating Expenses	<u>935,831</u>
Operating Income (Loss)	<u>436,520</u>
Net Change in Net Position	436,520
Net Position at Beginning of Year	416,525
Net Position at End of Year	\$ <u><u>853,045</u></u>

See Accompanying Notes to Basic Financial Statements

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Cash Flows
Internal Service Fund
June 30, 2016**

	Internal Service
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Charges for Services	\$ 1,372,351
Payments for Purchased Services	(452,876)
Payments for Claims	(498,918)
Net Cash Provided by Operating Activities	420,557
Net Increase (Decrease) in Cash and Cash Equivalents	420,557
Cash and Cash Equivalents at Beginning of Year	543,564
Cash and Cash Equivalents at End of Year	\$ 964,121
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities:	
Operating Income (Loss)	\$ 436,520
Adjustments	
Increase (Decrease) in Liabilities:	
Claims Payable	(15,963)
Net Cash Provided by Operating Activities	\$ 420,557

See Accompanying Notes to Basic Financial Statements

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2016**

	<u>Agency Fund</u>
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ <u>9,221</u>
Total Assets	<u><u>9,221</u></u>
Liabilities	
Current Liabilities:	
Due Students	9,221
Total Liabilities	\$ <u><u>9,221</u></u>

See Accompanying Notes to the Basic Financial Statements

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016**

Note 1 - Description of the School District and Reporting Entity

Southern Local School District, Meigs County (the School District), is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The School District provides educational services as authorized by State and/or local guidelines. The School District is staffed by 65 certificated employees and 32 classified employees who provide services to 769 students. The School District currently operates one elementary school (grades kindergarten to eighth) and one high school (grades ninth to twelfth).

Reporting Entity

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

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

The School District participates in the Metropolitan Educational Technology Association, Southeastern Ohio Voluntary Education Consortium and the Coalition of Rural and Appalachian Schools, which are defined as jointly governed organizations; the Ohio School Boards Association Workers' Compensation Group Rating Plan, which is defined as insurance purchasing pool; and the Jefferson Health Plan, Self-Insurance Plan, which is defined as a claims servicing pool. These organizations are presented in Notes 18, 19, and 20 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (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 more significant of the School District's accounting policies are described below.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation (Continued)

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for the fiduciary fund. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. These statements usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The School District, however, has no business-type activities.

The Statement of Net Position presents the financial condition of the governmental activities of the School District at fiscal year end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 charges paid by the recipient of the goods or services offered by the program; grants and contributions that are restricted to meeting the operational or capital requirements of a particular program; and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain functions or activities. A fund is a fiscal and accounting entity with a self balancing set of accounts. The School District classifies each fund as either governmental, proprietary, or fiduciary.

Governmental: The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The following are the School District's major governmental funds:

General Fund - The General Fund accounts for all financial resources except for restricted resources requiring a separate accounting. The General Fund balance is available for any purpose provided it is disbursed or transferred according to Ohio law.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

Bond Retirement Fund- This fund is used to account for financial resources accumulated for the payment of general long-term debt principal, interest and related costs.

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

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

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

Fiduciary Fund Type - 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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's private purpose trust funds account for programs that provide college scholarships to students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only agency fund accounts for student activities.

C. Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the Statement of Net Position. The Statement of Activities accounts for increases (i.e. revenues) and decreases (i.e. expenses) in total net position.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities 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
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Measurement Focus (Continued)

Like the government-wide statements, the proprietary 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 Net Position. The Statement of Changes in Fund Net Position presents increases (i.e. revenues) and decreases (i.e. expenses) in net total assets. The Statement of Cash Flows provides information about how the School District finances and meets the cash flow needs of its proprietary activity.

The private purpose trust funds are reported using the economic resources measurement focus.

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. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is 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 School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). 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 year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School 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 yearend: property taxes available as an advance, investment earnings, tuition, grants, fees, and rentals.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent 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 are reported on the government-wide statement of net position for deferred charges on refunding and for pension. 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. The deferred outflows of resources related to pension are explained in Note 13.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

D. Basis of Accounting (Continued)

In addition to liabilities, the statements of financial position 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, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and 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 delinquent property taxes, intergovernmental grants, and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 13).

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.

Property taxes for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance year 2017 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as a deferred inflow. Special assessments and sales taxes not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at June 30, 2016, are recorded as a deferred inflow in the governmental funds.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as a deferred inflow.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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.

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds except the private purpose trust funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

E. Cash and Cash Equivalents (Continued)

During fiscal year 2016, investments were limited to certificates of deposit, which are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2016 amounted to \$14,238, which includes \$3,417 assigned from other School District funds.

The School District utilizes the Jefferson Health Plan to account for the self-insurance internal service fund. This interest bearing depository account is presented in the financial statements as "cash and cash equivalents with fiscal agents" and represents deposits.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

F. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of materials and supplies held for consumption and donated and purchased food and held for resale.

G. Capital Assets

The School District's only capital assets are general assets. General capital assets are those assets specifically related to governmental activities. These 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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of certain assets by back trending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year).

Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,000. The School District does not possess any infrastructure. 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 and construction in progress, 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:

<u>Description</u>	<u>Estimated Lives</u>
Land and Improvements	50 years
Buildings and Improvements	8 - 75 years
Furniture and Equipment	5 - 50 years
Vehicles	15 - 20 years

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

H. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other government or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent unclaimed monies.

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for classified and certified employees after seven years of current service with the School District.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are reported as "matured compensated absences payable" in the fund from which the employees who will receive the payment are paid.

J. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide 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 fiscal year. Long-term loans, capital leases, and bonds are recognized as a liability on the governmental fund financial statements when due.

K. Internal Activity

Transfers between governmental activities are eliminated. Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments of interfund services provided and used are not eliminated.

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

L. Fund Balance

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

Nonspendable: The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted: The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed: The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action (resolution) of the Board of Education. Those committed amounts cannot be used for any other purpose unless the 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 the use in satisfying those contractual requirements.

Assigned: Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or 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 the Board of Education.

Unassigned: The unassigned fund balance is the residual classification for the General Fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balances.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are 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 the amounts in any of the unrestricted fund balance classifications could be used.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

M. Interfund Assets and Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the Statement of Net Position.

N. Unamortized Issuance Costs and Note/Bond Premiums and Discounts

On government-wide financial statements bond discounts and premiums are deferred and amortized over the term of the bonds. Issuance costs are expensed in the current period. Bond premiums are presented as an addition of the face amount of bonds payable.

Bond discounts on the capital appreciation bonds are deferred and accreted over the term of the bonds. Bond discounts are presented as a reduction to the face amount of the bonds.

On the governmental fund financial statements, issuance costs, bond premiums, and bond discounts are recognized in the current period.

O. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for food service operations, athletic and music activities, and federal and state grants restricted to expenditure for specified purposes.

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

P. 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 2016, the School District had none.

Q. Estimates

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

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

R. Budgetary Process

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

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

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

Note 3 - Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 3 - Fund Balances (Continued)

<u>Fund Balance</u>	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:				
Unclaimed Monies	\$441	\$-	\$-	\$441
Materials and Supplies Inventory	2,883	-	3,967	6,850
Total Nonspendable	3,324	-	3,967	7,291
Restricted for:				
Local Grant Expenditures	-	-	35,497	35,497
Federal Grant Expenditures	-	-	29,928	29,928
Athletic Programs	-	-	20,932	20,932
Capital Improvements	-	-	85,187	85,187
Debt Service	-	812,860	-	812,860
Total Restricted	-	812,860	171,544	984,404
Assigned to:				
Capital Improvements	-	-	7,104	7,104
2017 Appropriations	846,741	-	-	846,741
Total Assigned	846,741	-	7,104	853,845
Unassigned	377,838	-	(44,541)	333,297
Total Fund Balance	\$1,227,903	\$812,860	\$138,074	\$2,178,837

Note 4 - Fund Deficits

At June 30, 2016, the following funds had deficit fund balances:

	<u>Deficit</u>
Special Revenue Funds:	
Food Service	\$29,655
Early Childhood	1,592
State Grants	8,127
Title I	1,035
Title II-A	4,132

The deficits are the result of charges for services not covering expenditures, accrued liabilities, and over-expended grant resources. The General Fund provides transfers to cover deficit fund balances in special revenue funds; however, this is done when cash is needed rather than when accruals occur.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 5 - Budgetary Basis of Accounting

While the School District is 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, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget 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 GAAP (modified accrual) basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as an assignment of fund balance (GAAP basis).
4. Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
5. Unreported and prepaid items represent amounts received but not included as revenues on the budget basis operating statements. These amounts are included as revenues on the GAAP basis operating statement.

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

<u>Net Change in Fund Balance</u>	
GAAP Basis	(\$342,252)
Revenue Accruals	466,237
Expenditure Accruals	(8,991)
Net Non General Fund Cash Activity	13,238
Encumbrances	<u>(30,248)</u>
Budget Basis	<u><u>\$97,984</u></u>

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 6 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

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

Inactive deposits are public deposits that the Board 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 held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if trading requirements have been met.

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. Investments may only be made through specified dealers and institutions.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 6 - Deposits and Investments (Continued)

Deposits - Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the School District's bank balance was \$2,418,303. \$500,000 was covered by Federal depository insurance; \$1,918,303 was exposed to custodial credit risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the School 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 School District. The School 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 School District to a successful claim by the FDIC.

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015 and are collected in calendar year 2016 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Meigs County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property, and tangible personal property taxes which are measurable as of June 30, 2016, 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 revenue.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 7 - Property Taxes (Continued)

The amount available as an advance at June 30, 2016, was \$492,038 and is recognized as revenue: \$362,366 in the General Fund, \$5,557 in the Classroom Facilities Fund, and \$124,115 in the Bond Retirement Fund. The amount available as an advance at June 30, 2015, was \$1,071,393 and is recognized as revenue: \$858,704 in the General Fund, \$17,189 in the Classroom Facilities Fund, and \$195,500 in the Bond Retirement Fund.

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

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second-Half Collections		2016 First-Half Collections	
	Amount	Percent	Amount	Percent
Residential/Agricultural and Other Real Estate	\$77,942,750	85%	\$78,398,870	84%
Public Utility Personal	13,829,310	15%	14,451,140	16%
Total Assessed Value	<u>\$91,772,060</u>	<u>100%</u>	<u>\$92,850,010</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$28.20		\$28.20	

Note 8 – Receivables

Receivables at June 30, 2016, consisted of taxes, accounts, interfund, and intergovernmental grants. 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. Except for property taxes, all receivables are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. A summary of principal items of intergovernmental receivables follows:

	Amounts
Governmental Activities	
Early Childhood	\$32,830
Title VI-B	22,743
Title I	28,081
Improving Teacher Quality	10,928
Rural & Low Income	3,296
Pep	110,989
Total	<u>\$208,867</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 9 - Interfund Transfers and Balance

Transfers made during fiscal year 2016 were as follows:

	Transfer In	Transfer Out
General Fund	\$-	\$63,352
Nonmajor Funds:		
Food Service Special Revenue Fund	63,352	-
Total All Funds	\$63,352	\$63,352

Unpaid interfund cash advances at June 30, 2016, were as follows:

	Receivables	Payables
General Fund	\$28,379	\$-
Nonmajor Special Revenue Funds:		
Early Childhood	-	15,403
State Grant Funds	-	10,757
Title VIB	-	370
Federal Grant Funds	-	1,849
Total Special Revenue Funds	-	28,379
Total All Funds	\$28,379	\$28,379

The interfund balances result from the provision of cash flow resources from the General Fund until the receipt of grant monies by the grant funds.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District holds commercial property and liability insurance. The types and amounts of coverage provided by the Reed & Baur (Liberty Mutual Insurance) are as follows:

Property (\$1,000 deductible):	
Building and Contents-replacement cost	\$29,741,589
Boiler and Machinery Breakdown	29,741,589
Equipment Inland Marine (\$500. Deductible)	
Miscellaneous. Equipment	15,353
Miscellaneous. School Property Floater Band Uniforms	
Athletic Equipment/Musical Equipment/Cameras & Audio Visual	
/Fine Arts/ Signs	250,000
Crime (\$1,000 deductible):	
Employee Theft	100,000
Forgery of Alteration	100,000
Computer Fraud	100,000
Automobile Liability (Comprehensive \$250/Collision \$500/Comp/Coll 1,000):	
Bodily Injury and Property Damage – combined single limit	1,000,000
Medical Payments – each person	5,000
Uninsured/Underinsured Motorist	1,000,000
General Liability (no deductible):	
Bodily Injury and Property Damage Limit – each occurrence	1,000,000
Aggregate Limit	2,000,000
Violence Coverage (no deductible)	
Violence Limit	500,000
Aggregate Limit	500,000
Employee Benefits Liability each occurrence	1,000,000
Aggregate Limit (\$1000 deductible)	1,000,000
Sexual Misconduct & Molestation Liability each occurrence	1,000,000
Aggregate Limit (\$5000 deductible)	1,000,000
Law Enforcement Liability each occurrence	1,000,000
Aggregate Limit (\$1000 deductible)	1,000,000
Employers’ – Stop Gap – Bodily Injury: (no deductible) each occurrence	1,000,000
Aggregate Limit	2,000,000
School Leaders Errors and Omissions Injury Limit each occurrence	1,000,000
Aggregate Limit (\$5000 deductible)	1,000,000
Umbrella each occurrence	1,000,000
Aggregate Limit (\$10,000 Self Insured Retention)	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2016.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 10 - Risk Management (Continued)

B. Workers' Compensation

For fiscal year 2016, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

C. Medical/Surgical and Prescription Drug Insurances

Medical/surgical and prescription drug insurance is offered through a self-insurance internal service fund. The School District pays 90% of the monthly insurance premium for either family or single coverage. The employee shall pay 10% of the monthly insurance premium. The School District is a member of a claims servicing pool in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The School District's stop loss amount per person is \$50,000 for fiscal year 2016. The claims liability of \$111,076 reported in the internal service fund at June 30, 2016, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by the incremental claims adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount in 2016 were:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2015	\$170,123	\$614,659	\$657,743	\$127,039
2016	\$127,039	\$482,955	\$498,918	\$111,076

Note 11 - 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 ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. The liability for vacation benefits is recorded as vacation benefits payable, rather than long-term liabilities. Employees are permitted to carry over a maximum of five unused vacation days per twelve months to a maximum of 20 accumulated unused vacation days total.

**SOUTHERN LOCAL SCHOOL DISTRICT
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**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 11 - Employee Benefits (Continued)

A. Compensated Absences (Continued)

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 a maximum of 260 days for all personnel. Upon retirement, personnel receive twenty-five percent of the number of days of sick leave accumulated not to exceed 40 days for employees with 10 years or less of service; 50 and 55 days for classified and certified, respectively, for employees with more than 10 years but less than 20 years of services; and 60 and 65 days for classified and certified, respectively, for employees with more than 20 years of service.

B. Insurance

The School District provides health, dental, and life insurance to most employees. It provides term life insurance through American United Life Insurance Company a OneAmerica company, dental insurance coverage through SEOVEC Dental Consortium and Delta Dental, vision insurance through Vision Service Plan, and health/prescription plan through The Jefferson Health Plan and Anthem. The cost of premiums for the coverage is \$643.20 (\$53.60 month) for dental, and \$144.00 (\$12.00 month) family and \$63.60 (\$5.30 month) single for vision, \$0.10 per \$1,000.00 for Life, and \$8,828.46 (\$735.70 month) for single health and \$19,587.74 (\$1632.31 month) for family.

Note 12 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	<u>Balance at 6/30/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/2016</u>
Capital Assets:				
Capital Assets not being Depreciated:				
Land	\$199,100	\$-	\$-	\$199,100
Total Capital Assets not being Depreciated:	<u>199,100</u>	<u>-</u>	<u>-</u>	<u>199,100</u>
Depreciable Capital Assets				
Land Improvements	1,696,735	-	-	1,696,735
Buildings and Improvements	22,602,064	30,000	35,000	22,597,064
Furniture and Equipment	1,838,840	42,203	-	1,881,043
Vehicles	727,833	213,476	54,910	886,399
Total Capital Assets being Depreciated	<u>26,865,472</u>	<u>285,679</u>	<u>89,910</u>	<u>27,061,241</u>
Less Accumulated Depreciation				
Land Improvements	444,064	76,884	-	520,948
Buildings and Improvements	5,030,691	680,337	26,367	5,684,661
Furniture and Equipment	822,911	128,694	-	951,605
Vehicles	542,189	108,526	54,910	595,805
Total Accumulated Depreciation	<u>6,839,855</u>	<u>994,441</u>	<u>81,277</u>	<u>7,753,019</u>
Total Capital Assets being Depreciated, Net	<u>20,025,617</u>	<u>(708,762)</u>	<u>8,633</u>	<u>19,308,222</u>
Capital Assets, Net	<u>\$20,224,717</u>	<u>(\$708,762)</u>	<u>\$8,633</u>	<u>\$19,507,322</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 12 - Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$370,088
Vocational	3,545
Other	481
Support Services:	
Pupil	202
Instructional Staff	21,940
Administration	3,521
Fiscal	160
Operation and Maintenance of Plant	4,998
Pupil Transportation	110,069
Central	6,427
Other Non-Instructional Services	10,869
Extracurricular	22,661
Capital Outlay	439,480
Total Depreciation Expense	<u>\$994,441</u>

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 in 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.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

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 *intergovernmental 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 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 on or 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.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

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, 2016, the allocation to pension, death benefits, and Medicare B was 14.0 percent. 0.0 percent was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$139,599 for fiscal year 2015. Of this amount \$81,847 is reported as an intergovernmental 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.

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 year 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 year 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.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

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, 2016, plan members were required to contribute 13 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 2016 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$389,281 for fiscal year 2016. Of this amount \$67,033 is reported as an intergovernmental 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, 2015, 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 projected contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$1,889,956	\$7,365,535	\$9,255,491
Proportion of the Net Pension Liability	0.033122%	0.0266509%	
Changes in proportionate share percentage from prior year	-0.000163%	-0.0000048%	
Pension Expense	\$117,216	340,158	457,374

At June 30, 2016, the District reported outflows of resources and deferred inflows of resources related to pensions from the following sources:

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 13 - Defined Benefit Pension Plans (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$30,502	\$335,786	\$366,288
Changes in proportion share and Difference between contributions and proportionate share of contributions	246	21,990	22,236
District contributions subsequent to the measurement date	<u>139,712</u>	<u>419,504</u>	<u>559,216</u>
Total Deferred Outflows of Resources	<u>\$170,460</u>	<u>\$777,280</u>	<u>\$947,740</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$63,962	\$529,936	\$593,898
Changes in proportionate share and differences Difference between contributions and proportionate share of contributions	<u>7,227</u>	<u>1,093</u>	<u>8,320</u>
District contributions subsequent to the measurement date	<u>\$71,189</u>	<u>\$531,029</u>	<u>\$602,218</u>

\$559,216 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	(\$25,607)	(\$114,419)	(\$140,026)
2018	(25,289)	(114,368)	(139,657)
2019	(25,433)	(114,369)	(139,802)
2020	<u>35,888</u>	<u>169,903</u>	<u>205,791</u>
Total	<u>(\$40,441)</u>	<u>(\$173,253)</u>	<u>(\$213,694)</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.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

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, 2015, 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
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	<u>15.00</u>	7.50
Total	<u>100.00 %</u>	

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

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%)
School District's proportionate share of the net pension liability	\$2,620,690	\$1,889,956	\$1,274,618

Changes Between Measurement Date and Report Date

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in discount rate from 7.75% to 7.5%. Although the exact amount of these changes is not known, the impact to the School District's net pension liability is expected to be significant.

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, 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, 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, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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:

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 13 - Defined Benefit Pension Plans (Continued)

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	100.00 %	

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, 2015. 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, 2015.

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	\$10,233,682	\$7,365,535	\$4,942,117

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2016, no members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 14 - Postemployment Benefits

A. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers a postemployment benefit plan.

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

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2016, the health care allocation is 0.0%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount; pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District's contributions assigned health care for the years ended June 30, 2016, 2015, and 2014 were \$0, \$8,177, and \$1,727, respectively; 0.0 percent has been contributed for fiscal year 2016 and 100 percent for fiscal years 2015 and 2014.

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

The financial reports of SERS' Health Care plan are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under **Employers/Audit Resources**.

B. State Teachers Retirement System

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. 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 Ohio which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 14 - Postemployment Benefits (Continued)

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio 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 Ohio. 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 2016, STRS Ohio allocated employer contributions equal to 0 percent of covered payroll to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$26,890 respectively. For fiscal year 2016, 0 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2015 and 2014.

Note 15 - Capitalized Leases

In 2015, the School District entered into lease agreements for a fieldhouse renovation project. These lease obligations meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the fund financial statements. Principal payments made in fiscal year 2016 totaled \$214,172 in the governmental funds, which paid off the remaining balance. The equipment has been capitalized in the amount of \$225,000, the present value of the minimum lease payments at the inception of the lease.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 16 - Long-Term Debt

The changes in the School District's long-term obligations during the fiscal year consist of the following:

Governmental Activities:	Principal Outstanding 6/30/2015	Additions	Deductions	Balance at 6/30/2016	Amounts Due Within One Year
2009 Classroom Facilities Refunding Bonds – 2.00% - 4.00%	\$1,505,000	\$-	\$-	\$1,505,000	\$230,000
Original Issue of Capital Appreciation Bonds	75,000	-	75,000	-	-
Accretion on Capital Appreciation Bonds – 18.517%	97,170	57,830	155,000	-	-
Deferred Amount on Refunding	(42,551)	-	(6,625)	(35,926)	-
Discount on Term Bonds	(13,865)	-	(2,159)	(11,706)	-
Premium on Term Bonds	72,213	-	11,245	60,968	-
2010 School Improvement Original Issue of Capital Appreciation Bonds – 2.04% - 3.25%	52,032	-	22,819	29,213	16,818
Accretion on Capital Appreciation Bonds – 32.96%	(24,541)	22,499	105,000	(107,042)	-
Recovery Zone Economic Development Bonds – 7.10%	1,820,000	-	-	1,820,000	-
Qualified School Construction Bonds – 6.60%	1,975,000	-	15,000	1,960,000	30,000
Discount on Serial Bonds	(53,780)	-	(1,144)	(52,636)	-
Premium on Serial Bonds	195,031	-	27,862	167,169	-
Commercial Loan - Computers	-	-	-	-	-
Capital Lease	214,172	-	214,172	-	-
Net Pension Liability	8,168,124	1,087,367	-	9,255,491	-
Sick Leave Benefits	307,900	58,050	-	365,950	-
Total Long Term Obligations	<u>\$14,346,905</u>	<u>\$1,225,746</u>	<u>\$616,170</u>	<u>\$14,956,481</u>	<u>\$276,818</u>

Sick leave benefits will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund and Food Service, Title VIB, and Title I Special Revenue Funds.

The School District's overall debt margin was \$2,938,960 with an unvoted debt margin of \$92,850 at June 30, 2016.

Classroom Facilities Construction and Improvement Bonds - On December 1, 1998, the School District issued \$4,042,000 in voted general obligation bonds for building a new elementary and an addition to the high school. The bond issue included serial and term bonds in the amounts of \$1,432,000 and \$2,610,000, respectively. The bonds were issued for a twenty-three year period, with the final maturity date during fiscal year 2022. During fiscal year 2010, the School District made the schedule repayment of the bonds in the amount of \$165,000 and advance refunded the remaining bonds of \$2,670,000. The refunded bonds were removed from the financial statements of School District.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 16 - Long-Term Debt (Continued)

On July 20, 2009, the School District issued \$2,670,000 of general obligation refunding bonds to refund \$2,670,000 of outstanding 1998 Classroom Facilities Construction and Improvements Bonds. The bonds were issued for over a 12 year period with final maturity at December 1, 2021. The bond issue included term and capital appreciation bonds in the amounts of \$2,595,000 and \$75,000, respectively. At the date of refunding, \$2,751,938 (including premium and after underwriting fees, and other issuance costs) was deposited in an irrevocable trust to provide for all future debt service payments on the refunded bonds. The bond holders were paid on August 25, 2009; therefore, no amounts remain in the trust.

These refunding bonds were issued with a discount of \$26,700 which is reported as a decrease to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method; the amortization of the discount for fiscal year 2016 was \$2,159. These refunding bonds were also issued with a premium of \$139,066 which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method; the amortization of the premium for fiscal year 2016 was \$11,245. The issuance costs of \$27,347 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The amortization of the issuance costs for fiscal year 2016 was \$2,211. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$81,938. This difference, reported in the accompanying financial statements as a decrease to bonds payable is being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of this difference for fiscal year 2016 was \$6,625.

The 2009 bond issue consists of term and capital appreciation bonds. These bonds are not subject to early redemption.

The capital appreciation bonds for the issue matured December 1, 2015. These bonds were purchased as a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$230,000. In fiscal year 2007, \$180,465 capital appreciation bond principal was repaid. For fiscal year 2016, \$16,937 was accreted, leaving a total bond liability of \$97,170.

Principal and interest requirements to retire the refunding bonds are as follows:

Term Bonds			
Year Ending June 30,	Principal	Interest	Total
2017	\$230,000	\$53,237	\$283,237
2018	235,000	45,100	280,100
2019	245,000	36,394	281,394
2020	255,000	26,700	281,700
2021	265,000	16,300	281,300
2022	275,000	5,500	280,500
Total	\$1,505,000	\$183,231	\$1,688,231

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 16 - Long-Term Debt (Continued)

School Facilities Improvement Bonds – On November 16, 2010, the School District issued serial bonds, capital appreciation bonds, recovery zone economic development bonds, and qualified school construction bonds for the purpose of constructing school facilities (in particular a new high school) under the Ohio School Facilities Commission Classroom Facilities Assistance Program; renovating, improving, and constructing additions to existing school facilities, including improvements to school technology; furnishing and equipping the same and landscaping and improving the sites thereof. The bonds will be repaid from the Bond Retirement Debt Service Fund from a levy approved by the voters of the School District at an election held on August 3, 2010.

As part of the issue, \$1,820,000 in Recovery Zone Economic Development Bonds (RZEDs) (Series 2010B Current Interest Term Bonds) and \$2,000,000 in Qualified School Construction Bonds (QSCBs) (Series 2010C Current Interest Term Bonds) were issued in accordance with the American Recovery and Reinvestment Act of 2009 (ARRA). The School District has elected to treat the Series 2010B Bonds as “build America bonds” under Section 54AA(d) of the Code and has designated them as “recovery zone economic developments bonds” under Section 1400U-2(b) of the Code in order to receive the Series 2010B Direct Payments from the Treasury. The School District has designated the Series 2010C Bonds as Qualified School Construction Bonds under Section 54F of the Code and has irrevocably elected under Section 643(f) of the Code to receive the Direct Payments from the Treasury. Holders of these bonds will not be entitled to receive any tax credits with respect thereto.

The principal (sinking fund deposits) and interest requirements to maturity for the RZEDs are as follows:

Recovery Zone Economic Development Bonds				
Fiscal Year Ending June 30,	Principal	Interest	Subsidy	Total
2017	\$-	\$129,220	(\$58,149)	\$71,071
2018	-	129,220	(58,149)	71,071
2019	-	129,220	(58,149)	71,071
2020	-	129,220	(58,149)	71,071
2021	-	129,220	(58,149)	71,071
2022 – 2026	-	646,100	(290,745)	355,355
2027 - 2031	170,000	640,065	(288,030)	522,035
2021 – 2036	1,005,000	416,593	(187,467)	1,234,126
2037 - 2039	645,000	62,657	(28,196)	679,461
Total	\$1,820,000	\$2,411,515	(\$1,085,183)	\$3,146,332

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 16 - Long-Term Debt (Continued)

The principal (sinking fund deposits) and interest requirements to maturity for the QSCBs are as follows:

Qualified School Construction Bonds				
Fiscal Year Ending June 30,	Principal	Interest	Subsidy	Total
2017	\$30,000	\$128,865	(\$108,559)	\$35,306
2018	130,000	127,380	(107,308)	150,072
2019	135,000	122,100	(102,860)	154,240
2020	145,000	113,355	(95,493)	162,862
2021	145,000	104,280	(87,848)	161,432
2022 – 2026	815,000	372,900	(314,140)	873,760
2027 - 2030	560,000	98,010	(82,566)	575,444
Total	\$1,960,000	\$1,066,890	(\$898,774)	\$2,113,116

The Series 2010B Current Interest Term Bonds matured on December 1, 2038, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year (December 1)	Principal Amount to be Redeemed
2030	\$170,000
2031	175,000
2032	190,000
2033	200,000
2034	210,000
2035	230,000
2036	240,000
2037	250,000
Total	\$1,665,000

The remaining principal amount of \$155,000 will be paid at stated maturity on December 1, 2038.

The Series 2010C Current Interest Term Bonds matures on December 1, 2029, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 16 - Long-Term Debt (Continued)

Year (December 1)	Principal Amount to be Redeemed
2017	\$ 30,000
2018	130,000
2019	135,000
2020	145,000
2021	145,000
2022	150,000
2023	160,000
2024	165,000
2025	165,000
2026	175,000
2027	185,000
2028	185,000
Total	\$1,770,000

The remaining principal amount of \$190,000 will be paid at stated maturity on December 1, 2029.

The Current Interest Bonds maturing after December 1, 2020, are subject to redemption at the option of the School District, either in whole or in part, in such order of maturity as the School District shall determine, on any date on or after December 1, 2020, at a redemption price equal to 100% of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

As part of the ARRA act of 2009, issuers of these bonds are eligible to receive direct payments from the federal government which offset interest payments on the bonds. As an alternate, bonds may be issued as tax credit bonds under which bond holders receive federal tax credits in lieu of interest as a means to significantly reduce the issuer's interest cost. The School District, under agreement with the federal government, has chosen to receive a forty-five percent semi-annual direct payment from the federal government to help offset interest expense on the Recovery Zone Economic Development Bonds. Direct payments for the Qualified School Construction Bonds are equal to the applicable credit rate (5.56%) determined under Section 54A (b) (3) of the Code.

The bonds are subject to extraordinary optional redemption at the option of the School District, either in whole or in part, in such order of maturity as the School District shall determine on any date at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest to the date fixed for redemption, in the event that the direct payments from the federal government cease or are in an amount less than 45 percent of the corresponding interest payable on the Series 2010B Bonds.

To the extent that less than 100% of the available project proceeds of the Series 2010C Bonds are expended for qualified purposes by November 30, 2014, (or if an extension of such expenditure period has been received by the School District from the Secretary of the Treasury or the IRS, by the close of the extended period), the School District shall be required to redeem the nonqualified Series 2010C Bonds within 90 days after the end of such period. Redemption of the nonqualified Series 2010C Bonds shall be at a price equal to the sum of the principal amount being redeemed plus accrued interest thereon to the redemption date.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 16 - Long-Term Debt (Continued)

Also as part of the total bond issuance, \$5,000 in current interest, tax-exempt serial bonds and \$124,996 in capital appreciation bonds were issued. These bonds were retired during the fiscal year.

The capital appreciation bonds for this issue mature December 1, 2014, 2014, 2015, 2016, and 2017. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as a liability. The maturity amount of outstanding capital appreciation bonds is \$525,000. The 2016 accretion was \$22,499 leaving a total bond liability of \$214,992.

Principal and interest requirements to maturity for the capital appreciation bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$16,818	\$88,182	\$105,000
2018	12,395	92,605	105,000
Totals	\$29,213	\$180,787	\$210,000

As part of the entire debt issuance, the School District, pursuant to Section 3317.18, Ohio Revised Code, and Section 3301-8-01, Ohio Administrative Code, participated in the Ohio Credit Enhancement Program, and was assigned a long-term rating of AA from Standard & Poor's for the bond issuance. In the event the School District is unable to make sufficient debt service payments and the payment will not be made by a credit enhancement facility, the department of education will make the sufficient payment.

Note 17 - Set-Aside Calculations

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

	Capital Improvements Reserve
Set-aside Cash Balance as of June 30, 2015	\$-
Prior Offsets Not Recorded	-
Current Year Set-aside Requirement	122,651
Offsetting Credits	(53,053)
Qualifying Disbursements	(69,598)
Totals	-
Set-aside Balance Carried Forward to Future Fiscal Years	\$-

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 18 - Jointly Governed Organizations

A. Southeastern Ohio Voluntary Education Cooperative (SEOVEC)

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 28 participants consisting of school districts in eight southeastern Ohio counties. SEOVEC is governed by a governing board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. During fiscal year 2016, the School District paid \$55,519 to SEOVEC. To obtain financial information, write to the Southeastern Ohio Voluntary Education Cooperative at 221 North Columbus Road, Athens, Ohio 45701.

B. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of 134 school districts and other educational institutions in the 35-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 35 Appalachian counties are divided; and three from Ohio University College of Education. The Coalition provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Coalition. The School District's membership fee was \$300 for fiscal year 2016. The financial information for the Coalition of Rural and Appalachian Schools can be obtained from the Executive Director at McCracken Hall, Ohio University, Athens, Ohio 45701.

C. Metropolitan Educational Technology Association (META)

The School District is a participant in META Solutions which is a computer consortium that was the result of a merger between Tri-Rivers Educational Computer Association (TRECA) and the Metropolitan Educational Council (MEC). META Solutions develops implements and supports the technology and instructional needs of schools in a cost-effective manner. META Solutions provides instructional, core, technology and purchasing services for its member districts. The Board of Directors consists of the Superintendents from eight of the member districts. Financial information can be obtained from Scott Armstrong, who serves as Chief Financial Officer, 100 Executive Drive, Marion, Ohio 43302.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Notes to the Basic Financial Statements
June 30, 2016
(Continued)**

Note 19 - Insurance Purchasing Pool

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

Note 20 - Claims Servicing Pool

The School District participates in the Jefferson Health Plan, a claims servicing pool composed of over 250 public employer member organizations. The Plan's business and affairs are conducted by a nine member Board of Directors elected by plan members. The member pays a monthly premium based on their claims history and a monthly administration fee. All participating members retain their risk. The Plan acts solely as the claims servicing agent.

Note 21 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2016.

B. Litigation

The School District is currently not a party to any material legal proceedings.

C. Foundation Funding

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, traditional School 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 School 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, 2016 Foundation funding for the School 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 School District.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO
LAST THREE FISCAL YEARS**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability	0.033122%	0.033285%	0.033285%
District's proportionate share of the net pension liability	\$ 1,889,956	\$ 1,684,535	\$ 1,979,352
District's covered-employee payroll	\$ 1,428,710	\$ 947,355	\$ 931,376
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	132.28%	177.81%	212.52%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO
LAST THREE FISCAL YEARS**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability	0.0266509%	0.0266570%	0.0266570%
District's proportionate share of the net pension liability	\$ 7,365,535	\$ 6,483,589	\$ 7,723,585
District's covered-employee payroll	\$ 3,015,943	\$ 2,763,623	\$ 2,797,367
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	244.22%	234.60%	276.10%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO
LAST THREE FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 139,599	\$ 188,304	\$ 233,477
Contributions in relation to the contractually required contribution	<u>(139,599)</u>	<u>(188,304)</u>	<u>(233,477)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 997,136	\$ 1,428,710	\$ 1,684,538
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO
LAST THREE FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 389,281	\$ 422,232	\$ 359,271
Contributions in relation to the contractually required contribution	<u>(389,281)</u>	<u>(422,232)</u>	<u>(359,271)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 2,780,579	\$ 3,015,943	\$ 2,763,623
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Federal Grantor/ Pass Through Grantor / Program Title	Grant Year	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through The Ohio Department of Education:</i>				
Child Nutrition Cluster:				
National School Breakfast Program	2016	10.553	\$ 99,355	\$ 99,355
National School Lunch Program	2016	10.555	171,157	171,157
Cash Assistance			270,512	270,512
Non-Cash Assistance (Food Distribution)	2016	10.555	28,354	28,354
Total Child Nutrition Cluster			<u>298,866</u>	<u>298,866</u>
Total U.S. Department of Agriculture			<u>298,866</u>	<u>298,866</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Direct from the Federal Government:</i>				
Carol M. White Physical Education Program	2016	84.215F	240,806	234,616
Carol M. White Physical Education Program	2015	84.215F	64,703	71,580
Total Carol M. White Physical Education Program			<u>305,509</u>	<u>306,196</u>
<i>Passed Through The Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	2016	84.010	192,661	192,616
Title I Grants to Local Educational Agencies	2015	84.010	28,539	28,733
Total Title I Grants to Local Educational Agencies			<u>221,200</u>	<u>221,349</u>
Special Education Grants to States	2016	84.027	136,195	136,153
Special Education Grants to States	2015	84.027	15,704	16,274
Special Education Grants to States	2013	84.027	-	1,532
Total Special Education Grants to States			<u>151,899</u>	<u>153,959</u>
Twenty-First Century Community Learning Centers	2015	84.287	9,211	11,264
Title VI-B Rural Education	2016	84.358	11,238	12,459
Title VI-B Rural Education	2015	84.358	(557)	497
Total VI-B Rural Education			<u>10,681</u>	<u>12,956</u>
Title II-A Improving Teacher Quality State Grants	2016	84.367	45,179	45,130
Title II-A Improving Teacher Quality State Grants	2015	84.367	1,629	1,629
Total Title II-A Improving Teacher Quality State Grants			<u>46,808</u>	<u>46,759</u>
Total – U.S. Department of Education			<u>745,308</u>	<u>752,483</u>
Total Federal Financial Assistance			<u>\$ 1,044,174</u>	<u>\$ 1,051,349</u>

See the accompanying notes to the Schedule of Federal Awards Receipts and Expenditures.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) includes the federal award activity of **Southern Local School District**, Meigs County, Ohio (the School District) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The School District has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C – CHILD NUTRITION CLUSTER

The School District comingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

NOTE D – FOOD DONATION PROGRAM

The School District reports commodities consumed on the Schedule at the entitlement value. The School District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

January 27, 2017

Southern Local School District
Meigs County
106 Broadway St., Suite 1
Racine, OH 45771

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Southern Local School District**, Meigs County, (the School District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 27, 2017.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the School District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School District's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of audit findings that we consider material weaknesses. We consider findings 2016-001 and 2016-002 to be material weaknesses.

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Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Entity's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

January 27, 2017

Southern Local School District
Meigs County
106 Broadway St., Suite 1
Racine, OH 45771

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited **Southern Local School District's** (the School District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Southern Local School District's major federal programs for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of audit findings identifies the School District's major federal programs.

Management's Responsibility

The School District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the School District's compliance for the School District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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Opinion on Each Major Federal Program

In our opinion, the Southern Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF AUDIT FINDINGS
2 CFR § 200.515
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Education Agencies, CFDA #84.010 Carol M. White Physical Education Program, CFDA #84.215F
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR § 200.520?	No

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

FINDING 2016-001

Material Weakness

Long Term Liabilities

Disbursements should be posted to the fund and line item accounts as established by the Uniform School Accounting System.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF AUDIT FINDINGS
2 CFR § 200.515
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

FINDING 2016-001 (Continued)

Posting of Disbursements (Continued)

A debt principal payment from the Bond Retirement Fund was not recorded properly on the School District's financial statements. The accretion amount for the 2010 School Improvement Capital Appreciation Bonds was not properly calculated or posted to the financial statements.

Not posting disbursements accurately resulted in the financial statements requiring adjustment. The financial statements reflect the adjustment. The School District is in agreement with the adjustment and has communicated it to the compiler.

To help ensure accuracy and reliability in the financial reporting process, we recommend the Treasurer perform a detailed review of the financial statements prepared by the compiler. Such review should include procedures to ensure that all disbursements are properly identified and classified on the financial statements. We also recommend the School District reevaluate its accretion schedule for the bonds to determine if it is accurate.

Officials' Response: See the Corrective Action Plan

FINDING 2016-002

Material Weakness

GASB Statement No. 68

The School District made entries required by Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions". However, we encountered several discrepancies during our audit between the School District's entries and its supporting documentation. The amount recorded on the financial statements as Deferred Outflows of Resources – Pension was understated by \$420,388, the amount recorded as Net Pension Liability was understated by \$71,957, the amount recorded as Deferred Inflows of Resources – Pension was understated by \$42,115 and the amount recorded as Pension Expense was overstated by \$306,316. These differences were due to the School District using incorrect information from the State Teacher's Retirement System's actuarial reports and the School District's contributions subsequent to the measurement date being misstated. The financial statements reflect the adjustment. The School District is in agreement with the adjustment and has communicated it to the compiler.

The Required Supplementary Information was presented without notes and proper support for the contractually required contribution and covered employee payroll amounts for the School Employees Retirement System of Ohio (SERS) and the State Teachers Retirement System of Ohio (STRS).

We recommend the School District use the proper documentation from SERS, STRS and its system to prepare the entries related to net pension liability and the related Required Supplementary Information.

Officials' Response: See the Corrective Action Plan

3. FINDINGS FOR FEDERAL AWARDS

None

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2015-001	Posting Receipts and Disbursements	No	Not Corrected; Repeated as Finding 2016-001

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	The Treasurer will perform a detailed review of the financial statements that are prepared by the compiler; to include procedures to ensure that all disbursements are properly identified and classified on the financial statements. The Treasurer will investigate the accretion schedule for the bonds to determine its accuracy. In addition, the School District is considering using a new conversion firm.	June 30, 2017	Christi Hendrix, Treasurer
2016-002	The School District will use the proper documentation from SERS, STRS and the system to prepare the entries related to new pension liability and the related Required Supplementary Information. The School District acknowledges that the recommended accounting guidelines were unclear and will focus on what the exact requirements are and accurately prepare estimates and liabilities. In addition, the School District is considering using a new conversion firm.	June 30, 2017	Christi Hendrix, Treasurer



Dave Yost • Auditor of State

SOUTHERN LOCAL SCHOOL DISTRICT

MEIGS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 30, 2017**