



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Statement of Cash and Fund Cash Balances - All Fund Types.....	3
Combined Statement of Receipts, Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types	4
Combined Statement of Receipts, Disbursements and Changes in Fund Cash Balances – All Proprietary and Similar Fiduciary Fund Types.....	5
Combined Statement of Receipts - Budget and Actual - All Budgeted Fund Types.....	7
Combined Statement of Disbursements Compared with Expenditure Authority - All Budgeted Fund Types	8
Notes to the Financial Statements	11
Schedule of Federal Awards Receipts and Expenditures.....	25
Notes to Schedule of Federal Awards Receipts and Expenditures	26
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	27
Report of Independent Accountants on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133	29
Schedule of Findings - <i>OMB Circular A-133 §.505</i>	31
Schedule of Prior Audit Findings - <i>OMB Circular A-133 §.315(b)</i>	37

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STATE OF OHIO
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REPORT OF INDEPENDENT ACCOUNTANTS

Southern Local School District
Meigs County
P.O. Box 176
Racine, Ohio 45771

To the Board of Education:

We have audited the accompanying financial statements of the Southern Local School District, Meigs County, Ohio (the School District), as of and for the year ended June 30, 2002. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the School District prepares and files its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash and combined fund cash balances of the Southern Local School District, Meigs County, as of June 30, 2002, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the year then ended on the basis of accounting described in Note 2.

The accompanying financial statements have been prepared assuming the School District will continue as a going concern. As discussed in Note 1 to the financial statements, the School District has forecast an operating deficit of \$157,481 for the year ending June 30, 2003. In addition, the Ohio Department of Education and the State of Ohio Auditor's Office declared the School District to be in fiscal emergency on November 8, 1999, which raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2002, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Schedule of Federal Awards Receipts and Expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

October 29, 2002

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**COMBINED STATEMENT OF CASH AND FUND
CASH BALANCES
ALL FUND TYPES
AS OF JUNE 30, 2002**

Cash	<u>\$ 864,393</u>
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CASH BALANCES BY FUND TYPE

Governmental Funds:

General Fund	\$ 246,308
Special Revenue Funds	288,085
Debt Service Funds	168,831
Capital Projects Funds	128,766

Proprietary Funds:

Enterprise Funds	9,296
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Fiduciary Funds:

Agency Funds	<u>23,107</u>
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Total	<u>\$ 864,393</u>
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The notes to the financial statements are an integral part of this statement.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGE
IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDING JUNE 30, 2002**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
RECEIPTS:					
Receipts from Local Sources:					
Taxes	\$ 1,347,478	\$ 29,072	\$ 369,970	\$	\$ 1,746,520
Tuition	5,488				5,488
Earnings on Investments	19,483			10,185	29,668
Extracurricular Activities		78,325			78,325
Classroom Material & Fees	7,978				7,978
Miscellaneous	27,611	150			27,761
Receipts from State Sources:					
Unrestricted Grants-In-Aid	2,431,718	7,811	726,150		3,165,679
Restricted Grants-In-Aid	153,548	410,837			564,385
Receipts from Federal Sources:					
Unrestricted Grants-In-Aid		388,967			388,967
Total Receipts	3,993,304	915,162	1,096,120	10,185	6,014,771
DISBURSEMENTS:					
Instruction:					
Regular	1,936,926	251,896		39,744	2,228,566
Special	373,439	276,162			649,601
Vocational Education	201,235				201,235
Other Instruction	134,514				134,514
Supporting Services:					
Pupils	49,943	99,578			149,521
Instructional Staff	186,893	129,153			316,046
Board of Education	12,551				12,551
Administration	461,819	34,113			495,932
Fiscal Services	227,445	1,830			229,275
Operation and Maintenance - Plant	428,236	1,080			429,316
Pupil Transportation	559,133	815			559,948
Academic and Subject Oriented Activities	64,525	10,329			74,854
Sports Oriented		28,145			28,145
Facilities Acquisition and Construction Services:					
Architecture and Engineering				5,046	5,046
Building Acquisition and Construction				1,405,695	1,405,695
Debt Service:					
Repayment of Debt			1,069,208		1,069,208
Total Disbursements	4,636,659	833,101	1,069,208	1,450,485	7,989,453
Excess of Receipts Over/(Under) Disbursements	(643,355)	82,061	26,912	(1,440,300)	(1,974,682)
OTHER FINANCING SOURCES/(USES)					
Advance from State Solvency Assistance Fund	421,000				421,000
Transfers-In	10,729	25,514			36,243
Refund of Prior Year Expenditures	18				18
Transfers-Out	(20,000)	(36,243)			(56,243)
Total Other Financing Sources/(Uses)	411,747	(10,729)	0	0	401,018
Excess of Receipts and Other Financing Sources Over/(Under) Disbursements and Other Financing (Uses)	(231,608)	71,332	26,912	(1,440,300)	(1,573,664)
Fund Cash Balances, July 1	477,916	216,753	141,919	1,569,066	2,405,654
Fund Cash Balances, June 30	\$ 246,308	\$ 288,085	\$ 168,831	\$ 128,766	\$ 831,990

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

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND
CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
OPERATING RECEIPTS:			
Food Service	\$ 110,842	\$ 36,041	\$ 110,842
Extracurricular Activities		36,041	36,041
Classroom Materials and Fees	10,543		10,543
Total Operating Receipts	121,385	36,041	157,426
OPERATING DISBURSEMENTS:			
Personal Services - Salaries	103,374		103,374
Employees' Retirement and Insurance	70,381		70,381
Purchased Services		27	27
Supplies and Materials	128,037	31,145	159,182
Other		40	40
Total Operating Disbursements	301,792	31,212	333,004
Operating Income/(Loss)	(180,407)	4,829	(175,578)
NONOPERATING RECEIPTS/(DISBURSEMENTS):			
Miscellaneous	18	50	68
State Restricted Grants-In-Aid	12,631		12,631
Federal Unrestricted Grants-In-Aid	156,278		156,278
Total Nonoperating Receipts/(Disbursements)	168,927	50	168,977
Excess of Receipts Over/(Under) Disbursements Before Interfund Advances	(11,480)	4,879	(6,601)
Transfers-In	20,000		20,000
Net Income/(Loss)	8,520	4,879	13,399
Fund Cash Balances, July 1	776	18,228	19,004
Fund Cash Balances, June 30	\$ 9,296	\$ 23,107	\$ 32,403

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

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**SOUTHERN LOCAL SCHOOL DISTRICT
MEGIS COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
ALL BUDGETED FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental			
General	\$ 4,436,585	\$ 4,425,051	\$ (11,534)
Special Revenue	1,107,267	940,676	(166,591)
Debt Service	1,096,120	1,096,120	0
Capital Projects	10,750	10,185	(565)
Proprietary			
Enterprise	314,258	310,312	(3,946)
Fiduciary			
Agency	<u>84,200</u>	<u>36,091</u>	<u>(48,109)</u>
Totals (Memorandum Only)	<u>\$ 7,049,180</u>	<u>\$ 6,818,435</u>	<u>(230,745)</u>

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

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS COMPARED WITH
EXPENDITURE AUTHORITY
ALL BUDGETED FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Fund Types/Funds</u>	<u>Prior Year Carryover Appropriations</u>	<u>Appropriations</u>	<u>Total</u>
Governmental			
General	\$ 8,424	\$ 4,825,943	\$ 4,834,367
Special Revenue	18,180	1,054,228	1,072,408
Debt Service		1,069,983	1,069,983
Capital Projects	1,268,106	306,744	1,574,850
Proprietary			
Enterprise		311,550	311,550
Fiduciary			
Agency		65,860	65,860
Totals (Memorandum Only)	<u>\$ 1,294,710</u>	<u>\$ 7,634,308</u>	<u>\$ 8,929,018</u>

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

<u>Disbursements</u>	<u>Encumbrances Outstanding 6/30/2002</u>	<u>Total</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 4,656,659	\$ 20,858	\$ 4,677,517	\$ 156,850
869,344	15,290	884,634	187,774
1,069,208		1,069,208	775
1,450,485	1,094	1,451,579	123,271
301,792		301,792	9,758
31,212	66	31,278	34,582
<u>\$ 8,378,700</u>	<u>\$ 37,308</u>	<u>\$ 8,416,008</u>	<u>\$ 513,010</u>

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**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**

1. SUMMARY 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 61 certificated employees and 36 non-certificated employees who provide services to 761 students. The School District currently operates one elementary school and one high school.

The Auditor of State of Ohio declared the School District to be in fiscal emergency on November 8, 1999. A financial planning and supervision commission has been established to develop and oversee a financial recovery plan which must be submitted to the State Superintendent of Public Instruction. The Board of Education will be prohibited from taking any action which is contrary to or not authorized by the plan.

As of August 31, 2002, the School District had unaudited negative fund cash balances of \$18,623 in the Food Service Fund, \$3,047 in the Uniform School Supplies Fund, \$221 in the Title II Fund, and \$14,040 in the Title I Fund. The School District is waiting on grant revenue which is expected to balance these funds. As of August 31, 2002, the School District's General Fund balances could not cover these deficits. The School District has adopted a budget for 2003 which includes payments for the two Solvency Assistance Advance Loans.

The School District has forecast an operating deficit of \$157,481 for the fiscal year ending June 30, 2003. The School District has also forecast an operating deficit for the fiscal years ending 2004 and 2005. As of September 4, 2002, no cost-cutting measures have been implemented by the School District.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organizations' governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organizations' resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the District approves the budget, the issuance of debt, or the levying of taxes. There are no component units of the School District. The School District is associated with the Southeastern Ohio Voluntary Education Cooperative and the Coalition of Rural and Appalachian Schools, which are defined as jointly governed organizations, and the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool. The organizations are presented in Notes 11 and 12, respectively.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03(B) to file its annual financial report pursuant with accounting principles generally accepted in the United States of America, the School District chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as formerly prescribed or permitted by the Auditor of State.

B. Pooled Cash

The School District Treasurer invests all available funds of the School District in interest-bearing checking accounts.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of earnings.

C. Fund Accounting

The School District maintains its accounting records in accordance with the principles of fund accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds.

The restrictions associated with each type of fund are as follows:

1. Governmental Fund Types

General Fund

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

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

1. Governmental Fund Types (Continued)

Special Revenue Funds

The Special Revenue Funds are used to account for proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs. According to governmental accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds. For purposes of this report, these funds have been classified into the proper groups, if practicable.

Capital Projects Funds

The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

2. Proprietary Fund Type

Enterprise Funds

The Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. Fiduciary Fund Type

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include agency funds. Agency Funds are used to account for assets held by a governmental unit in an agency capacity for individuals, private organizations, other funds and/or governmental units.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

1. Budget

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level may be made by resolution of the Board of Education.

2. Tax Budget

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

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

3. Estimated Resources

The County Budget Commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year.

Prior to June 30, the School District must revise its budget so that the total contemplated disbursements from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2001, unencumbered fund balances. However, those fund balances are available for appropriations.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

4. Appropriations

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

5. Encumbrances

The School District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts, and other commitments for the disbursement of funds are recorded in order to reserve the portion of the applicable appropriation.

6. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

E. Property, Plant and Equipment

Fixed assets acquired or constructed for the School District are recorded as disbursements. Depreciation is not recorded for these fixed assets.

F. Accumulated Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

G. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

3. EQUITY IN POOLED CASH

The School District maintains a cash pool which is used by all funds. Each fund type's portion of this pool is displayed on the "Combined Statement of Cash and Fund Cash Balances" as "Cash Balances by Fund Type."

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

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

3. EQUITY IN POOLED CASH (Continued)

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two 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.

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by Surety Company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

- a. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
- b. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal 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;
- c. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- d. Bonds and other obligations of the State of Ohio;
- e. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- f. The State Treasurer's investment pool (STAROhio);

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

3. EQUITY IN POOLED CASH (Continued)

- g. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
- h. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature with five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits - At fiscal year end, the carrying amount of the School District's deposits was \$864,393 and the bank balance was \$875,556. Of the bank balance, \$105,119 was covered by federal deposit insurance, and \$770,437 was collateralized by securities held by a third party bank in the School District's name.

4. BUDGETARY COMPLIANCE

Expenditures exceeded appropriations at year end by \$1,323 in the DPIA Fund. In addition, at December 31, 2001, expenditures exceeded appropriations in the SchoolNet Fund in the amount of \$3,142, in the Ohio Reads Fund in the amount of \$15,000 and in the Summer Intervention Fund in the amount of \$10,729. Also, at May 31, 2002, expenditures exceeded appropriations in the General Fund by \$486,468, in the DPIA Fund in the amount of \$63,639 and in the Food Service Fund in the amount of \$37,260.

The School District had expenditures that had invoice dates preceding the certification dates and no corresponding "Then and Now" Certificate was obtained.

The Food Service Fund, the Uniform School Supplies Fund and the DPIA Fund had negative cash balances in the amounts of \$23,302, \$1,795 and \$1,166, respectively, at December 31, 2001.

The Public Support, District Managed Activity, Teacher Development, Ohio Reads, Title I, Title VI, Reducing Class Size, Miscellaneous Federal Grants, School Net, Uniform School Supplies, and Student Managed Activity Funds had total appropriations (current appropriations plus outstanding encumbrances), that exceeded the available resources (actual receipts plus July 1, 2001 beginning fund balance), at June 30, 2002 in the following amounts, respectively, \$19,123, \$8,457, \$4,087, \$15,000, \$23,816, \$115, \$22,189, \$1,861, \$679, \$2,882, and \$11,542.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

4. BUDGETARY COMPLIANCE (Continued)

Appropriations as approved by the Board of Education did not agree to the amounts posted to the School Districts system both at year end and throughout the year.

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Board of Education. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the School District.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the School District.

6. DEBT OBLIGATIONS

Debt outstanding at June 30, 2002, consisted of the following:

	Principal	Interest Rate
Asbestos Loan	\$124,027	0.00%
Energy Conservation Bonds	140,913	5.75%
FY01 Solvency Assistance Fund Advance	383,000	0.00%
FY02 Solvency Assistance Fund Advance	421,000	0.00%
School Facilities Construction and Improvement Bonds	3,725,000	3.2%-4.625%
Total	\$4,793,940	

Asbestos Loan

On May 25, 1993, the School District obtained a loan, in the amount of \$212,618, for removing asbestos. The loan was obtained under the authority of Ohio Rev. Code Section 3317.22 for a twenty year period, with the first payment due in fiscal year 1995 and the final maturity in fiscal year 2013. The loan is being retired through the Bond Retirement Debt Service Fund.

Energy Conservation Bonds

On August 15, 1994, the School District issued \$430,000 general obligation bonds for school energy conservation in the school buildings. The bonds were issued under the authority of Ohio Rev. Code Section 133.06(G) without a vote of the people for a ten year period, with final maturity in fiscal year 2005. The bonds are being retired through the Bond Retirement Debt Service Fund.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

6. DEBT OBLIGATIONS (Continued)

School Facilities Construction and Improvement Bonds

On December 1, 1998, the School District issued \$4,042,000 in voted general obligation bonds for constructing, renovating, and adding to buildings; furnishing and equipping such buildings; and improving School District sites. The bond issue included serial and term bonds, in the amount of \$1,432,000 and \$2,610,000 respectively. The bonds were issued for a twenty-three fiscal year period, with the final maturity date during fiscal year 2022.

FY01 Solvency Assistance Fund Advance

On April 21, 2001, the School District obtained a loan, in the amount of \$766,000, from the State of Ohio Department of Education Solvency Assistance Fund. This loan was obtained under the authority of Ohio Rev. Code Section 3316.20 for a three year period, with the first payment due in August, 2001 and the final payment due in June, 2003. This loan is being retired through bi-monthly deductions from the School District's State Foundation Settlements.

FY02 Solvency Assistance Fund Advance

On April 12, 2002, the School District obtained a loan, in the amount of \$421,000, from the State of Ohio Department of Education Solvency Assistance Fund. This loan was obtained under the authority of Ohio Rev. Code Section 3316.20 for a two year period, with the first payment due in August, 2002 and the final payment due in June, 2004. This loan is being retired through bi-monthly deductions from the School District's State Foundation Settlements.

The annual requirements to amortize debt outstanding as of June 30, 2002, including interest payments of \$1,894,204, are as follows:

Year Ending June 30	Asbestos School Hazard Loan	School Energy Conservation Bonds	FY01 Solvency Assistance Fund Advance	FY02 Solvency Assistance Fund Advance	Facilities Construction and Improvement Bonds	Total
2003	\$11,812	\$58,913	\$383,000	\$210,500	\$297,021	\$961,246
2004	11,812	56,038	0	210,500	292,521	570,871
2005	11,812	58,162	0	0	292,901	362,875
2006	11,812	0	0	0	293,026	304,838
2007	11,812	0	0	0	292,826	304,638
2008 - 2012	59,060	0	0	0	1,479,596	1,538,656
2013 - 2017	0	0	0	0	1,470,838	1,470,838
2018 - 2019	0	0	0	0	1,174,182	1,174,182
Total	<u>\$118,120</u>	<u>\$173,113</u>	<u>\$383,000</u>	<u>\$421,000</u>	<u>\$5,592,911</u>	<u>\$6,688,144</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

7. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During the year ending June 30, 2002, the School District contracted with Owners Insurance Company for property insurance and Inland Marine coverage. The policies include a \$500 deductible.

Professional and general liability is protected by Great American Alliance Insurance Company with a \$1,000,000 single occurrence limit with \$4,000,000 aggregate and hold a \$1,000 deductible. Vehicles are covered by Nationwide Insurance and hold a \$100 deductible for collision. Vehicle liability had a \$5,000,000 combined single limit of liability. Boiler insurance is provided by the Hartford Steam Boiler Inspection and Insurance Company. Settled claims have not exceeded any aforementioned commercial coverage in any of the past three years.

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

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001 (the latest information available), 4.2 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the years ended June 30, 2002, 2001, and 2000 were \$30,010, \$29,020, and \$51,094, respectively. 100 percent has been contributed for 2002, 2001, and 2000.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

For the year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent. For the year ended June 30, 2001 (the latest information available), 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the years ended June 30, 2002, 2001, and 2000 were \$213,742, \$206,462, and \$135,057, respectively. 100 percent has been contributed for 2002, 2001, and 2000.

9. POST EMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums.

Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$101,246 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the year ended June 30, 2001 (the latest information available), employer contributions to fund health care benefits were 9.80 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For the year ended June 30, 2002, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during 2002 equaled \$78,265.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

9. POST-EMPLOYMENT BENEFITES (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

10. OTHER EMPLOYEE BENEFITS

The School District provides medical insurance for all eligible employees through Medical Mutual of Ohio. The School District pays monthly premiums of \$1,246.25 for family and \$446.09 for individual coverage. The policy also provides life insurance and accidental death and dismemberment insurance for all eligible employees in the amount of \$10,000 at a premium cost to the District of \$2.20 per employee. Premiums are paid from the same funds that pay the employees' salaries.

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Coresource in the amount of \$25,000 for certified employees and \$30,000 for non-certified employees. Dental coverage is provided through Coresource. Premiums for this coverage are \$47.78 monthly for family and individual coverage. The School District also provides vision insurance to its employees through Vision Plus. The monthly premium for this coverage is \$21.43 for employees with dependents and \$8.11 for employees without dependents.

11. 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 34 participants consisting of 30 school districts and 4 educational service centers. SEOVEC's governing board is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

B. The Coalition of Rural and Appalachian Schools

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

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

12. INSURANCE PURCHASING POOL

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

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool.

The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

13. STATUTORY RESERVES

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

The School District was also previously required to set aside an amount for budget stabilization. Effective April 10, 2001, the requirement was eliminated under Senate Bill 345. However, restrictions were placed on the budget stabilization balance representing Bureau of Workers' Compensation (BWC) refunds that were previously required to be deposited into the reserve.

The following information describes the change in the year-end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

	<u>Textbook</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2001	\$ -	\$ -	\$ 37,285
Current Year Set-aside Requirement	96,679	96,679	-
Qualifying Disbursements	<u>(164,227)</u>	<u>(8,939,022)</u>	<u>-</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$ (67,548)</u>	<u>\$ (8,842,343)</u>	<u>\$ 37,285</u>
Set-aside Reserve Balance as of June 30, 2002	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,285</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

13. STATUTORY RESERVES (Continued)

The School District had qualifying disbursements during the year that reduced the textbook and capital acquisition set-aside amounts to below zero. State statute allows these extra amounts to be used to reduce the set-aside requirements of future years.

The budget stabilization reserve amount noted above includes BWC refunds previously required by State statute to be placed in the account.

14. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirements that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a Court appointed mediator. On March 21, 2002, the mediator issued his final report indicating the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

As of the date of the accompanying financial statements, the School District was unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

15. 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, 2002.

B. Litigation

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

SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through the Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution	10.550	N/A	\$	\$ 19,541	\$	\$ 18,478
School Breakfast Program	10.553	05-PU-01 05-PU-02	6,766 37,323		6,766 37,323	
Total School Breakfast Program			<u>44,089</u>	<u>0</u>	<u>44,089</u>	<u>0</u>
National School Lunch Program	10.555	LL-P4-01 LL-P4-02	14,642 97,547		14,642 97,547	
Total National School Lunch Program			<u>112,189</u>	<u>0</u>	<u>112,189</u>	<u>0</u>
Total Nutrition Cluster			<u>156,278</u>	<u>19,541</u>	<u>156,278</u>	<u>18,478</u>
Total United States Department of Agriculture			156,278	19,541	156,278	18,478
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through the State Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	C1-S1-01 C1-S1-01C C1-S1-02	11,474 28,785 234,312		25,226 28,785 201,879	
Total Title I Grants to Local Educational Agencies			<u>274,571</u>	<u>0</u>	<u>255,890</u>	<u>0</u>
Special Education - Grants to States	84.027	6B-SF-01P 6B-SF-02P	48,495		6,637 53,619	
Total Special Education - Grants to States			<u>48,495</u>	<u>0</u>	<u>60,256</u>	<u>0</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	DR-S1-01	421		2,704	
Goals 2000 - State and Local Education Systemic Improvements Grants	84.276	G2-S2-00 G2-S1-01 G2-S2-01 G2-S9-01	10,000		8,998 19,445 9,865 5,874	
Total Goals 2000 - State and Local Education Systemic Improvement Grants			<u>10,000</u>	<u>0</u>	<u>44,182</u>	<u>0</u>
Eisenhower Professional Development - State Grants	84.281	MS-S1-01 MS-S1-02	6,717		3,007 4,770	
Total Eisenhower Professional Development - State Grants			<u>6,717</u>	<u>0</u>	<u>7,777</u>	<u>0</u>
Innovative Education Program Strategies	84.298	C2-S1-01 C2-S1-02	694 3,985		149 3,985	
Total Innovative Education Program Strategies			<u>4,679</u>	<u>0</u>	<u>4,134</u>	<u>0</u>
Class Size Reduction	84.340	CR-S1-01 CR-S1-02	14,111 29,203		22,010 24,471	
Total Class Size Reduction			<u>43,314</u>	<u>0</u>	<u>46,481</u>	<u>0</u>
School Renovation, IDEA and Technology	84.352A	AT-S1-02	769			
<i>Passed through Washington State Community College:</i>						
Tech Prep Education	84.243		1,442		1,442	
Total United States Department of Education			<u>390,408</u>	<u>0</u>	<u>422,866</u>	<u>0</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 546,686</u>	<u>\$ 19,541</u>	<u>\$ 579,144</u>	<u>\$ 18,478</u>

The accompanying Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

NOTE A – SIGIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes the activity of the School District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the School District had no significant food commodities in inventory.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Southern Local School District
Meigs County
P.O. Box 176
Racine, Ohio 45771

To the Board of Education:

We have audited the financial statements of the Southern Local School District, Meigs County, Ohio (the School District), as of and for the year ended June 30, 2002, and have issued our report thereon dated October 29, 2002, wherein we noted that the School District had not adopted accounting principles generally accepted in the United States of America, and wherein we also noted there was substantial doubt about the School District's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2002-10753-001 through 2002-10753-006.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2002-10753-002 through 2002-10753-006.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our considerations of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe reportable conditions 2002-10753-002 through 2002-10753-006 described above are material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the School District in a separate letter dated October 29, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

October 29, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Southern Local School District
Meigs County
P.O. Box 176
Racine, Ohio 45771

To the Board of Education:

Compliance

We have audited the compliance of the Southern Local School District, Meigs County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133*, that are applicable to its major federal program for the year ended June 30, 2002. The School District's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002. However, we noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to the management of the School District in a separate letter dated October 29, 2002.

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Southern Local School District
Meigs County
Report of Independent Accountants on Compliance with Requirements
Applicable to Each Major Federal Program and Internal Control over
Compliance in Accordance with OMB Circular A-133
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

October 29 2002

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Major Programs (list):	Title I, Grants to Local Educational Agencies, CFDA #84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

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

FINDING NUMBER 2002-10735-001

Noncompliance Citation

Ohio Admin. Code Section 117-2-03(B) requires the School District to file its annual financial report pursuant to generally accepted accounting principles.

The School District prepared and filed its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other legal administrative remedies may be taken against the School District.

We recommend the School District take the necessary steps to ensure that the annual financial report is prepared and filed pursuant to generally accepted accounting principles.

FINDING NUMBER 2002-10735-002

Noncompliance Citation and Material Weakness

Ohio Rev. Code Section 5705.10 requires that money paid into any fund shall be used only for the purposes of which such fund is established.

The Food Service Fund, the Uniform School Supplies Fund and the DPIA Fund had negative fund balances of \$23,302, \$1,795, and \$1,166, respectively, at December 31, 2001.

Since the School District uses a cash pool for all funds, a negative fund cash balance indicates cash from one fund was used to pay the obligation of another. We recommend the School District not pay obligations of one fund with monies from another fund. We also recommend the Board take steps to control spending or increase revenue sources in these funds to help prevent the deficit fund cash balances, and closely review the School District's financial activity. This review should include beginning fund balances, receipts, disbursements, and ending fund balances, on a monthly basis, as well as budgeted and actual revenues and expenditures.

If needed to cover temporary deficits, the District should advance cash from another fund, following the guidelines described in Auditor of State Bulletin 1997-003.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

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

FINDING NUMBER 2002-10735-003

Noncompliance Citation and Material Weakness

Ohio Rev. Code Section 5705.36 allows all subdivisions to request reduced amended certificates upon the determination by the fiscal officer that revenue to be collected will be less than the amount in the official certificate of estimated resources. A reduced amended certificate must be obtained when actual receipts plus January 1 unencumbered cash will be less than amounts appropriated.

The School District had total appropriations (current appropriations plus prior year outstanding encumbrances), that exceeded the available resources (actual receipts plus beginning unencumbered fund balance), at June 30, 2002, as follows:

Fund Type	Total Appropriations	Actual Revenue Plus Unencumbered Cash	Variance
Special Revenue :			
Public School Support	\$77,611	\$58,488	(\$19,123)
District Managed Activity	56,156	47,699	(8,457)
Teacher Development	5,874	1,787	(4,087)
Ohio Reads	39,500	24,500	(15,000)
Title I	312,139	288,323	(23,816)
Title VI	6,396	6,281	(115)
Reducing Class Size	51,393	29,204	(22,189)
Misc. Federal Grants	38,640	36,779	(1,861)
Capital Projects:			
School Net	21,744	21,065	(679)
Enterprise:			
Uniform School Supplies	14,500	11,618	(2,882)
Fiduciary:			
Student Managed Activity	65,507	53,965	(11,542)

This could result in deficit spending.

We recommend the School District monitor estimated and actual revenues for all funds on a regular basis. In the situation where budgeted revenue exceeds actual revenue and appropriations exceed actual revenue, a reduced amended certificate must be obtained and appropriations adjusted accordingly.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

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

FINDING NUMBER 2002-10735-004

Noncompliance Citation and Material Weakness

Ohio Rev. Code Section 5705.40 states that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation.

Appropriations as approved by the Board of Education did not agree to the amounts posted to the School District's system both at year end and throughout the year. This resulted in the Board having insufficient or inaccurate information to make management decisions that affect the financial position of the School District.

We recommend amendments posted to the system be reviewed for accuracy and agreement with legislatively adopted amounts.

FINDING NUMBER 2002-10735-005

Noncompliance Citation and Material Weakness

Ohio Rev. Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

Expenditures exceeded appropriations for the year ended June 30, 2002 by \$1,323 in the DPIA Fund. In addition, expenditures exceeded appropriations at various periods throughout the year. Expenditures exceeded appropriations as follows as of December 31, 2001:

<u>Fund</u>	<u>Appropriation Authority</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
SchoolNet	\$0	\$3,142	(\$3,142)
Ohio Reads	0	15,000	(15,000)
Summer Intervention	0	10,729	(10,729)

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

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

FINDING NUMBER 2002-10735-005 (Continued)

Noncompliance Citation and Material Weakness (Continued)

Expenditures exceeded appropriations as follows as of May 31, 2002:

<u>Fund</u>	<u>Appropriation Authority</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
General	\$3,897,914	\$4,384,382	(\$486,468)
DPIA	217,707	281,346	(63,639)
Food Service	239,782	277,042	(37,260)

This could result in the School District overspending available fund balances.

The Treasurer should compare all payment requests to available appropriation authority and to available cash balances (see finding number 2002-10735-006). The Treasurer should deny payment requests for which there is insufficient appropriation authority.

FINDING NUMBER 2002-10735-006

Noncompliance Citation and Material Weakness

Ohio Rev. Code Section 5705.41(D) states that in part that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$100 for counties, or less than \$1,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

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

FINDING NUMBER 2002-10735-006 (Continued)

Noncompliance Citation and Material Weakness (Continued)

Of the transactions tested, 28% of the expenditures had invoice dates preceding the certification dates and no corresponding "Then and Now" Certificate was obtained. This could lead to obligations being entered into when there is not sufficient funds available to cover the transaction and contributed to the deficit fund balances in finding number 2002-10753-002.

We recommend the School District Treasurer certify the availability of funds prior to ordering goods or services.

3. FINDINGS FOR FEDERAL AWARDS

There were no findings related to federal awards.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
FOR THE YEAR ENDED JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-10753-001	A noncompliance citation was issued under Ohio Admin. Code Section 117-2-03(B), for failing to prepare the School District's financial statements in accordance with generally accepted accounting principles.	No	Not Corrected: The School District's officials did not believe that preparing financial statements in accordance with generally accepted accounting principles was cost beneficial. Refer to finding number 2002-10753-001 above.
2001-10753-002	A noncompliance citation was issued under Ohio Rev. Code Section 5705.10; the School District maintained negative fund balances.	No	Not Corrected: Refer to finding number 2002-10753-002 above.
2001-10753-003	A noncompliance citation was issued under Ohio Rev. Code Section 5705.41(B); for expenditures exceeding appropriations.	No	Not Corrected: Refer to finding number 2002-10753-005 above.
2001-10753-004	A noncompliance citation was issued under Ohio Rev. Code Section 5705.36; for estimated receipts exceeding actual receipts and total appropriations exceeding available resources.	No	Not Corrected: Refer to finding number 2002-10753-003 above.
2001-10753-005	A noncompliance citation was issued under Ohio Rev. Code Section 5705.41(D); for not properly encumbering.	No	Not Corrected: Refer to finding number 2002-10753-006 above.
2001-10753-006	A material weakness was issued due to approved budgeted appropriation amounts not agreeing to budgeted amounts posted to the system.	No	Not Corrected: Refer to finding number 2002-10753-004 above.



STATE OF OHIO
OFFICE OF THE AUDITOR

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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
NOVEMBER 12, 2002**