

**Southern Local School District**

Perry County, Ohio

Single Audit

July 1, 2003 Through June 30, 2004

Fiscal Year Audited Under GAGAS: 2004



**BALESTRA, HARR & SCHERER, CPAs, Inc.**

CERTIFIED PUBLIC ACCOUNTANTS

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**Auditor of State  
Betty Montgomery**

Board of Education  
Southern Local School District  
10390 St. Rt. 155 SE  
Corning, Ohio 45730

We have reviewed the Independent Auditor's Report of the Southern Local School District, Perry County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period July 1, 2003 through June 30, 2004. 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.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

February 8, 2005

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**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

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## Independent Auditors' Report

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

To the Board of Education:

We have audited the accompanying financial statements of the Southern Local School District, Perry County, Ohio (the School District), as of and for the year ended June 30, 2004. 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 for governmental entities that are not required to prepare annual financial reports in accordance with accounting principles generally accepted in the United States of America. This basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 and reserves for encumbrances of the Southern Local School District, Perry County, as of June 30, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2004, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Southern Local School District  
Perry County  
Independent Accountants' Report  
Page 2

The accompanying Schedule of Federal Awards Receipts and Expenditures is presented for 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 stated, 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.

Balestra, Harr & Scherer, CPAs, Inc.  
Balestra, Harr & Scherer, CPAs, Inc.

December 31, 2004



**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**COMBINED STATEMENT OF CASH AND FUND  
CASH BALANCES  
ALL FUND TYPES  
AS OF JUNE 30, 2004**

Cash	<u><u>\$ 2,258,603</u></u>
------	----------------------------

**CASH BALANCES BY FUND TYPE**

<b>Governmental Funds:</b>	
General Fund	\$ 687,090
Special Revenue Funds	348,173
Debt Service Funds	206,084
Capital Projects Funds	637,320
<b>Proprietary Funds:</b>	
Enterprise Funds	4,644
Internal Service	348,560
<b>Fiduciary Funds:</b>	
Expendable Trust	6,211
Agency Funds	<u>20,521</u>
<b>Total</b>	<u><u>\$ 2,258,603</u></u>

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

SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES  
IN FUND CASH BALANCES  
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2004**

	Governmental Fund Types			Fiduciary	Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects		Expendable Trust
<b>RECEIPTS:</b>						
Receipts from Local Sources:						
Taxes	\$ 689,536	\$ 14,238	\$ 115,685	\$ -	\$ -	\$ 819,459
Tuition	816	0	0	0	0	816
Earnings on Investments	30,096	0	0	18,181	0	48,277
Extracurricular Activities	0	98,768	0	0	0	98,768
Classroom Material & Fees	13,403	0	0	0	0	13,403
Miscellaneous	113,488	47,491	0	0	10,010	170,989
Receipts from State Sources:						
Unrestricted Grants-In-Aid	6,157,268	1,139	9,522	0	0	6,167,929
Restricted Grants-In-Aid	23,316	349,244	0	196,180	0	568,740
Receipts from Federal Sources:						
Restricted Grants-In-Aid	0	699,188	0	0	0	699,188
<b>Total Receipts</b>	<b>7,027,923</b>	<b>1,210,068</b>	<b>125,207</b>	<b>214,361</b>	<b>10,010</b>	<b>8,587,569</b>
<b>DISBURSEMENTS:</b>						
Instruction:						
Regular	3,107,207	278,876	0	16,145	11,123	3,413,351
Special	1,299,650	621,792	0	0	0	1,921,442
Vocational Education	110,087	0	0	0	0	110,087
Supporting Services:						
Pupils	214,296	9,244	0	0	0	223,540
Instructional Staff	319,374	126,504	0	0	0	445,878
Board of Education	69,374	0	0	0	0	69,374
Administration	652,779	58,720	0	0	0	711,499
Fiscal Services	212,222	490	3,978	1,699	0	218,389
Operation and Maintenance - Plant	707,051	24,216	0	0	0	731,267
Pupil Transportation	631,719	0	0	0	0	631,719
Central	38,311	3,285	0	0	0	41,596
Extracurricular Activities:						
Academic and Subject Oriented Activities	10,323	43,173	0	0	0	53,496
Sports Oriented	91,797	27,344	0	0	0	119,141
Co-Curricular Activities	26,617	73,083	0	0	0	99,700
Facilities Acquisition and Construction Services:						
Architecture and Engineering	0	0	0	48,927	0	48,927
Building Acquisition and Construction	0	0	0	1,344	0	1,344
Building Improvement	0	0	0	2,686,240	0	2,686,240
Debt Service:						
Repayment of Debt	12,725	0	154,710	0	0	167,435
<b>Total Disbursements</b>	<b>7,503,532</b>	<b>1,266,727</b>	<b>158,688</b>	<b>2,754,355</b>	<b>11,123</b>	<b>11,694,425</b>
Excess of Receipts Over/(Under) Disbursements	(475,609)	(56,659)	(33,481)	(2,539,994)	(1,113)	(3,106,856)
<b>OTHER FINANCING SOURCES/(USES)</b>						
Transfers-Out	(16,000)	0	0	0	0	(16,000)
<b>Total Other Financing Sources/(Uses)</b>	<b>(16,000)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(16,000)</b>
Excess of Receipts and Other Financing Sources Over/(Under) Disbursements and Other Financing (Uses)	(491,609)	(56,659)	(33,481)	(2,539,994)	(1,113)	(3,122,856)
Fund Cash Balances, July 1	1,178,699	404,832	239,565	3,177,314	7,324	5,007,734
<b>Fund Cash Balances, June 30</b>	<b>\$ 687,090</b>	<b>\$ 348,173</b>	<b>\$ 206,084</b>	<b>\$ 637,320</b>	<b>\$ 6,211</b>	<b>\$ 1,884,878</b>
<b>Reserved for Encumbrances</b>	<b>\$ 114,663</b>	<b>\$ 64,257</b>	<b>\$ -</b>	<b>\$ 298,105</b>	<b>\$ 1,808</b>	<b>\$ 478,833</b>

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

SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY 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, 2004**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Agency</u>	
<b>OPERATING RECEIPTS:</b>				
Food Service	\$ 132,721	\$ -		\$ 132,721
Extracurricular Activities	0	0	32,769	32,769
Total Operating Receipts	132,721		32,769	165,490
<b>OPERATING DISBURSEMENTS:</b>				
Personal Services - Salaries	128,063	0	0	128,063
Employees' Retirement and Insurance	69,388	0	0	69,388
Purchased Services	179,355	86,977	0	266,332
Supplies and Materials	933	0	0	933
Other	0	0	44,044	44,044
Total Operating Disbursements	377,739	86,977	44,044	508,760
Operating Income/(Loss)	(245,018)	(86,977)	(11,275)	(343,270)
<b>NONOPERATING RECEIPTS:</b>				
Earnings on Investments	0	0	15	15
Miscellaneous	1,315	101,562	5,693	108,570
State Restricted Grants-In-Aid	13,355	0	0	13,355
Federal Unrestricted Grants-In-Aid	214,310	0	0	214,310
Total Nonoperating Receipts	228,980	101,562	5,708	336,250
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	(16,038)	14,585	(5,567)	(7,020)
Transfers-In	16,000	0	0	16,000
Net Income/(Loss)	(38)	14,585	(5,567)	8,980
Fund Cash Balances, July 1	4,682	333,975	26,088	364,745
<b>Fund Cash Balances, June 30</b>	<b>\$ 4,644</b>	<b>\$ 348,560</b>	<b>\$ 20,521</b>	<b>\$ 373,725</b>
<b>Reserve for Encumbrances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,489</b>	<b>\$ 1,489</b>

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

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**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL  
ALL BUDGETED FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Governmental</b>			
General	\$ 7,005,461	\$ 7,027,923	\$ 22,462
Special Revenue	1,209,161	1,210,068	907
Debt Service	123,748	125,207	1,459
Capital Projects	213,800	214,361	561
<b>Proprietary</b>			
Enterprise	377,701	377,701	0
Internal Service	101,562	101,562	0
<b>Fiduciary</b>			
Expendable Trust	10,010	10,010	0
<b>Totals (Memorandum Only)</b>	<b><u>\$ 9,041,443</u></b>	<b><u>\$ 9,066,832</u></b>	<b><u>\$ 25,389</u></b>

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

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS COMPARED WITH  
EXPENDITURE AUTHORITY  
ALL BUDGETED FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2004**

<u>Fund Types/Funds</u>	<u>Prior Year Carryover Appropriations</u>	<u>Appropriations</u>	<u>Total</u>
<b>Governmental</b>			
General	\$ 105,360	\$ 8,078,799	\$ 8,184,159
Special Revenue	91,019	1,519,263	1,610,282
Debt Service	0	363,312	363,312
Capital Projects	1,349,456	2,041,659	3,391,115
<b>Proprietary</b>			
Enterprise	25,952	382,383	408,335
Internal Service	5,404	430,133	435,537
<b>Fiduciary</b>			
Expendable Trust	2,469	14,866	17,335
<b>Totals (Memorandum Only)</b>	<b><u>\$ 1,579,660</u></b>	<b><u>\$ 12,830,415</u></b>	<b><u>\$ 14,410,075</u></b>

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

<u>Disbursements</u>	<u>Encumbrances Outstanding 6/30/2004</u>	<u>Total</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 7,519,532	\$ 114,663	\$ 7,634,195	\$ 549,964
1,266,727	64,257	1,330,984	279,298
158,688	0	158,688	204,624
2,754,355	298,105	3,052,460	338,655
377,739	0	377,739	30,596
86,977	0	86,977	348,560
11,123	1,808	12,931	4,404
<u>\$ 12,175,141</u>	<u>\$ 478,833</u>	<u>\$ 12,653,974</u>	<u>\$ 1,756,101</u>

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**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004**

**1. DESCRIPTION OF THE ENTITY**

The Southern Local School District, Perry County (the School District), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a local school district as defined by Ohio Revised Code Section 3311.03. The School District operates under an elected Board of Education (five members) and is responsible for the provision of public education to residents of the School District. Average daily membership (ADM) as of October 1, 2004, was 1,037. The School District employed 90 certificated employees and 44 non-certificated employees.

**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 10 and 11, respectively.

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

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

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004  
(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 in accordance with accounting principles generally accepted in the United States of America, the School District chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. 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, in accordance with the basis of accounting described in the preceding paragraph.

**B. Equity in 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 interest 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.

**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.

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Fund Accounting (Continued)**

**1. Governmental Fund Types (Continued)**

**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 and Trust 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.

**Internal Service Funds**

The Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost reimbursement basis.

**3. Fiduciary Fund Types**

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 expendable trust and agency funds. The expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Budgetary Process**

**1. Budget**

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year, for the subsequent July 1 to June 30 fiscal year.

**2. 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.

**3. Appropriations**

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, 2003, unencumbered fund balances. However, those fund balances are available for 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.

**4. Encumbrances**

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

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Accumulated Unpaid Vacation and Sick Leave**

Accumulated unpaid vacation and sick leave are not accrued under the basis of accounting described in Note 2. At June 30, 2004, management estimates that \$13,532 in vacation leave and \$2,515,589 in sick leave has been accumulated by the employees of the School District. All leave will either be absorbed by time off from work or, within certain limitations, be paid to the employees. It is not practicable to determine the actuarial value of these benefits as of June 30, 2004.

**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.

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. 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 the 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.

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

- a. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Continued)**

**3. EQUITY IN POOLED CASH (Continued)**

- 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);
- 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 within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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 year end, the carrying amount of the School District's deposits was \$2,258,603 and the bank balance was \$2,493,950. Of the bank balance, \$100,000 was covered by federal deposit insurance, and \$2,393,950 was collateralized 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.

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Continued)**

**4. PROPERTY TAX**

Real property taxes are levied on assessed values which equal 35% of appraised values. The County Auditor reappraises all real property every six years with a triennial update. The last reappraisal was completed for tax year 1999 for Perry County.

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

The full tax rate applied to real property for fiscal year ended June 30, 2004, was \$39.10 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$27.80 per \$1,000 of assessed valuation for real property classified as residential/agricultural and was \$31.13 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the School District by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for tax year 2003 was \$39.10 per \$1,000 of assessed valuation.

	<u>Perry and Hocking Counties</u>
<u>Real Property - 2003 Valuation</u>	
Residential/Agricultural	\$27,136,700
Commercial/Industrial	2,031,690
Public Utilities	844,780
Minerals	0
<u>Tangible Personal Property - 2002 Valuation</u>	
General	1,152,280
Public Utilities	3,559,000
Total	\$34,724,450

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

**5. DEBT OBLIGATIONS**

Debt outstanding at June 30, 2004, consisted of the following:

School Improvement Advance Refunding Bonds	
Principal Outstanding	\$ 719,995
Interest Rate	3.7% to 9.6%

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Continued)**

**5. DEBT OBLIGATIONS (Continued)**

School Facilities Improvement Notes	
Principal Outstanding	\$ 193,991
Interest Rate	5.0%

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

The School Facilities Improvement Notes were issued to finance building improvements. The notes are direct obligations of the School District for which its full faith, credit and resources are pledged.

The annual requirements to amortize debt outstanding as of June 30, 2004, including interest payments of \$939,481, are as follows:

Year Ending June 30	Advance Refunding Bonds	School Facilities Improvement Notes	Total
2005	\$ 138,545	\$ 16,000	\$ 154,545
2006	142,940	16,000	158,940
2007	140,000	16,000	156,000
2008	140,000	16,000	156,000
2009	140,000	16,000	156,000
2010 – 2014	710,000	80,000	790,000
2015 – 2019	140,000	80,000	220,000
2020 - 2024		61,982	61,982
Total	<u>\$ 1,551,485</u>	<u>\$ 301,982</u>	<u>\$ 1,853,467</u>

**6. LEASE OBLIGATION**

The School District entered into two, 60 month lease agreements with IOS Capital Inc. for the use of three copiers during fiscal year 2002. The annual requirements to amortize the lease obligations outstanding as of June 30, 2004, are as follows:



**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Continued)**

**6. LEASE OBLIGATION (Continued)**

Year Ending June 30	Amount
2005	\$ 10,972
2006	10,972
2007	10,402
<u>Total</u>	<u>\$ 32,346</u>

**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 ended June 30, 2004, the School District contracted with the Nationwide Insurance Company for property insurance and boiler and machinery coverage. Buildings and contents are 90% coinsured.

Vehicles are covered the Indiana Insurance Company and include deductibles of \$25 to \$500. Vehicle liability has a \$1,000,000 single occurrence limit. Professional and general liability is covered through the Hartford Insurance Company with a \$1,000,000 single occurrence limit and a \$3,000,000 aggregate limit.

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.

The School District has chosen to establish a risk financing fund for risks associated with the employee dental and vision insurance plans. The risk financing fund is accounted for as an Internal Service Fund where assets are set aside for claims and assessments. Medical Claims Services, Inc., acts as a third-party administrator for the payment of claims. A premium is charged to each fund that accounts for part-time and full-time employees. The premium charge is allocated to each of the funds based on trends in actual claims expense and the percentage of each fund's current year payroll expense to the total payroll expense of the School District.

**8. PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension system. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Continued)**

**8. PENSION PLANS (Continued)**

**A. School Employees Retirement System (Continued)**

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$152,582, \$80,603 and \$33,206, respectively; 100 percent has been contributed for fiscal years 2004, 2003 and 2002.

**B. State Teachers Retirement System**

The 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 or by calling (614) 227-4090.

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

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

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

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Continued)**

**8. PENSION PLANS (Continued)**

**B. State Teachers Retirement System (Continued)**

For the fiscal year ended June 30, 2004, plan members were required to contribute 9.3 percent of their annual covered salaries. The District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$537,944, \$420,866 and \$299,108, respectively; 100 percent has been contributed for fiscal years 2004, 2003 and 2002.

**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.

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2002 the board allocated employer contribution equal to 4.5 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. Effective July 1, 2002, 1 percent of covered payroll was allocated to the fund. For the School District, the amount to fund health care benefits equaled \$32,374 for fiscal year 2003. As of June 30, 2002, (the latest information available), eligible recipients totaled 105,300. For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000. The balance in the fund was \$3.011 billion at June 30, 2002.

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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing healthcare benefits. At June 30, 2004, healthcare allocation is 4.91%. In addition, SERS levies a surcharge to fund healthcare benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established as \$24,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits was \$300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 62,000.

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Continued)**

**10. JOINTLY GOVERNED ORGANIZATIONS**

**A. Southeastern Ohio Voluntary Educational Consortium (SEOVEC)**

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

**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.

**11. 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.

**12. STATUTORY RESERVES**

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

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Continued)**

**12. STATUTORY RESERVES (Continued)**

	Textbook	Capital Acquisition	Total
Set-Aside Reserve Cash Balance as of June 30, 2003	\$ (81,396)	\$ (142,024)	\$ (223,420)
Current Year Set-aside Requirement	146,498	146,498	292,996
Current Year Offsets	0	0	0
Qualifying Disbursements	(67,227)	(2,783,683)	(2,850,910)
Totals	(2,125)	(2,779,209)	(2,781,334)
Set-Aside Balances Carried Forward to Future Fiscal Years	\$ (2,125)	\$ (2,779,209)	\$ (2,781,334)
Set-Aside Reserve Cash Balance as of June 30, 2004	\$ 0	\$ 0	\$ 0

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

**13. STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

On March 4, 2003, the Plaintiffs filed a motion with the Common Pleas Court of Perry County requesting that such Court schedule and conduct a conference to address the State's compliance with the orders of such Court and the Supreme Court. On May 16, 2003, the Ohio Supreme Court granted a Writ of Prohibition as filed by the State and ordered the Common Pleas Court of Perry County to dismiss the motion for a compliance conference. The Ohio Supreme Court further again stated again its ruling made on December 11, 2002.

The School District is currently unable to determine what effect, if any, this decision will have in its future State funding and on its financial operations.

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Continued)**

**14. CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

**B. Litigation**

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

SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	10.550	N/A	\$ 58,375	\$ 31,882	\$ 58,375	\$ 31,882
School Breakfast Program	10.553	05PU	155,935		155,935	
National School Lunch Program	10.555	LLP4				
Total Nutrition Cluster			<u>214,310</u>	<u>31,882</u>	<u>214,310</u>	<u>31,882</u>
Total United States Department of Agriculture			214,310	31,882	214,310	31,882
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	C1S1	328,103		334,543	
Special Education - Grants to States	84.027	6BSF	168,944		179,794	
Safe and Drug-Free Schools and Communities - State Grants	84.186	DRS1	9,432		9,432	
Innovative Education Program Strategies	84.298	C2SI	8,288		5,402	
Education Technology State Grants	84.318	TJSI	10,912		12,795	
Comprehensive School Reform Demonstration Grants	84.332	RFS1	64,778		71,712	
Rural Education	84.358	RUS1	0		22,151	
Improving Teacher Quality State Grants	84.367	TRS1	<u>74,928</u>		<u>102,129</u>	
Total United States Department of Education			<u>665,385</u>	<u>0</u>	<u>737,958</u>	<u>0</u>
<b>Total Federal Awards Receipts and Expenditures</b>			<u>\$ 879,695</u>	<u>\$ 31,882</u>	<u>\$ 952,268</u>	<u>\$ 31,882</u>

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

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004**

**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**

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

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



**BALESTRA, HARR & SCHERER, CPAs, INC.**

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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

Southern Local School District

Perry County

10390 State Route 155 SE

Corning, Ohio 45730

To the Board of Education:

We have audited the financial statements of the Southern Local School District, Perry County, Ohio (the School District), as of and for the year ended June 30, 2004 and have issued our report thereon dated December 31, 2004, wherein we noted the School District has not prepared financial statements in accordance with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the general purpose 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2004-001.

Southern Local School District  
Perry County  
Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit Performed in Accordance with *Government Auditing Standards*  
Page 2

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.

Balestra, Harr & Scherer, CPAs, Inc.  
Balestra, Harr & Scherer, CPAs, Inc.

December 31, 2004

**BALESTRA, HARR & SCHERER, CPAs, INC.**

528 South West Street, P.O. Box 687

Piketon, Ohio 45661

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Ohio Society of Certified Public Accountants

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

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

To the Board of Education:

**Compliance**

We have audited the compliance of the Southern Local School District, Perry 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 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. 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 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 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, 2004.

**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  
Perry County  
Independent Accountants' Report 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 reportable 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 caused by error or fraud 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.

Balestra, Harr & Scherer, CPAs, Inc.  
Balestra, Harr & Scherer, CPAs, Inc.

December 31, 2004

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 §.505  
FOR THE YEAR ENDED JUNE 30, 2004**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under §.510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Nutrition Cluster, CFDA #10.550, 10.553, & 10.555
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

**FINDING NUMBER 2004- 001**

**Noncompliance Citation**

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

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

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 §.505  
FOR THE YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**FINDING NUMBER 2004-001 (Continued)**

**Noncompliance Citation – Ohio Rev. Code Section 117.38 (Continued)**

Pursuant to Ohio Rev. Code Section 117.38, the School District can be fined and various other administrative remedies may be taken against the School District for its failure to file the required financial report.

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.

**3. FINDINGS FOR FEDERAL AWARDS**

There were no findings related to federal awards.

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 §.315(b)  
FOR THE YEAR ENDED JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid;
2003-001	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.







**Auditor of State  
Betty Montgomery**

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**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 22, 2005**