



Dave Yost • Auditor of State

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Southern Local School District
Columbiana County
38095 State Road 39 East
Salineville, Ohio 43945

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Columbiana County, Ohio, as of June 30, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and the School Improvement Stimulus G Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 15, 2013

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

The management discussion and analysis of the Southern Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- In total, net assets of governmental activities decreased \$718,726, which represents a 6.41% decrease from 2011.
- General revenues accounted for \$8,194,809 in revenue or 69.91% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,527,636 or 30.09% of total revenues of \$11,722,445.
- The District had \$12,441,171 in expenses related to governmental activities; \$3,527,636 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,194,809 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, school improvement stimulus G fund, and bond retirement fund. The general fund had \$9,053,049 in revenues and \$9,250,516 in expenditures and other financing uses. During fiscal year 2012 the general fund's fund balance decreased \$197,467 from a deficit balance of \$119,181 to a deficit of \$316,648.
- The District's school improvement stimulus G fund had \$1,187,039 in revenues and \$1,063,830 in expenditures. During fiscal year 2012, the school improvement stimulus G fund's fund balance increased \$123,209.
- The District's bond retirement fund had \$263,165 in revenues and \$248,765 in expenditures. During fiscal year 2012, the bond retirement fund's fund balance increased \$14,400 from \$455,101 to \$469,501.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net assets and statement of activities can be found on pages 15-16 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, school improvement stimulus G fund, and bond retirement fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-21 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical and dental self-insurance. The basic proprietary fund financial statements can be found on pages 23-25 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate statement of fiduciary net assets on page 26. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 27-54 of this report.

The District as a Whole

The table below provides a summary of the District's net assets at June 30, 2012 and June 30, 2011.

	Net Assets	
	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
<u>Assets</u>		
Current and other assets	\$ 4,451,570	\$ 4,697,319
Capital assets, net	<u>11,750,659</u>	<u>12,327,111</u>
Total assets	<u>16,202,229</u>	<u>17,024,430</u>
<u>Liabilities</u>		
Current liabilities	2,899,325	2,791,002
Long-term liabilities	<u>2,812,411</u>	<u>3,024,209</u>
Total liabilities	<u>5,711,736</u>	<u>5,815,211</u>
<u>Net assets</u>		
Invested in capital assets, net of related debt	9,443,988	9,764,745
Restricted	895,093	1,236,882
Unrestricted	<u>151,412</u>	<u>207,592</u>
Total net assets	<u>\$ 10,490,493</u>	<u>\$ 11,209,219</u>

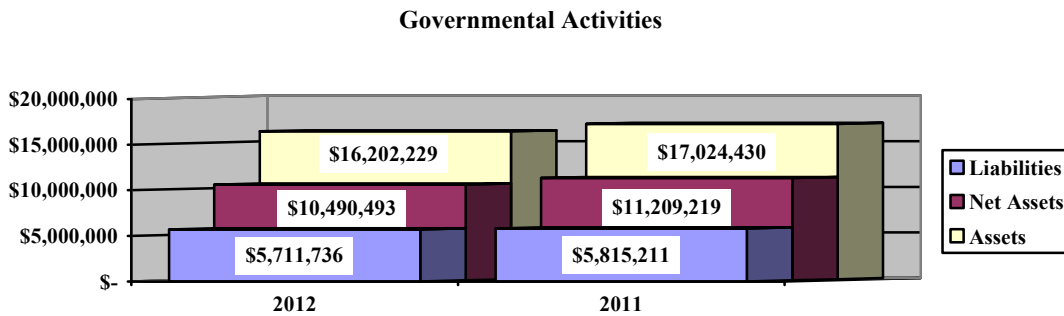
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the District's assets exceeded liabilities by \$10,490,493. Of this total, \$895,093 is restricted in use.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

At year-end, capital assets represented 72.52% of total assets. Capital assets include land, land improvements, buildings and improvements, infrastructure, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2012, were \$9,443,988. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

The graph below presents the District's governmental activities assets, liabilities and net assets at June 30, 2012 and June 30, 2011.



The table below shows the change in net assets for fiscal year 2012 and 2011.

Change in Net Assets

	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 709,186	\$ 669,621
Operating grants and contributions	2,818,450	2,700,675
General revenues:		
Property taxes	1,852,740	1,899,954
Grants and entitlements	5,949,270	5,829,711
Investment earnings	13,499	12,360
Other	<u>379,300</u>	<u>37,735</u>
Total revenues	<u>11,722,445</u>	<u>11,150,056</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

Change in Net Assets

	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,963,369	\$ 4,075,962
Special	1,084,296	1,058,992
Vocational	231,356	221,446
Other	223,039	15,260
Support services:		
Pupil	925,262	328,112
Instructional staff	762,434	323,267
Board of education	1,188,653	1,155,983
Administration	672,584	692,937
Fiscal	245,978	230,732
Business	58,281	57,148
Operations and maintenance	1,233,733	1,025,413
Pupil transportation	905,396	946,285
Central	116,491	25,693
Operation of non-instructional services:		
Food service operations	426,203	384,124
Operations of other non-instructional services	38,114	6,642
Extracurricular activities	239,485	244,511
Interest and fiscal charges	<u>126,497</u>	<u>140,168</u>
Total expenses	<u>12,441,171</u>	<u>10,932,675</u>
Change in net assets	<u>(718,726)</u>	<u>217,381</u>
Net assets at beginning of year	<u>11,209,219</u>	<u>10,991,838</u>
Net assets at end of year	<u>\$ 10,490,493</u>	<u>\$ 11,209,219</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$718,726. Total governmental expenses of \$12,441,171 were offset by program revenues of \$3,527,636 and general revenues of \$8,194,809. Program revenues supported 28.35% of the total governmental expenses.

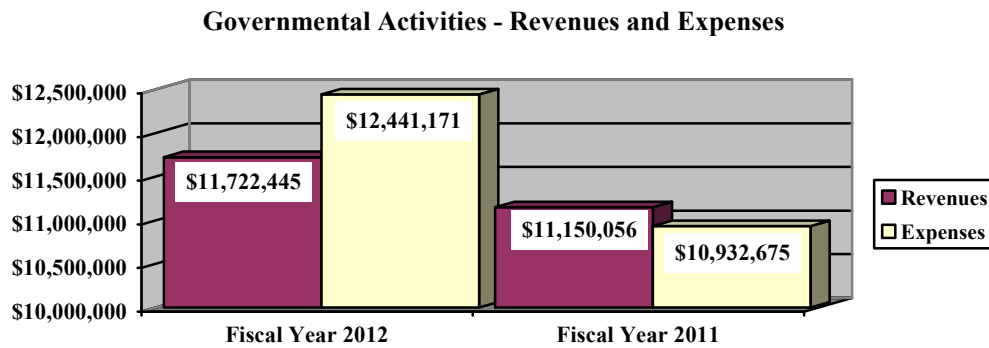
**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 66.56% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,502,060 or 44.22% of total governmental expenses for fiscal year 2012.

The graph below presents the District's governmental activities revenues and expenses for fiscal year 2012 and 2011.



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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

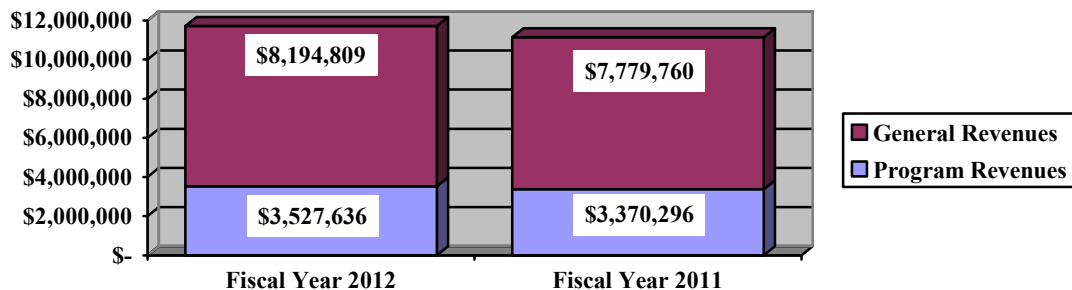
Governmental Activities

	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>
Program expenses				
Instruction:				
Regular	\$ 3,963,369	\$ 3,812,091	\$ 4,075,962	\$ 3,256,821
Special	1,084,296	146,953	1,058,992	(273,060)
Vocational	231,356	198,723	221,446	188,813
Other	223,039	(22,515)	15,260	15,260
Support services:				
Pupil	925,262	595,739	328,112	328,112
Instructional staff	762,434	186,979	323,267	181,923
Board of education	1,188,653	797,486	1,155,983	796,711
Administration	672,584	534,708	692,937	578,478
Fiscal	245,978	245,978	230,732	230,732
Business	58,281	58,281	57,148	57,148
Operations and maintenance	1,233,733	1,210,141	1,025,413	993,195
Pupil transportation	905,396	883,962	946,285	946,285
Central	116,491	21,546	25,693	25,693
Food service operations	426,203	(28,512)	384,124	(37,462)
Operations of non-instructional services	38,114	(2,827)	6,642	(118)
Extracurricular activities	239,485	148,305	244,511	133,680
Interest and fiscal charges	<u>126,497</u>	<u>126,497</u>	<u>140,168</u>	<u>140,168</u>
Total expenses	<u>\$ 12,441,171</u>	<u>\$ 8,913,535</u>	<u>\$ 10,932,675</u>	<u>\$ 7,562,379</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 75.16% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 71.65%. The District's taxpayers and unrestricted grants and entitlements from the State are by far the primary support for the District's students.

The graph below presents the District's governmental activities revenues for fiscal year 2012 and 2011.

Governmental Activities - General and Program Revenues



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

The District's Funds

The District's governmental funds reported a combined fund balance of \$467,954, which is lower than last year's total of \$886,478. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011.

	Fund Balance (Deficit) <u>June 30, 2012</u>	Fund Balance (Deficit) <u>June 30, 2011</u>	Increase (Decrease)	Percentage Change
General	\$ (316,648)	\$ (119,181)	\$ (197,467)	(165.69) %
School Improvement Stimulus G	123,209	-	123,209	100.00 %
Bond Retirement	469,501	455,101	14,400	3.16 %
Other Governmental	<u>191,892</u>	<u>550,558</u>	<u>(358,666)</u>	(65.15) %
Total	<u>\$ 467,954</u>	<u>\$ 886,478</u>	<u>\$ (418,524)</u>	(47.21) %

General Fund

The District's general fund balance decreased \$197,467. The decrease in fund balance can be attributed to revenues of \$9,053,049 being less than expenditures and other financing uses of 9,250,516. Expenditures and other financing uses exceed revenues for fiscal year 2012 by \$197,467. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2012 <u>Amount</u>	2011 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 1,581,174	\$ 1,637,296	\$ (56,122)	(3.43) %
Tuition	410,236	373,941	36,295	9.71 %
Earnings on investments	1,266	881	385	43.70 %
Intergovernmental	6,562,029	6,445,394	116,635	1.81 %
Other revenues	<u>498,344</u>	<u>153,743</u>	<u>344,601</u>	224.14 %
Total	<u>\$ 9,053,049</u>	<u>\$ 8,611,255</u>	<u>\$ 441,794</u>	5.13 %
<u>Expenditures</u>				
Instruction	\$ 4,435,797	\$ 3,949,815	\$ 485,982	12.30 %
Support services	4,466,555	4,420,149	46,406	1.05 %
Extracurricular activities	172,529	183,059	(10,530)	(5.75) %
Debt service	<u>10,635</u>	<u>10,635</u>	<u>-</u>	- %
Total	<u>\$ 9,085,516</u>	<u>\$ 8,563,658</u>	<u>\$ 521,858</u>	6.09 %

The increase in tuition revenue of \$36,295 is due to an increase in open enrollment revenue received during the fiscal year. Instructional expenditures increased \$485,982, which was due, in part, to an increase in wage and benefit costs.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

School Improvement Stimulus G Fund

The District's school improvement stimulus G fund balance increased \$123,209 at June 30, 2012. The increase in fund balance can be attributed to revenues of \$1,187,039 being greater than expenditures of \$1,063,830.

Bond Retirement Fund

The District's bond retirement fund balance increased \$14,400 from \$455,101 to \$469,501 at June 30, 2012. The increase in fund balance can be attributed to revenues of \$263,165 being greater than expenditures of \$248,765.

General Fund Budgeting Highlights

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

During the course of fiscal 2012, the District amended its general fund budget. For the general fund, original budgeted revenues and other financing sources were \$8,700,882. Final budgeted revenues and other financing sources were \$9,066,837. Actual revenues and other financing sources for fiscal 2012 were \$9,066,837, which is the same as final budgeted revenues and other financing sources.

General fund original appropriations (appropriated expenditures including other financing uses) were \$9,091,680. General fund final appropriations (appropriated expenditures including other financing uses) were \$9,385,582. The actual budget basis expenditures and other financing uses for fiscal year 2012 totaled \$9,360,582, which represents a decrease of \$25,000 over final budgeted appropriations and other financing uses.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the District had \$11,750,659 invested in land, land improvements, buildings and improvements, furniture and equipment, infrastructure and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2012 balances compared to June 30, 2011:

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

	Governmental Activities	
	2012	2011
Land	\$ 84,670	\$ 84,670
Land improvements	405,644	424,249
Building and improvements	10,815,627	11,300,427
Furniture and equipment	179,643	177,739
Infrastructure	79,030	86,716
Vehicles	186,045	253,310
Total	\$ 11,750,659	\$ 12,327,111

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

The overall decrease in capital assets of \$576,452 is due to depreciation expense of \$714,134 exceeding capital outlays of \$137,682 during the fiscal year.

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

Debt Administration

At June 30, 2012, the District had \$2,400,429 in general obligation bonds, capital lease obligations, and lease purchase obligations outstanding. Of this total, \$208,500 is due within one year and \$2,191,929 is due in greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
General obligation bonds	\$ 2,298,749	\$ 2,423,566
Capital lease obligations	21,090	29,662
Lease purchase obligations	<u>80,590</u>	<u>117,762</u>
Total	<u>\$ 2,400,429</u>	<u>\$ 2,570,990</u>

At June 30, 2012, the District's overall legal debt margin was \$5,732,161, and an unvoted debt margin of \$83,030.

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

Current Financial Related Activities

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

The District completed a 14 million dollar project that closed two schools and housed all their students at one site. The OSFC does not allow for administrative offices, so the current offices are located behind the new school building in a modular unit.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

The District has anticipated a lower increase in funding due to declining enrollment in future State revenue. The District lost over 170 students to open enrollment and it could lose more in the future to digital and community schools. When these students leave, the State funding is also decreased. The District's main challenge is how to stop this declining enrollment. With decreased State funding, cost cutting measures are inevitable unless other revenue sources become available (i.e.: operating tax levy).

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

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Doreen Marshall, Treasurer, Southern Local School District, 38095 State Route 39, Salineville, Ohio 43945.

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

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 1,168,930
Cash with fiscal agent	725,623
Receivables:	
Taxes	1,988,400
Accounts.	10,480
Accrued interest	106
Intergovernmental	491,970
Prepayments	290
Materials and supplies inventory.	9,916
Unamortized bond issue costs	55,855
Capital assets:	
Land.	84,670
Depreciable capital assets, net.	11,665,989
Capital assets, net	11,750,659
 Total assets.	 16,202,229
 Liabilities:	
Accounts payable.	40,918
Accrued wages and benefits	862,765
Pension obligation payable.	153,186
Intergovernmental payable	24,475
Accrued interest payable	3,973
Claims payable.	160,204
Unearned revenue	1,653,804
Long-term liabilities:	
Due within one year.	299,995
Due in more than one year.	2,512,416
 Total liabilities	 5,711,736
 Net Assets:	
Invested in capital assets, net of related debt.	9,443,988
Restricted for:	
Capital projects	76,720
Debt service.	501,941
State funded programs.	6,974
Federally funded programs	232,280
Student activities	11,114
Other purposes	66,064
Unrestricted	151,412
 Total net assets	 \$ 10,490,493

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 3,963,369	\$ 104,874	\$ 46,404	\$ (3,812,091)
Special	1,084,296	-	937,343	(146,953)
Vocational	231,356	-	32,633	(198,723)
Other	223,039	-	245,554	22,515
Support services:				
Pupil.	925,262	-	329,523	(595,739)
Instructional staff	762,434	-	575,455	(186,979)
Board of education	1,188,653	391,167	-	(797,486)
Administration.	672,584	-	137,876	(534,708)
Fiscal.	245,978	-	-	(245,978)
Business.	58,281	-	-	(58,281)
Operations and maintenance	1,233,733	-	23,592	(1,210,141)
Pupil transportation.	905,396	-	21,434	(883,962)
Central	116,491	-	94,945	(21,546)
Operation of non-instructional services:				
Food service operations	426,203	121,965	332,750	28,512
Other non-instructional services	38,114	-	40,941	2,827
Extracurricular activities.	239,485	91,180	-	(148,305)
Interest and fiscal charges	126,497	-	-	(126,497)
Total governmental activities	\$ 12,441,171	\$ 709,186	\$ 2,818,450	(8,913,535)
 General Revenues:				
Property taxes levied for:				
General purposes				1,598,257
Debt service.				226,483
Capital projects				28,000
Grants and entitlements not restricted to specific programs				5,949,270
Investment earnings				13,499
Miscellaneous				379,300
Total general revenues				8,194,809
Change in net assets				(718,726)
Net assets at beginning of year.				11,209,219
Net assets at end of year				\$ 10,490,493

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>	<u>School Improvement Stimulus G</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents.	\$ 403,212	\$ 73,587	\$ 463,158	\$ 228,973	\$ 1,168,930
Receivables:					
Taxes.	1,712,704	-	245,099	30,597	1,988,400
Accounts	10,480	-	-	-	10,480
Accrued interest	106	-	-	-	106
Interfund loans	234,716	-	-	-	234,716
Intergovernmental	-	305,864	-	186,106	491,970
Prepayments.	290	-	-	-	290
Materials and supplies inventory.	-	-	-	9,916	9,916
Total assets	<u>\$ 2,361,508</u>	<u>\$ 379,451</u>	<u>\$ 708,257</u>	<u>\$ 455,592</u>	<u>\$ 3,904,808</u>
Liabilities:					
Accounts payable	\$ 40,844	\$ 74	\$ -	\$ -	\$ 40,918
Accrued wages and benefits.	740,058	35,058	-	87,649	862,765
Compensated absences payable	83,643	-	-	-	83,643
Interfund loans payable.	-	179,902	-	54,814	234,716
Pension obligation payable	122,116	58	-	31,012	153,186
Intergovernmental payable	19,983	2,246	-	2,246	24,475
Deferred revenue	245,404	38,904	36,413	62,626	383,347
Unearned revenue.	1,426,108	-	202,343	25,353	1,653,804
Total liabilities.	<u>2,678,156</u>	<u>256,242</u>	<u>238,756</u>	<u>263,700</u>	<u>3,436,854</u>
Fund Balances:					
Nonspendable:					
Materials and supplies inventory.	-	-	-	9,916	9,916
Prepays.	290	-	-	-	290
Restricted:					
Debt service	-	-	469,501	-	469,501
Capital improvements	-	-	-	72,230	72,230
Food service operations	-	-	-	66,276	66,276
Special education	-	-	-	10,410	10,410
Targeted academic assistance	-	123,209	-	15,867	139,076
Other purposes.	-	-	-	12,500	12,500
Extracurricular.	-	-	-	11,114	11,114
Unassigned (deficit)	(316,938)	-	-	(6,421)	(323,359)
Total fund balances (deficit)	<u>(316,648)</u>	<u>123,209</u>	<u>469,501</u>	<u>191,892</u>	<u>467,954</u>
Total liabilities and fund balances	<u>\$ 2,361,508</u>	<u>\$ 379,451</u>	<u>\$ 708,257</u>	<u>\$ 455,592</u>	<u>\$ 3,904,808</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

Total governmental fund balances		\$	467,954
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			11,750,659
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	286,307	
Intergovernmental receivable		<u>97,040</u>	
Total			383,347
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.			565,419
Unamortized bond issuance costs are not recognized in the funds.			55,855
Unamortized premiums on bond issuance costs are not recognized in the funds.			(134,344)
Unamortized amounts on refundings are not recognized in the funds.			83,496
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(3,973)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences payable		277,491	
Capital lease obligation payable		21,090	
Lease purchase obligation payable		80,590	
General obligation bonds payable		<u>2,298,749</u>	
Total			<u>(2,677,920)</u>
Net assets of governmental activities		<u>\$</u>	<u>10,490,493</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General	School Improvement Stimulus G	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes	\$ 1,581,174	\$ -	\$ 223,651	\$ 28,000	\$ 1,832,825
Tuition	410,236	-	-	-	410,236
Charges for services	-	-	-	121,965	121,965
Earnings on investments	1,266	-	-	-	1,266
Extracurricular	36,834	-	-	54,346	91,180
Contract services	85,805	-	-	-	85,805
Other local revenues	375,705	-	-	3,595	379,300
Intergovernmental - State	6,562,029	-	39,514	25,302	6,626,845
Intergovernmental - Federal	-	1,187,039	-	1,074,594	2,261,633
Total revenues	<u>9,053,049</u>	<u>1,187,039</u>	<u>263,165</u>	<u>1,307,802</u>	<u>11,811,055</u>
Expenditures:					
Current:					
Instruction:					
Regular	3,541,532	-	-	97,180	3,638,712
Special	625,382	-	-	470,213	1,095,595
Vocational	231,045	-	-	-	231,045
Other	37,838	185,201	-	-	223,039
Support services:					
Pupil	467,205	295,320	-	185,191	947,716
Instructional staff	246,403	461,324	-	61,092	768,819
Board of education	1,187,307	-	-	-	1,187,307
Administration	546,342	-	-	150,304	696,646
Fiscal	235,232	-	5,987	750	241,969
Business	58,281	-	-	-	58,281
Operations and maintenance	899,553	-	-	315,867	1,215,420
Pupil transportation	794,446	19,209	-	-	813,655
Central	31,786	85,090	-	-	116,876
Operation of non-instructional services:					
Food service operations	-	-	-	427,171	427,171
Operation of non-instructional	-	17,686	-	20,428	38,114
Extracurricular activities	172,529	-	-	59,623	232,152
Debt service:					
Principal retirement	8,572	-	150,000	37,172	195,744
Interest and fiscal charges	2,063	-	92,778	6,477	101,318
Total expenditures	<u>9,085,516</u>	<u>1,063,830</u>	<u>248,765</u>	<u>1,831,468</u>	<u>12,229,579</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(32,467)</u>	<u>123,209</u>	<u>14,400</u>	<u>(523,666)</u>	<u>(418,524)</u>
Other financing sources (uses):					
Transfers in	-	-	-	165,000	165,000
Transfers (out)	<u>(165,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(165,000)</u>
Total other financing sources (uses)	<u>(165,000)</u>	<u>-</u>	<u>-</u>	<u>165,000</u>	<u>-</u>
Net change in fund balances	(197,467)	123,209	14,400	(358,666)	(418,524)
Fund balances (deficit) at beginning of year					
	(119,181)	-	455,101	550,558	886,478
Fund balances (deficit) at end of year	<u>\$ (316,648)</u>	<u>\$ 123,209</u>	<u>\$ 469,501</u>	<u>\$ 191,892</u>	<u>\$ 467,954</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds \$ (418,524)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.

Capital asset additions	\$ 137,682	
Depreciation expense	(714,134)	
		(576,452)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Taxes	20,226	
Intergovernmental	(121,069)	
Total		(100,843)

Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 195,744

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due. The following items resulted in additional interest being recorded in the statement of activities:

Accrued interest payable	406	
Accreted interest	(25,183)	
Amortization of deferred charges	(6,724)	
Amortization of bond premium	10,820	
Amortization of bond issuance costs	(4,498)	
Total		(25,179)

Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 82,610

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

123,918

Change in net assets of governmental activities \$ (718,726)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 1,601,000	\$ 1,563,521	\$ 1,602,195	\$ 38,674
Tuition	373,000	363,404	410,236	46,832
Earnings on investments	800	2,073	1,160	(913)
Contract services	68,000	84,182	85,805	1,623
Other local revenues	30,000	125,943	173,414	47,471
Intergovernmental - State	<u>6,589,608</u>	<u>6,706,316</u>	<u>6,562,029</u>	<u>(144,287)</u>
Total revenues	<u>8,662,408</u>	<u>8,845,439</u>	<u>8,834,839</u>	<u>(10,600)</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,378,215	3,508,069	3,508,069	-
Special	465,602	579,960	579,960	-
Vocational	222,509	229,667	229,667	-
Other	17,469	37,713	37,713	-
Support services:				
Pupil	449,862	459,938	459,938	-
Instructional staff	251,239	240,028	240,028	-
Board of education	1,213,895	1,177,704	1,177,704	-
Administration	608,538	536,167	536,167	-
Fiscal	237,803	233,998	233,998	-
Business	71,124	68,916	68,916	-
Operations and maintenance	931,698	914,870	914,870	-
Pupil transportation	854,281	806,999	806,999	-
Central	26,534	31,803	31,803	-
Extracurricular activities	<u>137,424</u>	<u>135,033</u>	<u>135,033</u>	<u>-</u>
Total expenditures	<u>8,866,193</u>	<u>8,960,865</u>	<u>8,960,865</u>	<u>-</u>
Deficiency of revenues under expenditures	<u>(203,785)</u>	<u>(115,426)</u>	<u>(126,026)</u>	<u>(10,600)</u>
Other financing sources (uses):				
Refund of prior year's expenditures	500	182,359	192,024	9,665
Transfers (out)	(187,959)	(165,000)	(165,000)	-
Advances in	33,974	33,179	33,974	795
Advances (out)	(37,528)	(259,717)	(234,717)	25,000
Sale of capital assets	4,000	5,860	6,000	140
Total other financing uses	<u>(187,013)</u>	<u>(203,319)</u>	<u>(167,719)</u>	<u>35,600</u>
Net change in fund balance	(390,798)	(318,745)	(293,745)	25,000
Fund balance at beginning of year	664,187	664,187	664,187	-
Prior year encumbrances appropriated	<u>11,671</u>	<u>11,671</u>	<u>11,671</u>	<u>-</u>
Fund balance at end of year	<u>\$ 285,060</u>	<u>\$ 357,113</u>	<u>\$ 382,113</u>	<u>\$ 25,000</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
SCHOOL IMPROVEMENT STIMULUS G FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Intergovernmental - Federal	\$ 920,079	\$ 920,079	\$ 920,079	\$ -
Total revenue	<u>920,079</u>	<u>920,079</u>	<u>920,079</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Other.	276,646	248,221	248,221	-
Support Services:				
Pupil.	327,694	294,025	294,025	-
Instructional staff	505,646	453,693	453,693	-
Pupil transportation	17,975	17,752	17,752	-
Central.	89,902	80,665	80,665	-
Operation of non-instructional services	<u>6,269</u>	<u>5,625</u>	<u>5,625</u>	<u>-</u>
Total expenditures	<u>1,224,132</u>	<u>1,099,981</u>	<u>1,099,981</u>	<u>-</u>
Deficiency of revenues under expenditures.	<u>(304,053)</u>	<u>(179,902)</u>	<u>(179,902)</u>	<u>-</u>
Other financing sources:				
Advances in.	<u>179,902</u>	<u>179,902</u>	<u>179,902</u>	<u>-</u>
Total other financing sources.	<u>179,902</u>	<u>179,902</u>	<u>179,902</u>	<u>-</u>
Net change in fund balance	(124,151)	-	-	-
Fund balance at beginning of year	-	-	-	-
Prior year encumbrances appropriated	-	-	-	-
Fund balance (deficit) at end of year	<u>\$ (124,151)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012

	Governmental Activities - Internal Service Fund
Assets:	
Cash with fiscal agent	\$ 725,623
Total assets	725,623
Liabilities:	
Claims payable	160,204
Total liabilities	160,204
Net assets:	
Unrestricted.	565,419
Total net assets	\$ 565,419

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 2,028,365
Total operating revenues	<u>2,028,365</u>
Operating expenses:	
Purchased services.	432,857
Claims	<u>1,483,823</u>
Total operating expenses.	<u>1,916,680</u>
Operating income	<u>111,685</u>
Nonoperating revenues:	
Interest revenue	<u>12,233</u>
Total nonoperating revenues.	<u>12,233</u>
Change in net assets.	123,918
Net assets at beginning of year	<u>441,501</u>
Net assets at end of year.	<u><u>\$ 565,419</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 2,028,365
Cash payments for purchased services	(432,857)
Cash payments for claims	<u>(1,439,177)</u>
Net cash provided by operating activities	<u>156,331</u>
Cash flows from investing activities:	
Interest received	<u>12,233</u>
Net cash provided by investing activities	<u>12,233</u>
Net increase in cash with fiscal agent	168,564
Cash with fiscal agent at beginning of year	<u>557,059</u>
Cash with fiscal agent at end of year	<u><u>\$ 725,623</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 111,685
Changes in assets and liabilities:	
Increase in claims payable	<u>44,646</u>
Net cash provided by operating activities	<u><u>\$ 156,331</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2012

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	<u>\$ 31,003</u>
Total assets.	<u><u>\$ 31,003</u></u>
Liabilities:	
Due to students	<u>\$ 31,003</u>
Total liabilities	<u><u>\$ 31,003</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

Southern Local School District (the “District”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District ranks as the 504th largest by total enrollment among the 918 public school districts and community schools in the State. The District operates under a locally-elected five-member Board form of government. Each member is elected to a four-year term. The District provides educational services as authorized by its charter and further mandated by State and/or Federal agencies. The Board of Education controls the District's 4 instructional/support facilities staffed by 47 classified employees and 74 certified employees who provide services to 756 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided it does not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units”. The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

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

JOINTLY GOVERNED ORGANIZATIONS

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

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

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

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

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

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

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

PUBLIC ENTITY RISK POOL

Ohio Association of School Business Officials

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

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

INSURANCE PURCHASING POOLS

Ohio Mid-Eastern Regional Education Services Agency

The District is a participant with several other school districts in an insurance purchasing pool to operate the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA). OME-RESA was formed for the purpose of providing medical/surgical, dental and vision insurance. OME-RESA is governed by a Board of Directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board.

Schools of Ohio Risk Sharing Authority

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

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

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

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

School improvement stimulus G fund

The title I school improvement stimulus G fund is used to account for ARRA money that is used for implementing a school improvement plan under the No Child Left Behind Act.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

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

PROPRIETARY FUNDS

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

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

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

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

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

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

D. Basis of Accounting

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period, including delinquent property taxes due at June 30, 2012, are recorded as deferred revenue.

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

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2012 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Columbiana County Budget Commission for tax rate determination.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificates of estimated resources issued for fiscal year 2012.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary comparison statements at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2012; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$1,266, which includes \$814 assigned from other funds.

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

An analysis of the District's investment account at year end is provided in Note 4.

G. Inventory

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2012, the District maintained its capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

I. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund loans receivable/payable”. These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

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

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

The total liability for vacation and sick leave has been calculated using pay rates in effect at June 30, 2012 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

L. Fund Balance

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted for food service operations.

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

N. Prepayments

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

O. Estimates

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

P. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2012, the District had no extraordinary or special items.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2012 included the following individual fund deficits:

<u>Major fund</u>	<u>Deficit</u>
General	\$ 316,648
<u>Nonmajor fund</u>	
Improving teacher quality	6,421

The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool the State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash with Fiscal Agent

The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposits, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2012, was \$725,623.

B. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all District deposits was \$1,199,933. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", \$830,443 of the District's bank balance of \$1,230,443 was exposed to custodial risk as discussed below, while \$400,000 was covered by the FDIC.

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

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,199,933
Cash with fiscal agent	<u>725,623</u>
Total	<u>\$ 1,925,556</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 1,894,553
Agency fund	<u>31,003</u>
Total	<u>\$ 1,925,556</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2012 as reported on the fund statements consist of the following individual interfund loans receivable and payable.

<u>Receivable fund</u>	<u>Payable funds</u>	<u>Amount</u>
General	School improvement stimulus G	\$ 179,902
General	Nonmajor governmental funds	54,814
Total		<u>234,716</u>

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore no internal balances at June 30, 2012 are reported on the statement of net assets.

- B. Interfund transfers for the year ended June 30, 2012, consisted of the following, as reported on the fund financial statements:

<u>Transfers to nonmajor governmental funds from:</u>	<u>Amount</u>
General	<u>\$ 165,000</u>

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

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

NOTE 6 - PROPERTY TAXES

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

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 6 - PROPERTY TAXES - (Continued)

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Columbiana, Jefferson and Carroll Counties. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available as an advance at June 30, 2012 was \$41,192 in the general fund, \$6,343 in the bond retirement fund and \$754 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2011 was \$62,213 in the general fund, \$9,076 in the bond retirement fund and \$1,137 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2012 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 76,807,110	92.83	\$ 77,237,860	93.02
Public utility personal	5,655,820	6.84	5,791,670	6.98
Tangible personal property	<u>273,663</u>	<u>0.33</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 82,736,593</u>	<u>100.00</u>	<u>\$ 83,029,530</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$39.44		\$39.44	

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 7 - RECEIVABLES

Receivables at June 30, 2012 consisted of taxes, accounts, accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Taxes	\$ 1,988,400
Accounts	10,480
Accrued interest	106
Intergovernmental	<u>491,970</u>
Total	<u>\$ 2,490,956</u>

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance 06/30/11</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/12</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 84,670	\$ -	\$ -	\$ 84,670
Total capital assets, not being depreciated	<u>84,670</u>	<u>-</u>	<u>-</u>	<u>84,670</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	715,401	14,987	-	730,388
Buildings and improvements	16,394,899	62,225	-	16,457,124
Furniture and equipment	423,195	24,488	-	447,683
Infrastructure	139,856	-	-	139,856
Vehicles	<u>1,014,656</u>	<u>35,982</u>	<u>(76,800)</u>	<u>973,838</u>
Total capital assets, being depreciated	<u>18,688,007</u>	<u>137,682</u>	<u>(76,800)</u>	<u>18,748,889</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(291,152)	(33,592)	-	(324,744)
Buildings and improvements	(5,094,472)	(547,025)	-	(5,641,497)
Furniture and equipment	(245,456)	(22,584)	-	(268,040)
Infrastructure	(53,140)	(7,686)	-	(60,826)
Vehicles	<u>(761,346)</u>	<u>(103,247)</u>	<u>76,800</u>	<u>(787,793)</u>
Total accumulated depreciation	<u>(6,445,566)</u>	<u>(714,134)</u>	<u>76,800</u>	<u>(7,082,900)</u>
Governmental activities capital assets, net	<u>\$ 12,327,111</u>	<u>\$ (576,452)</u>	<u>\$ -</u>	<u>\$ 11,750,659</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 8 - CAPITAL ASSETS – (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 569,257
<u>Support services:</u>	
Board of education	1,346
Administration	6,047
Operations and maintenance	20,839
Pupil transportation	105,078
Food service operations	4,691
Extracurricular activities	<u>6,876</u>
Total depreciation expense	<u>\$ 714,134</u>

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

- A. In a prior year, the District entered into a capital lease for the acquisition of copiers. These leases met the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term. At inception, the lease was accounted for as an other financing source and a capital outlay expenditure in the general fund. Capital lease payments have been reclassified and shown as debt service expenditures in the general fund. These expenditures will be reflected as function expenditures on a budgetary basis. The general capital assets acquired by this capital lease have been capitalized in the governmental activities on the statement of net assets in the amount of \$43,707, which is equal to the present value of the future minimum lease payments as of the date of their inception. Accumulated depreciation as of June 30, 2012 was \$21,853, leaving a current book value of \$21,854. A corresponding liability has been recorded in the governmental activities on the statement of net assets. Principal payments made during fiscal year 2012 totaled \$8,572.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2012.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 10,634
2014	10,634
2015	<u>1,773</u>
Total minimum lease payments	<u>23,041</u>
Less: amount representing interest	<u>(1,951)</u>
Present value of minimum lease payments	<u>\$ 21,090</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

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

- B.** During fiscal year 2006, the District entered into lease-purchase agreement with the Lease Servicing Center Inc. to finance roof construction and improvements throughout the District. The source of revenue to fund the principal and interest payments is derived from general operating revenues of the District.

Capital assets consisting of building improvements have been capitalized in the amount of \$330,500. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2012 was \$90,888, leaving a current book value of \$239,612. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2012 totaled \$37,172 paid by the building fund, a nonmajor governmental fund.

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

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2012.

Fiscal Year Ending June 30	Amount
2013	\$ 43,649
2014	43,649
Total	87,298
Less: amount representing interest	(6,708)
Present value of minimum lease payments	\$ 80,590

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 10 - LONG-TERM OBLIGATIONS

- A. During fiscal year 2012, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding			Balance Outstanding		Amounts Due in
	06/30/11	Additions	Reductions	06/30/12	One Year	
Governmental activities:						
Refunding bonds - Series 2007						
Current interest	\$ 2,295,000	\$ -	\$ (150,000)	\$ 2,145,000	\$ 160,000	
Capital appreciation	64,998	-	-	64,998	-	
Accreted interest	63,568	25,183	-	88,751	-	
Total general obligation bonds	<u>2,423,566</u>	<u>25,183</u>	<u>(150,000)</u>	<u>2,298,749</u>	<u>160,000</u>	
Compensated absences	398,275	1,032	(38,173)	361,134	91,495	
Capital lease obligation	29,662	-	(8,572)	21,090	9,283	
Lease purchase obligation	117,762	-	(37,172)	80,590	39,217	
Total	<u>\$ 2,969,265</u>	<u>\$ 26,215</u>	<u>\$ (233,917)</u>	<u>\$ 2,761,563</u>	<u>\$ 299,995</u>	
Add: Unamortized premium on refunding				134,344		
Less: Unamortized deferred charge on refunding				<u>(83,496)</u>		
Total on statement of net assets				<u>\$ 2,812,411</u>		

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

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

The refunding issue is comprised of both current interest bonds, par value \$2,400,000 and capital appreciation bonds par value \$64,998. The interest rates on the current interest bonds range from 3.75% - 4.35%. The capital appreciation bonds mature on December 1, 2016 and December 1, 2017 (stated interest rates 18.783%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds maturing December 1, 2016 and December 1, 2017 is \$375,000. Total accreted interest of \$88,751 has been included in the statement of net assets at June 30, 2012.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 10 - LONG-TERM OBLIGATIONS – (Continued)

Fiscal Year Ending June 30	Current Interest Bonds - Series 2007			Capital Appreciation Bonds - Series 2007		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 160,000	\$ 86,378	\$ 246,378	\$ -	\$ -	\$ -
2014	165,000	79,471	244,471	-	-	-
2015	170,000	72,352	242,352	-	-	-
2016	175,000	65,021	240,021	-	-	-
2017	-	61,303	61,303	34,978	150,022	185,000
2018 - 2022	790,000	242,962	1,032,962	30,020	159,980	190,000
2023 - 2025	685,000	44,151	729,151	-	-	-
Total	<u>\$ 2,145,000</u>	<u>\$ 651,638</u>	<u>\$ 2,796,638</u>	<u>\$ 64,998</u>	<u>\$ 310,002</u>	<u>\$ 375,000</u>

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2012, are a voted debt margin of \$5,732,161, (including available funds of \$469,501) and an unvoted debt margin of \$83,030.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

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(CONTINUED)

NOTE 11 - OTHER EMPLOYEE BENEFITS – (Continued)

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees through Fort Dearborn Life Insurance Company. Each full-time employee receives \$20,000 in coverage.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. For fiscal year 2012, the District contracted with Schools of Risk Sharing Authority (SORSA) for property, boiler and inland marine insurance. This risk policy has a \$1,000 deductible.

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

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

B. Workers' Compensation Plan

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

C. Medical, Vision, Dental and Prescription Insurance

Medical, vision, dental and prescription insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of several Districts within the Eastern Region, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. The claims liability of \$160,204 reported in the internal service fund at June 30, 2012, is based on an estimate provided by Professional Risk Management (the third party administrator) and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims.

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 12 - RISK MANAGEMENT - (Continued)

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

<u>Fiscal Year</u>	<u>Balance</u>	<u>Incurred</u>	<u>Payments</u>	<u>Balance</u>
2012	\$ 115,558	\$ 1,483,823	\$ (1,439,177)	\$ 160,204
2011	173,990	1,367,065	(1,425,497)	115,558

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$126,566, \$112,848 and \$122,512, respectively; 67.19 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 13 - PENSION PLANS - (Continued)

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$483,147, \$433,696 and \$439,066, respectively; 84.57 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$5,561 made by the District and \$3,972 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$19,005, \$31,967 and \$17,781, respectively; 67.19 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$7,504, \$7,262 and \$7,286, respectively; 67.19 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$37,165, \$33,361 and \$33,774, respectively; 84.57 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General fund</u>	<u>School improvement stimulus G fund</u>
Budget basis	\$ (293,745)	\$ -
Net adjustment for revenue accruals	180,756	266,960
Net adjustment for expenditure accruals	(99,517)	(37,436)
Net adjustment for other sources/uses	2,719	(179,902)
Funds budgeted elsewhere	(45)	-
Adjustment for encumbrances	<u>12,365</u>	<u>73,587</u>
GAAP basis	<u>\$ (197,467)</u>	<u>\$ 123,209</u>

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

NOTE 16 - CONTINGENCIES

A. Grants and ADM

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is 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, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

NOTE 17 - SET-ASIDES

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

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2011	\$ -
Current year set-aside requirement	159,737
Contributions in excess of the current fiscal year set-aside requirement	-
Current year qualifying expenditures	(154,243)
Excess qualified expenditures from prior years	-
Current year offsets	(33,076)
Waiver granted by ODE	-
Prior year offset from bond proceeds	<u>-</u>
Total	<u>\$ (27,582)</u>
Balance carried forward to fiscal year 2013	<u>\$ -</u>
Set-aside balance June 30, 2012	<u>\$ -</u>

NOTE 18 - OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 12,132
School improvement stimulus G	73,513
Other governmental	<u>19,110</u>
Total	<u>\$ 104,755</u>

SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF Agriculture				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance				
National School Lunch Program (Food Distribution)	03-PU-12	10.555	\$24,816	\$24,816
Cash Assistance				
School Breakfast Program	05-PU-12	10.553	\$99,276	\$99,276
National School Lunch Program	04-PU-12	10.555	202,321	202,321
Cash Assistance Subtotal			<u>301,597</u>	<u>301,597</u>
Total U.S. Department of Agriculture			<u>326,413</u>	<u>326,413</u>
U.S. DEPARTMENT OF Education				
<i>Passed Through Ohio Department of Education</i>				
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies (Title 1, Part A of the ESEA)	C1-S1-11	84.010	9,957	41,606
	C1-S1-12		233,651	239,093
ARRA - Title I Grants to Local Educational Agencies	2011	84.389	12,006	20,530
Total Title I, Part A Cluster			<u>255,614</u>	<u>301,229</u>
Special Education Cluster:				
Special Education - Grants to States (IDEA Part B)	6B-SF-11	84.027	20,067	18,515
	6B-SF-12		136,523	156,304
ARRA - Special Education - Grants to States (IDEA Part B)	2011	84.391	156,590	10,795
Total Special Education Cluster			<u>156,590</u>	<u>185,614</u>
Educational Technology State Grants Cluster:				
Title II Part D Education Technology State Grant	TJ-S1-11	84.318		8,118
Title VI B Rural and Low Income Program				
Title VI B Rural and Low Income	2011	84.358		9,824
	2012		6,243	15,757
Total VI B Program			<u>6,243</u>	<u>25,581</u>
Title II-A Improving Teacher Quality State Grant				
Title II-A Improving Teacher Quality State Grant	TR-S1-11	84.367	2,065	7,289
	TR-S1-12		46,765	46,056
Total Title II-A Improving Teacher Quality State Grant			<u>48,830</u>	<u>53,345</u>
State Fiscal Stabilization Fund Cluster				
ARRA - Recovery Act Education Stabilization Fund	2012	84.394		283,522
Education Jobs Fund				
	2011	84.410		34,690
	2012		153,153	149,634
Total Education Jobs Fund			<u>153,153</u>	<u>184,324</u>
Competitive School Improvement, Recovery Act	2012	84.388	920,079	1,026,394
Total U.S. Department of Education			<u>1,540,509</u>	<u>2,068,127</u>
Total Federal Financial Assistance			<u>\$1,866,922</u>	<u>\$2,394,540</u>

The accompanying notes are an integral part of this schedule.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
JUNE 30, 2012**

A. SIGNIFICANT ACCOUNTING POLICIES

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

B. CHILD NUTRITION CLUSTER

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

C. FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefited from the use of those donated food commodities. The amount of donated food commodities is reported on the Schedule as noncash assistance in the Nutrition Cluster. It is assumed federal monies are expended first. At June 30, 2012, the District had no significant food commodities in inventory.



Dave Yost • Auditor of State

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

Southern Local School District
Columbiana County
38095 State Road 39 East
Salineville, Ohio 43945

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Southern Local School District, Columbiana County, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-01.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 15, 2013.

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

We intend this report solely for the information and use of management, the audit committee, the Board of Education, and federal awarding agencies and pass-through entities and others within the District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

March 15, 2013



Dave Yost • Auditor of State

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

Southern Local School District
Columbiana County
38095 State Road 39 East
Salineville, Ohio 43945

To the Board of Education:

Compliance

We have audited the compliance of Southern Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Southern Local School District's major federal programs for the year ended June 30, 2012. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in findings 2012-02 through 2012-05 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable costs applicable to its Title 1 and Competitive School Improvement Grant major federal programs. Also, as described in findings 2012-06, 2012-07 and 2012-08 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding reporting applicable to its Title I and Competitive School Improvement Grant; requirements regarding period of availability applicable to its Title 1 and Competitive School Improvement Grant and requirements regarding cash management applicable to its Education Jobs and Competitive School Improvement Grants major federal programs, respectively. Compliance with these requirements is necessary, in our opinion, for the District to comply with requirements applicable to this program.

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In our opinion, except for the noncompliance described in the preceding paragraph, Southern Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and a deficiency that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent or to timely detect and correct noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-02 through 2012-08 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-09 to be a significant deficiency.

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

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated March 15, 2013.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

March 15, 2013

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**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Title 1: CFDA #84.010 and 84.389 Competitive School Improvement Grant: CFDA# 84.388 Education Jobs: CFDA 84.410
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2012-01

Noncompliance Finding

Ohio Revised Code Section 5705.41(D) provides that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officers' certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively of the Ohio Revised Code.

1. Then and Now Certificate – If no certificate is furnished as required, upon receipt of the fiscal officers' certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the District may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid. If the amount involved is less than \$3,000 the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the District Board if such expenditure is otherwise valid.
2. Blanket Certificate – Fiscal Officer may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not be, limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The District may also make expenditures and contracts for any amount from a specific line item appropriation in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket may be outstanding a particular time for any line item appropriation.

The Treasurer did not certify or record the amount against the applicable appropriation accounts for 44% of tested expenditures in fiscal year 2012.

Failure to certify the availability of funds and encumber appropriations could result in overspending and negative cash balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the District's funds exceeding budgetary spending limitations, the Treasurer should certify that the funds are or will be available prior to obligation by the District. When prior certification is not possible, "then and now" certification should be used.

The Treasurer should certify the full purchase amounts to which section Ohio Revised Code Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language which Ohio Revised Code Section 5705.41(D) requires for the authorization of disbursements. The fiscal officer should sign the certification at the time the District incurs a commitment, and only when the requirements of Ohio Revised Code Section 5705.41(D) are satisfied. The District should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Official's Response:

We did not receive a response from officials to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2012-02
CFDA Title and Number	Title I: CFDA # 84.010 and 84.389
Federal Award Number / Year	C1S1-11,12/2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost, Noncompliance Finding, Material Weakness

2 Code of Federal Regulations Part 225, Appendix A Section (C)(1)(j) provides the basic guidelines for factors affecting allowability of costs. It indicates that for a cost to be allowable, it must be adequately documented.

In addition, **2 Code of Federal Regulations 225, Appendix A Section (C)(3)(a)** addresses allocable costs. It states a cost is allocable to a particular cost objective if the good or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

The following exceptions were noted with regards to the abovementioned sections of code:

The District paid for conference registration in the amount of \$1,150, lodging in the amount of \$422 and air fare in the amount of \$754 for two individuals who were employees of the County Educational Service Center. These individuals did not provide services in the District's Title I served building. As the District's Title I program did not receive any benefits from this purchase, the amounts related to travel are questioned costs.

The District billed the Title I program \$4,800 for salary reimbursement. There was no documentation provided to support the amount billed. As the amount was not adequately documented, this expenditure is also a questioned cost.

The District purchased computers which were originally charged to the General Fund. It was later determined these should have been a Title I purchase. The District Treasurer posted an adjustment to move the purchase from the General Fund to the Title I Fund. This expenditure was erroneously posted twice resulting in the District being charged \$5,091 for goods for which no benefit was received, therefore, this expenditure is also a questioned cost.

For noncompliance with allowability requirements for the program, actual questioned costs are \$12,217 and projected questioned costs are \$18,888 and the total questioned costs for the Title I program are \$31,105.

In addition, while testing that requisitions were completed and approved by appropriate personnel for Title I expenditures, we noted that the expenditure for air fare for the Model School Conference did not have a requisition included in the voucher packet. This expenditure was also not supported by an invoice. The lack of completed requisitions and adequate supporting documentation could result in additional questioned costs, which could affect future funding.

**Finding Number 2012 – 02
 (Continued)**

The District should review the requirements listed above and familiarize themselves with the requirements regarding allowable purchases. They should take the necessary measures to implement procedures to ensure that these requirements are met.

Official's Response:

See Corrective Action Plan.

Finding Number	2012-03
CFDA Title and Number	Competitive School Improvement Grant –Recovery Act CFDA 84.388
Federal Award Number / Year	2012
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost, Noncompliance Finding, Material Weakness

2 Code of Federal Regulations Part 225 Appendix B Section (8)(h)(4) states that an employee who works on multiple cost objectives (i.e. in part on a federal program whose funds have not been consolidated in a consolidated school-wide pool and in part on federal programs supported with funds consolidated in a school-wide pool or on activities funded from other revenue sources) must maintain time and effort distribution records.

Several employees providing services for the Competitive School Improvement Grant did not document their time by maintaining a time and effort log. Questioned costs relating to failure to properly maintain time and effort documentation include \$200,860 of actual costs and \$14,478 of projected costs, which total \$215,338.

The practice of not maintaining time and effort logs as required could result in continued questioned costs and could affect future funding.

Time and effort logs should be an "after the fact" representation of the hours worked. Therefore, the logs should be completed in a reasonably short time after the end of the period the log is meant to cover. The District should review the guidelines regarding the completion of the logs and take the necessary measures to ensure that the requirements are met. In addition, the District should implement procedures to reconcile actual hours recorded on time and effort logs to actual amounts paid.

Official's Response:

See Corrective Action Plan.

Finding Number	2012-04
CFDA Title and Number	Competitive School Improvement Grant– Recovery Act CFDA 84.388
Federal Award Number / Year	2012
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost, Noncompliance Finding, Material Weakness

2 Code of Federal Regulations Part 225, Appendix A Section (C)(3)(a) states that a cost is allocable to a particular cost objective if the good or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

In addition, **Title I, Part A Section 1003 (b) of the Elementary and Secondary Education Act of 1965 as amended**, states of the amount reserved under subsection (a) for any fiscal year, the State educational agency shall allocate not less than 95 percent of that amount directly to local educational agencies for schools identified for school improvement, corrective action, and restructuring, for activities under section 1116(b).

The following exceptions were noted with regards to the abovementioned sections of code in relation to the Competitive School Improvement Grant:

The District paid for services provided to elementary students through the Educational Service Center totaling \$61,340. The Competitive School Improvement Grant was designated for the junior/senior high school; therefore these costs will be questioned as the junior/senior high school did not receive the benefit of these services.

The District paid for conference expenses for individuals that serve elementary students totaling \$2,326. As noted above, the Competitive School Improvement Grant was designated for the junior/senior high school; therefore these costs will be questioned as the junior/senior high school did not receive the benefit of these services.

The District compensated substitute teachers that served elementary students, the projected total of the costs were \$4,480. As noted above, the School Improvement Grant was designated for the junior/senior high school; therefore these costs will be questioned as the junior/senior high school did not receive the benefit of these services.

The District purchased a copy K-12 Deconstructed Standards. The entire purchase was paid by the Competitive School Improvement Grant and the cost should have been split as the junior/senior high school received only half of the benefit of the purchase. The error was projected as questioned costs of \$3,016.

For noncompliance with allowability requirements for the program, actual questioned costs are \$63,666 and projected questioned costs are \$7,496 and the total questioned costs for the Competitive School Improvement program are \$71,162.

Noncompliance with allowability requirements could result in continued questioned costs which could affect future funding.

The District should review the requirements listed above and familiarize themselves with the requirements regarding allowable purchases. They should take the necessary measures to implement procedures to ensure that these requirements are met.

Official's Response:

See Corrective Action Plan.

Finding Number	2012-05
CFDA Title and Number	Competitive School Improvement Grant –Recovery Act CFDA 84.388
Federal Award Number / Year	2012
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost, Noncompliance Finding, Material Weakness

2 Code of Federal Regulations Part 225, Appendix A Section (C)(1)(j) states the basic guidelines for factors affecting allowability of costs. It indicates that for a cost to be allowable, it must be adequately documented.

The following exceptions were noted with regards to the abovementioned section of code in relation to the Competitive School Improvement Grant:

The District paid administrators a rate of \$100 per day for administrative duties performed for night school activities. The District paid employees a rate of \$15 per hour for scanning books and inputting data into the software related to the grant objectives. These rates were not documented or approved by any authority of the District. The projected questioned cost for personnel payments is \$12,601 due to the lack of adequate documentation.

The District also purchased various small items related to the grant objectives that were not properly supported by documentation. The unsupported costs of \$933 are also questioned for the purchases.

Total questioned costs for the Competitive School Improvement Grant under the above CFR section are \$13,534.

Noncompliance with allowability requirements could result in continued questioned costs which could affect future funding.

The District should review the requirements listed above and familiarize themselves with the requirements regarding allowable purchases. They should take the necessary measures to implement procedures to ensure that these requirements are met.

Official's Response:

See Corrective Action Plan.

Finding Number	2012-06
CFDA Title and Number	Title I CFDA # 84.010 and 84.389 Competitive School Improvement Grant –Recovery Act CFDA # 84.388
Federal Award Number / Year	C1-S1-11,12 2012
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Finding, Material Weakness

The Ohio Department of Education's Federal Fiscal Report Procedures Manual required that actual expenditure amounts be presented in the project cash requests and final expenditure reports.

Due to a lack of procedures in place regarding grant reporting, the District failed to report actual expenditure amounts in project cash requests for the Title I program and in the final expenditure reports for the Title I and the Competitive School Improvement Grant. The exceptions are summarized below.

Project Cash Requests for Title I:

Request Date	Expenditures per Request	Object Code	Expenditures per Ledger	Variance:
10/12/11	\$22,820	500	\$60,378	(\$37,558)
12/16/11	\$22,820	500	\$63,249	(\$40,429)
2/15/12	\$43,826	400	\$3,397	\$40,429
2/15/2012	\$22,820	300	\$63,249	(\$40,429)

Final Expenditure Reports:

Grant	Expenditures per FER	Expenditures Per Ledger	Variance:
Title I	\$293,476	\$283,780	\$9,696
Competitive School Improvement	\$1,099,836	\$1,086,957	\$12,879

The lack of procedures in place to ensure accurate reporting could cause a decrease of the District's federal funding for the Title I and Competitive School Improvement grants.

The District should review their current procedure regarding the completing of project cash request and final expenditures reports. They should take the steps necessary to ensure that reports are completed within the guideline set forth by the Ohio Department of Education to avoid future suspension or loss of funds.

Official's Response:

See Corrective Action Plan.

Finding Number	2012-07
CFDA Title and Number	Title I CFDA # 84.010/84.389 Competitive School Improvement Grant –Recovery Act CFDA # 84.388
Federal Award Number / Year	C1-S1-11,12 2012
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Costs, Noncompliance Finding, Material Weakness

2 Code of Federal Regulations Section 215.28 states that where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period.

Because there were no controls in place for compliance with period of availability requirements, the District spent funds from the Title I and Competitive School Improvement grants that were not incurred during the funding period. This has results in questioned costs in the amount of \$14,883 for the Title I grant and in the amount of \$32,616 in the Competitive School Improvement grant. The amounts are summarized below.

Title I Grant:

Travel	\$ 1,878
Salaries	<u>13,005</u>
Total	<u>\$ 14,883</u>

Competitive School Improvement Grant:

Office Supplies/Books	\$ 10,926
Office/Supplies/Books – Projected	10,784
Purchased Services – Projected	5,510
Oct – Dec 2012 Expenditures	<u>5,396</u>
Total	<u>\$ 32,616</u>

Noncompliance with period of availability requirements could result in continued questioned costs which could affect future funding.

The District should review grant documents and guidance which stipulate the period of availability for federal funding. The District should establish control procedures to ensure that only allowable expenditures incurred within the period of availability are charged to the grant.

Official's Response:

See Corrective Action Plan.

Finding Number	2012-08
CFDA Title and Number	Education Jobs Grant CFDA # 84.410 Competitive School Improvement Grant –Recovery Act CFDA # 84.388
Federal Award Number / Year	2012
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Finding, Material Weakness

34 Code of Federal Regulations 80.20(b)(7) states in part: "When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements." Interest should not be earned on these funds. If interest is earned on the funds, the interest earned must be remitted to the US Department of Education via a check sent to ODE. ODE will review the calculation and determine if the amount remitted is correct. An amount of \$100 per entity per year may be retained under 34 CFR 80.21 for administrative expenses. For more information, see the ODE guidance document.

In the Education Jobs Grant, the District did not use grant monies from the June 20, 2011 and December 27, 2011 grant requests within the month in which they were requested. The portion of the June balance not expended until after 30 days was \$30,895. The portion of the December balance not expended until after 30 days was \$ 825.

In the Competitive School Improvement Grant, the District did not use grant monies from the October 12, 2011 and November 14, 2011 grant requests within the month in which they were requested. The October balance not expended until after 30 days was \$3,268 and the December balance not expended until after 30 days was \$72,955.

For both grants, the amount of interest earned was less than \$100.

Ineffective cash management practices could result in the District having to refund grant monies or interest earned to the grantor agency or to the pass through agency.

The District should take steps to minimize the time elapsing between the receipt and disbursement of those funds and should spend the funds within a month of receipt. By taking such precautions, the District will ensure compliance with the cash management requirements for federal grants.

Official's Response:

See Corrective Action Plan.

Finding Number	2012-09
CFDA Title and Number	Title I CFDA # 84.010/84.389 Competitive School Improvement Grant –Recovery Act CFDA # 84.388
Federal Award Number / Year	2011 and 2012
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Significant Deficiency

The District did not have adequate controls in place regarding the review of Allowable Costs/Cost Principles as they relate to the Title I and School Improvement Grants. OMB Circulars A-87, A-21, and A-122 prescribed the cost account policies associated with the administration of federal awards. They describe selected cost items, allowable and unallowable costs, and the standard methodologies for calculating indirect cost rates.

The District did not have procedures in place to ensure that these Circulars were reviewed prior to authorizing expenditure of federal funds. Without review of applicable Circulars, the chances that unallowable expenditures could be authorized and made are significantly increased. This could lead to questioned costs and possible loss of federal funding for the District.

The District should review the current approval process for federal payments. They should take the necessary steps to ensure that someone is responsible for reviewing expenditures for compliance with the Allowable Costs/Costs Principles requirement prior to authorizing payment.

Official's Response:

See Corrective Action Plan.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	2 CFR Part 225 Appendix B Section 8 h (3), questioned costs of \$177,151 regarding Allowable Costs/Cost Principles.	No	Reissued in Findings 2012-02,03,04,05 and 07
2011-02	34 CFR 80.20 (b)(7), Cash Management , failure to use drawdowns of State Fiscal Stabilization monies timely.	No	Reissued in Findings 2012-08

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**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2012**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2012-02	The District is no longer including staff employed through the Educational Service Center for out of district professional development events. If these employees are required to attend an out of district professional development event, the Education Service Center will be responsible for the costs.	January 1, 2013	Kristy Simpson, Grants Coordinator Doreen Marshall, Treasurer John Wilson, Superintendent
2012-03	The District is requiring all staff to complete a time/effort log for turning in hour dated January 1, 2013 on to be compensated through the School Improvement monies. The staff member along with the Grants Coordinator will sign off on these logs prior to pay out of funds. All hours logged must be beyond the normal work hours for that staff member. The Grants Coordinator will review the guidance pertaining to the allowable expenditures and will keep all long on file for audit review.	January 1, 2013	Kristy Simpson, Grants Coordinator Doreen Marshall, Treasurer John Wilson, Superintendent
2012-04	The District will split all costs associated with K-12 expenditures between the general fund, Title and/or School Improvement monies as they apply to students benefiting from the services provided. All services focused on the students in the 7-12 building will be paid out from the general fund or School Improvement monies. All services benefiting the K-6 students will be paid out from general fund or Title monies. All services benefiting all students K-12 will be split between all funding sources as appropriate. The Grants Coordinator will review the guidance pertaining to the allowable expenditures.	September 1, 2012	Kristy Simpson, Grants Coordinator Doreen Marshall, Treasurer John Wilson, Superintendent
2012-05	The Grants Coordinator will review the guidance for allowable expenses. The rates of pay out for staff for the federal programs will be approved by the Superintendent and/or the Board of Education. Proper documentation will be present with all pay outs. The allowable expenses were reviewed in December 2012 and will be reviewed after receiving the substantially approved date for federal fund annually. The rates of pay will follow the negotiated agreements and any additional rates of pay will be approved by the Superintendent and/ore Board of Educations, as they occur.	December 31, 2012	Kristy Simpson, Grants Coordinator Doreen Marshall, Treasurer John Wilson, Superintendent

2012-06	New methods to obtain accurate expenditure amounts will be imposed by the Treasurer, to ensure expenditures are reported accurately.	January 1, 2013	Kristy Simpson, Grants Coordinator Doreen Marshall, Treasurer John Wilson, Superintendent
2012-07	The District will review the period of availability for federal funding. All requested money will be encumbered by June 30 th and spent prior to September 30 th . The Grants Coordinator will sign off on expenditure requests for the Treasurer.	June 30, 2013	Kristy Simpson, Grants Coordinator Doreen Marshall, Treasurer John Wilson, Superintendent
2012-08	All efforts are being made to coordinate requests for cash and timely expenditures between the Treasurer and the Grants Coordinator so that this will not continue in the future.	January 1, 2013	Kristy Simpson, Grants Coordinator Doreen Marshall, Treasurer John Wilson, Superintendent
2012-09	The Grants Coordinator and the Treasurer will review the Circular guidance prior to July 1 each year to ensure the proper guideline regarding federal expenditures are being followed .	April 2013	Kristy Simpson, Grants Coordinator Doreen Marshall, Treasurer John Wilson, Superintendent



Dave Yost • Auditor of State

SOUTHERN LOCAL SCHOOL DISTRICT

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 9, 2013**