



**Auditor of State
Betty Montgomery**

**Southern Local School District
Meigs County, Ohio**

**Financial Forecast
For the Fiscal Years Ending June 30, 2004
through June 30, 2008**

Local Government Services Division

Southern Local School District
Meigs County

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**Auditor of State
Betty Montgomery**

Financial Planning and Supervision Commission
Ohio Department of Education
615 West Superior, Room 545
Cleveland, Ohio 44113-1801

and

Board of Education
Southern Local School District
P.O. Box 176
Racine, Ohio 45771

CERTIFICATION

Certification is hereby made that, based upon the requirement set forth in Section 3316.08, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the General Fund of the Southern Local School District, Meigs County, Ohio. This forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating deficit of \$671,000 for the fiscal year ending June 30, 2004.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2005 scheduled property tax settlements. The potential advances have been excluded due to the District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2004.

Each School District receiving certification of an operating deficit under 3316.08, Revised Code, is required to recommend to the Financial Planning and Supervision Commission whether or not a property or income tax levy should be placed on the ballot and shall provide supporting documentation for its recommendation. After considering the Board of Education's recommendation and supporting documentation, the Commission shall adopt a resolution either to submit a ballot question proposing a tax or not to submit such a question.

Peter R. Sorem
Chief of Local Government Services

April 22, 2004

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Auditor of State Betty Montgomery

Board of Education
Southern Local School District
P. O. Box 176
Racine, Ohio 45771

Independent Accountant's Report

We have examined the accompanying forecasted statement of revenues, expenditures and changes in fund balance of the general fund of the Southern Local School District for the fiscal years ending June 30, 2004 through June 30, 2008. The Southern Local School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the forecasted statement referred to above is presented in conformity with the guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for the Board's forecast. However, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after its date.

The accompanying financial forecast has been prepared assuming the Southern Local School District will continue as a going concern. The School District has experienced recurring general fund operating deficiencies, decreases in the unencumbered fund balance, and has borrowed against future revenues to finance its operations. In addition, the School District was declared in Fiscal Emergency status (see Note 12) on November 8, 1999, has obtained solvency assistance advances to finance fiscal years 2000 through 2003, has been unable to develop a plan to eliminate future deficits, and has not requested voter approval for additional operating funds. Management plans in regard to these matters have not been sufficient to eliminate any future deficits. These issues raise substantial doubt about the School District's ability to continue as a going concern. The financial forecast does not include any adjustments that might result from the outcome of this uncertainty.

We have compiled the historical financial statements of the Southern Local School District for the fiscal years ended June 30, 2001, June 30, 2002, and June 30, 2003, in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

February 5, 2004

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Southern Local School District
Statement of Revenues, Expenditures and Changes in Fund Balance
For The Fiscal Years Ended June 30, 2001, 2002 and 2003 Actual;
Fiscal Years Ending June 30, 2004 through June 30, 2008 Forecasted
General Fund

	Fiscal Year 2001 Actual	Fiscal Year 2002 Actual	Fiscal Year 2003 Actual	Fiscal Year 2004 Forecasted
Revenues				
General Property Tax (Real Estate)	\$1,444,000	\$1,336,000	\$1,234,000	\$1,304,000
Tangible Personal Property Tax	58,000	83,000	90,000	76,000
Unrestricted Grants-in-Aid	2,402,000	2,955,000	3,101,000	3,248,000
Restricted Grants-in-Aid	297,000	551,000	606,000	413,000
Property Tax Allocation	121,000	125,000	132,000	134,000
All Other Revenues	52,000	58,000	59,000	186,000
Total Revenues	4,374,000	5,108,000	5,222,000	5,361,000
Other Financing Sources				
Solvency Assistance Advance	766,000	421,000	665,000	0
Advances In	0	11,000	39,000	30,000
Total Other Financing Sources	766,000	432,000	704,000	30,000
Total Revenues and Other Financing Sources	5,140,000	5,540,000	5,926,000	5,391,000
Expenditures				
Personal Services	2,500,000	2,736,000	2,701,000	2,773,000
Employees' Retirement/Insurance Benefits	1,058,000	1,256,000	1,566,000	1,456,000
Purchased Services	264,000	292,000	339,000	572,000
Supplies and Materials	188,000	213,000	191,000	188,000
Capital Outlay	105,000	224,000	105,000	34,000
Debt Service:				
Principal - Asbestos Loan	12,000	12,000	12,000	12,000
Principal - Solvency Assistance Advance	314,000	696,000	594,000	543,000
Principal - HB 264 Energy Conservation Note	45,000	45,000	50,000	50,000
Interest and Fiscal Charges	14,000	12,000	9,000	6,000
Other Objects	340,000	224,000	545,000	305,000
Total Expenditures	4,840,000	5,710,000	6,112,000	5,939,000
Other Financing Uses				
Operating Transfers Out	0	20,000	43,000	144,000
Advances Out	11,000	0	30,000	0
Total Other Financing Uses	11,000	20,000	73,000	144,000
Total Expenditures and Other Financing Uses	4,851,000	5,730,000	6,185,000	6,083,000
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	289,000	(190,000)	(259,000)	(692,000)
Cash Balance July 1	189,000	478,000	288,000	29,000
Cash Balance June 30	478,000	288,000	29,000	(663,000)
Less Encumbrances and Reserves:				
Encumbrances at June 30	15,000	21,000	8,000	8,000
Reservations of Fund Balance				
Textbook and Instructional Materials	0	0	0	0
Budget	25,000	37,000	0	0
Total Encumbrances and Reservations of Fund Balance	40,000	58,000	8,000	8,000
Unencumbered/Unreserved Fund Balance (Deficit) June 30	438,000	230,000	21,000	(671,000)
Cumulative Revenue from Renewal Property Tax Levies	0	0	0	0
Fund Balance (Deficit) after Renewal Levy Proceeds	\$438,000	\$230,000	\$21,000	(\$671,000)

See accompanying summary of significant forecast assumptions, accounting policies, and accountant's report.

Fiscal Year 2005 Forecasted	Fiscal Year 2006 Forecasted	Fiscal Year 2007 Forecasted	Fiscal Year 2008 Forecasted
\$1,392,000	\$1,420,000	\$1,341,000	\$1,258,000
76,000	76,000	70,000	65,000
3,313,000	3,379,000	3,446,000	3,514,000
424,000	424,000	424,000	424,000
137,000	140,000	132,000	124,000
186,000	186,000	186,000	186,000
<u>5,528,000</u>	<u>5,625,000</u>	<u>5,599,000</u>	<u>5,571,000</u>
0	0	0	0
0	0	0	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>5,528,000</u>	<u>5,625,000</u>	<u>5,599,000</u>	<u>5,571,000</u>
2,771,000	2,827,000	2,883,000	2,940,000
1,656,000	1,889,000	2,166,000	2,495,000
575,000	602,000	606,000	625,000
194,000	200,000	207,000	214,000
94,000	34,000	94,000	34,000
12,000	12,000	12,000	12,000
333,000	0	0	0
55,000	0	0	0
3,000	0	0	0
311,000	316,000	322,000	328,000
<u>6,004,000</u>	<u>5,880,000</u>	<u>6,290,000</u>	<u>6,648,000</u>
30,000	30,000	30,000	30,000
0	0	0	0
<u>30,000</u>	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>
<u>6,034,000</u>	<u>5,910,000</u>	<u>6,320,000</u>	<u>6,678,000</u>
(506,000)	(285,000)	(721,000)	(1,107,000)
<u>(663,000)</u>	<u>(1,169,000)</u>	<u>(1,454,000)</u>	<u>(2,175,000)</u>
<u>(1,169,000)</u>	<u>(1,454,000)</u>	<u>(2,175,000)</u>	<u>(3,282,000)</u>
8,000	8,000	8,000	8,000
16,000	32,000	48,000	64,000
0	0	0	0
<u>24,000</u>	<u>40,000</u>	<u>56,000</u>	<u>72,000</u>
(1,193,000)	(1,494,000)	(2,231,000)	(3,354,000)
0	0	124,000	376,000
<u>(\$1,193,000)</u>	<u>(\$1,494,000)</u>	<u>(\$2,107,000)</u>	<u>(\$2,978,000)</u>

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2004 through 2008

Note 1 – The School District

The Southern Local School District (School District) is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District provides educational services as authorized by State and Federal guidelines. The School District currently operates 2 instructional/support facilities staffed by 62 certificated employees and 33 non-certificated employees who provide services to 773 students.

Note 2 - Nature of the Forecast

This financial forecast presents, to the best of the Southern Local School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of February 5, 2004, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

Note 3 - Nature of the Presentation

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund resources received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. State laws also require general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund. For presentation in the forecast, the disadvantaged pupil impact aid (DPIA) fund and debt service that is supported by the general fund is included with the general fund.

Note 4 - Summary of Significant Accounting Policies

A. - Basis of Accounting

This financial forecast has been prepared on a basis of cash receipts, disbursements, and encumbrances, which is consistent with the cash basis of accounting (non-GAAP) used to prepare the historical financial statements. Under this basis of accounting, certain revenue and related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies to be recorded as the equivalent of an expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2004 through 2008

B. - Fund Accounting

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

Governmental Funds

General Fund - The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the School District for any purpose provided it is disbursed or transferred in accordance with Ohio law.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or those for major capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest.

Capital Projects Funds - Capital projects funds are used to account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Funds

Enterprise Funds - Enterprise funds are used to account for any activity for which a fee is charged to external users for good and services.

Fiduciary Funds

Trust and Agency 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.

C. - Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Budget - A budget of estimated cash receipts and disbursements is submitted to the Meigs County Auditor, as secretary of the County Budget Commission, by January 20 of each year, for the succeeding fiscal year.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2004 through 2008

Estimated Resources - The County Budget Commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations – The appropriation resolution sets the limit for expenditures from each fund. A temporary appropriation resolution may be passed on or about July 1 of each year. The temporary appropriation resolution remains in place until the annual appropriation measure is adopted for the entire year. The appropriation measure may be amended or supplemented during the year as new information becomes available.

Encumbrances - The School District uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation.

Note 5 - General Operating Assumptions

The Southern Local School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. The forecast contains those expenditures the Board of Education has determined to be necessary to provide for an adequate educational program.

Note 6 - Significant Assumptions for Revenues and Other Financing Sources

A. - General and Tangible Personal Property Taxes

Property taxes consist of real estate, public utility real and personal property, manufactured home and tangible personal property taxes. Advances may be requested from the Meigs County Auditor as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times.

The forecast excludes the receipt of any advances against fiscal year 2005 scheduled property tax settlements. The potential advances have been excluded due to the District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. The forecasted operating deficit may be reduced to the extent advances are received prior to June 30, 2004 and to the extent the Board appropriates such advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2004.

The property tax revenues for the general fund are generated from several levies. The type of levies, the year approved, last year of collection, and the full tax rate are as follows:

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2004 through 2008

Tax Levies	Year Approved	Last Year of Collection	Full Tax Rate Per \$1,000 of Assessed Valuation
Inside Ten Mill Limitation	n/a	n/a	\$3.50
Continuing Operating	Prior to 1976	n/a	16.50
Continuing Operating	1982	n/a	3.00
Current Operating	2003	2006	4.00
Total Tax Rate			\$27.00

The School District has other levies that total \$4.89 per \$1,000 of assessed valuation; \$4.39 is used for the payment of bonds issued for the construction of school facilities, and \$.50 is used for the upkeep of project facilities. The full tax rate levied on property in the School District is \$31.89 per \$1,000 of assessed valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to authorized voted levies so that each levy yields the same amount of property taxes as in the year in which the levy was approved. Increases to voted levy revenues are restricted to assessments for new construction. The reduction factors are computed annually and applied separately for residential/agricultural property and commercial/industrial property. State law prohibits reduction factors that reduce the effective rates on real estate below \$20.00 mills. The effective residential and agricultural rate is \$20.00 per \$1,000 of assessed valuation and the effective commercial and industrial rate is \$24.35 per \$1,000 of assessed valuation for 2003.

General Property Tax (Real Estate) - General property tax revenue includes real estate taxes, public utility property taxes, and manufactured home taxes. The amounts shown in the revenue section of the forecast statement represent gross property tax revenue. The fiscal year 2004 general property tax revenue is based upon actual receipts and information provided by the Meigs County Auditor. Based upon these estimates, the School District anticipates receiving \$1,304,000 in real estate tax revenue in fiscal year 2004, a \$70,000 increase from the previous fiscal year. This increase is due to an increase in property values from new construction.

Meigs County will complete a sexennial revaluation in 2005 and based on information from the County Auditor, property taxes are anticipated to increase seven percent. In fiscal year 2006, an increase of two percent is anticipated. In fiscal years 2007 and 2008, a decrease is expected due to the expiration of the current operating levy.

Tangible Personal Property Tax - Tangible personal property tax is applied to property used in business (except for public utilities). As with general property taxes, tangible personal property tax revenues for fiscal year 2004 are based upon information provided by the Meigs County Auditor. Based upon these estimates, the School District anticipates a decrease of \$14,000 from the previous fiscal year due to a decrease in the assessed value of taxable personal property. The School District anticipates tangible personal property tax receipts for fiscal years 2005 through 2007 to remain consistent with fiscal year 2004. In fiscal years 2007 and 2008, a decrease is expected due to the expiration of the current operating levy.

Current Operating Levy - The four mill current operating levy was originally approved in November 1994 for a three-year period and has been renewed three times with the latest renewal in November 2003. The levy will expire in 2006. Proceeds from the anticipated renewal of this levy, beginning in fiscal year 2007, are presented under cumulative revenue from renewal levy.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2004 through 2008

B. - Unrestricted Grants-in-Aid

Unrestricted Grants-in-Aid include State Foundation payments and reimbursement for lost revenue due to utility deregulation. State Foundation payments include formula aid and various categorical aid programs such as special and gifted education, career and technical education, and transportation. Other programs such as equity and parity aid, excess cost supplement, and charge-off supplement, are provided to address certain policy issues or correct flaws in formula aid and are also included in this revenue.

The State's foundation program is established by Chapter 3317 of the Ohio Revised Code. The semi-monthly payments are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM) times a per pupil foundation level (adjusted for a regional cost of doing business factor set by the State legislature) less the equivalent of 23 mills times the school district's taxable property valuation. The per pupil foundation level for fiscal year 2001 was set by the legislature at \$4,294 \$4,490 for 2002 and \$4,949 for 2003. In 2003, State law set the base cost per pupil for fiscal year 2004 at \$5,058 and \$5,169 for fiscal year 2005. The base cost per pupil for fiscal years 2006 through 2008 is yet to be set by the Ohio General Assembly. It is anticipated that similar increases as in the last State bi-annual budget will be approved.

The anticipated state foundation revenue for fiscal year 2004 is based on current estimates provided by the Ohio Department of Education. The most recent estimate reported on the February 2004 school foundation statement of settlement is \$3,248,000. Unrestricted grants-in-aid revenue is summarized as follows:

	Actual	Forecasted				
	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008
Formula Aid	\$2,419,000	\$2,283,000	\$2,329,000	\$2,376,000	\$2,424,000	\$2,472,000
Categorical Funding	255,000	212,000	216,000	220,000	224,000	229,000
Charge-Off Supplement	127,000	190,000	194,000	198,000	202,000	206,000
Transportation	211,000	208,000	212,000	216,000	220,000	224,000
Excess Cost	81,000	54,000	55,000	56,000	57,000	58,000
Parity Aid	0	275,000	281,000	287,000	293,000	299,000
Foundation Adjustments	(64,000)	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)
Utility Deregulation	72,000	54,000	54,000	54,000	54,000	54,000
Totals	<u>\$3,101,000</u>	<u>\$3,248,000</u>	<u>\$3,313,000</u>	<u>\$3,379,000</u>	<u>\$3,446,000</u>	<u>\$3,514,000</u>

Formula aid decreased due to a decline in ADM. Parity aid was restricted in fiscal year 2003 and was recorded as part of restricted grants-in-aid. Parity aid for 2004 is no longer restricted.

The anticipated State revenue for fiscal years 2006 through 2008 is forecasted to increase approximately 2 percent each year based on the assumption that ADM will remain constant and per pupil funding will increase each year consistent with the past two years.

Beginning in tax year 2001, there were significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123rd General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes have been enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes is used to reimburse school districts for the loss of public utility property tax revenue. Reimbursements are made twice a year through the foundation program. The School District is anticipating \$54,000 in public utility reimbursements in fiscal years 2004 through 2008, which is based on information provided by the Ohio Department of Taxation.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2004 through 2008

C. - Restricted Grants-in-Aid

Restricted grants-in-aid for fiscal year 2004 is anticipated to decrease \$193,000. During fiscal year 2003, the School District classified its parity aid as restricted grants-in-aid. For 2004, parity aid is no longer restricted. The combination of \$197,000 in parity aid being reclassified as unrestricted grants-in-aid, a \$2,000 decrease in vocational education aid, and a \$6,000 increase in DPIA are the causes of the decrease in forecasted restricted grants-in-aid for fiscal year 2004.

The anticipated revenue for DPIA funding for fiscal year 2005 is based on estimates obtained from the Ohio Department of Education. The School District anticipates that fiscal years 2006 through 2008 DPIA funding will remain constant with fiscal year 2005 based on historical patterns.

D. - Property Tax Allocation

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs. Property tax allocation revenue, based on information provided by the Meigs County Auditor, is anticipated to increase by \$2,000 for fiscal year 2004.

The School District anticipates that the property tax allocation will increase in fiscal years 2005 through 2007 in proportion to real property tax revenues. The property tax allocation will decrease in fiscal year 2007 and 2008 due to the expiration of the operating levy.

E. - All Other Revenues

Presented below is a comparison of all other revenue for fiscal years 2004 through 2008.

	Actual		Forecasted			
	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
	2003	2004	2005	2006	2007	2008
Interest	\$9,000	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000
Classroom Materials and Fees	8,000	6,000	6,000	6,000	6,000	6,000
Tuition	3,000	5,000	5,000	5,000	5,000	5,000
Open Enrollment	0	127,000	127,000	127,000	127,000	127,000
Miscellaneous	39,000	44,000	44,000	44,000	44,000	44,000
Totals	\$59,000	\$186,000	\$186,000	\$186,000	\$186,000	\$186,000

The School District estimates that in fiscal year 2004, all other revenues, which include tuition, interest on investments, fees and miscellaneous receipts, will increase \$127,000 due to open enrollment. In prior years, the School District recorded open enrollment revenue on its books net of open enrollment expenditures. For fiscal year 2004, the School District is recording open enrollment revenue at gross. The School District is forecasting \$5,000 in tuition from other districts for fiscal year 2004.

The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the greatest allocation being recorded in the general fund. The School District is forecasting \$4,000 in interest revenue for fiscal year 2004.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2004 through 2008

For fiscal year 2005 through 2008, miscellaneous revenues are anticipated to remain constant with fiscal year 2004 based on historical trends.

F. – Solvency Assistance Advances

The School District has received a solvency assistance advance in each of the past three fiscal years to finance general fund operations. Solvency assistance advances are interest free and are paid back to the Ohio Department of Education over a two year period through deductions from State foundation payments. Future solvency assistance advances are not included in the forecast since such advances have not yet been authorized.

G. - Advances In

Advances in represents amounts advanced to other funds in the current or prior fiscal year which are being repaid to the general fund in the forecast year. The School District anticipates a repayment of an advance in fiscal year 2004 from the lunchroom fund. The School District does not anticipate any repayments for fiscal years 2005 through 2008.

Note 6 - Significant Assumptions for Expenditures and Other Financing Uses

A. - Personal Services

Personal service expenditures represent the salaries and wages paid to certified, classified and administrative staff, substitutes, and board members. In addition to regular salaries, it includes payments for supplemental contracts, severance payments and payments in lieu of benefits. All employees receive their compensation on a bi-weekly basis.

Certified (teaching) staff salaries are based on a negotiated contract which includes step increases and educational incentives. Classified staff salaries are also based on a negotiated contract which includes step increases. The contracts cover the period from July 1, 2003, to June 30, 2005. Both certified and classified contracts include a two percent base salary increase plus a three percent step increase for fiscal year 2004 and two percent step increases for fiscal year 2005. Administrative salaries are set by the Board of Education and were also increased by two percent each year.

The School District offers severance pay to its retiring employees of one-fourth of their accumulated sick leave to a maximum accumulation of 240 days, depending on years of service. Severance payments are anticipated to increase in fiscal year 2004 because of the retirement of four staff members. For fiscal years 2005 through 2008, severance payments are anticipated to drop back down to the historical level of \$20,000 per fiscal year.

In September 2004, the School District reduced general fund salaries by not replacing three of the retired employees, paying two employees out of other funds, and cutting two part-time employees' hours. These reductions were offset by severance payments made to the retiring staff, the two percent base salary increase for all employees, and the three percent step increases for certified and classified employees.

The School District does not anticipate a base salary increase in fiscal years 2006 through 2008 based on historical trends; however, step increases of two percent for classified and certified employees are anticipated each year. The certified, classified, and administrative staffing levels are expected to remain constant during the forecast period.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2004 through 2008

Presented below is a comparison of salaries and wages for fiscal years 2003 through 2008.

	Actual	Forecasted				
	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
	2003	2004	2005	2006	2007	2008
Certified Salaries	\$2,004,000	\$2,013,000	\$2,052,000	\$2,093,000	\$2,134,000	\$2,176,000
Classified Salaries	510,000	519,000	529,000	540,000	551,000	562,000
Substitute Salaries	87,000	78,000	80,000	82,000	84,000	86,000
Supplemental Contracts	57,000	62,000	63,000	64,000	65,000	66,000
Severance Pay	19,000	75,000	20,000	20,000	20,000	20,000
Other Salaries and Wages	24,000	26,000	27,000	28,000	29,000	30,000
Totals	<u>\$2,701,000</u>	<u>\$2,773,000</u>	<u>\$2,771,000</u>	<u>\$2,827,000</u>	<u>\$2,883,000</u>	<u>\$2,940,000</u>

B. - Employees' Retirement/Insurance Benefits

Employees' retirement and insurance benefits include employer contributions to the State pension systems, medicare, workers' compensation, health care, and other insurance benefits arising from the negotiated agreements.

Retirement costs are based on the employers' contribution rate of fourteen percent of gross payroll of STRS and SERS members. Payments are withheld semi-monthly from the state foundation settlements based upon an estimate of the salaries and wages for the fiscal year. Adjustments resulting from over/under estimates are prorated over the next calendar year.

Medicare contributions are 1.45 percent of the payroll costs for contributing staff.

Workers' compensation premiums are based on the School District's premium rate and the anticipated salaries for the fiscal year. A 20 percent reduction in workers' compensation premiums is anticipated in fiscal year 2004 versus a 50 percent reduction in fiscal year 2003. No premium reductions are expected for fiscal years 2005 through 2008.

Health care costs are based on the coverage terms of the existing health insurance contracts including the extent of the coverage, deductibles, and co-pays, the anticipated number of employees participating in the program, and the monthly premiums. The School District participates in a traditional health plan. In prior fiscal years, the School District paid 100 percent of monthly premiums. Beginning in January 2004, the School District will pay 99 percent of the premiums and employees will pay the remaining one percent. Based on actual fiscal year 2004 premium payments, the School District expects a decrease of 12 percent in health insurance premiums and a 10 percent decrease in dental insurance premiums. During the remainder of the forecast period, the School District anticipates health insurance premiums to increase twenty percent and all other employee insurance to increase five percent each year.

Presented below is a comparison of fiscal years 2003 through 2008.

Southern Local School District
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Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2004 through 2008

	Actual	Forecasted				
	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
	2003	2004	2005	2006	2007	2008
STRS Retirement	\$323,000	\$311,000	\$317,000	\$324,000	\$330,000	\$337,000
SERS Retirement	97,000	102,000	104,000	106,000	108,000	110,000
Medicare/Workers' Compensation	32,000	54,000	60,000	61,000	62,000	63,000
Health Insurance	1,032,000	912,000	1,094,000	1,313,000	1,576,000	1,891,000
Other Insurance	82,000	77,000	81,000	85,000	90,000	94,000
Totals	<u>\$1,566,000</u>	<u>\$1,456,000</u>	<u>\$1,656,000</u>	<u>\$1,889,000</u>	<u>\$2,166,000</u>	<u>\$2,495,000</u>

C. - Purchased Services

Presented below is a comparison of forecasted purchased service expenditures for fiscal years 2004 through 2008.

	Actual	Forecasted				
	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
	2003	2004	2005	2006	2007	2008
Professional and Technical Services	\$30,000	\$42,000	\$31,000	\$42,000	\$30,000	\$30,000
Property Services	78,000	89,000	97,000	108,000	118,000	130,000
Travel and Meeting Expenses	15,000	16,000	16,000	16,000	16,000	16,000
Communication Costs	28,000	23,000	24,000	24,000	25,000	26,000
Utility Services	163,000	167,000	172,000	177,000	182,000	188,000
Open Enrollment	0	225,000	225,000	225,000	225,000	225,000
Tuition Payments	15,000	8,000	8,000	8,000	8,000	8,000
Pupil Transportation	9,000	1,000	1,000	1,000	1,000	1,000
Other Purchased Services	1,000	1,000	1,000	1,000	1,000	1,000
Totals	<u>\$339,000</u>	<u>\$572,000</u>	<u>\$575,000</u>	<u>\$602,000</u>	<u>\$606,000</u>	<u>\$625,000</u>

The increase of \$233,000 in purchased services from fiscal year 2003 to fiscal year 2004 is primarily due to open enrollment expenditures. In prior years, open enrollment revenue had been netted against open enrollment expenditures and posted to other object expenditures. Beginning in fiscal year 2004, these revenues and expenditures are being recorded separately.

In fiscal years 2005 through 2008, the School District forecasts that purchased services will increase an average of three percent per year. Professional and technical services are expected to drop back down to historical levels again in fiscal year 2005 and 2007 through 2008 and increase again in fiscal year 2006 due to legal services that will be required for contract negotiations. Communication and utility services are forecasted to increase three percent per year. Property services are expected to see a ten percent increase per year due to the historical trend of property and fleet insurance costs. Travel and meeting expenses, tuition, pupil transportation, and other purchased services are expected to remain constant for fiscal years 2005 through 2008.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2004 through 2008

D. - Supplies and Materials

Presented below is a comparison of forecasted supplies and materials expenditures for fiscal years 2004 through 2008.

	Actual	Forecasted				
	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
	2003	2004	2005	2006	2007	2008
General Supplies	\$67,000	\$37,000	\$38,000	\$39,000	\$40,000	\$42,000
Operations, Maintenance and Repair	70,000	113,000	118,000	123,000	129,000	134,000
Textbooks, Library Books and Periodicals	54,000	38,000	38,000	38,000	38,000	38,000
Totals	<u>\$191,000</u>	<u>\$188,000</u>	<u>\$194,000</u>	<u>\$200,000</u>	<u>\$207,000</u>	<u>\$214,000</u>

The changes in supplies and materials for fiscal year 2004 from fiscal year 2003 are based on the following:

- General supplies reflects a \$30,000 decrease and operations, maintenance and repair has increased \$43,000 due to certain general supplies now being classified as operations, maintenance, and repairs and actual expenditures to date; and
- Textbooks, library books and periodicals decreasing \$16,000 because of the amount purchased in fiscal year 2003.

In fiscal years 2005 through 2008, the School District forecasts that supplies and materials will increase three percent each year. Operations, maintenance and repair will increase four and one half percent each year based on historical trend. Textbooks are forecasted to remain constant with fiscal year 2004 based on the School District having updated their textbooks in fiscal years 2001 and 2002.

E. - Capital Outlay

Expenditures are recorded for property, plant and equipment acquired or constructed for general governmental services. Depreciation is not recorded for these general fixed assets as the purpose of the financial statements for the general government services is to report the expenditure of resources, not costs.

Equipment purchases and capital repairs are anticipated to decrease in fiscal year 2004 due to acquisitions made in recent years for the new elementary building and high school addition and strict cuts made by the School District to help the budget. The School District does not anticipate purchasing a school bus in fiscal year 2004. The School District has a permanent improvement fund; however, in fiscal year 2004 these monies were used for new bleachers in the gymnasium. Amounts remaining in the school facilities capital projects fund were used for renovations to the high school restrooms in fiscal year 2004.

In fiscal years 2005 through 2008 the School District anticipates that capital outlay will vary based on the School District's intent to purchase a new school bus every other year. Equipment and repairs will remain consistent with fiscal year 2004.

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Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2004 through 2008

F. - Debt Service

General fund supported debt consists of a School District solvency assistance fund advance, an asbestos abatement loan, and energy conservation notes. The solvency assistance fund advance from fiscal year 2003 will be repaid in fiscal years 2004 and 2005. The asbestos loan will reach final maturity in fiscal year 2013, and the energy conservation notes will reach final maturity in fiscal year 2005. The forecasted changes in the general fund obligations for fiscal year 2004 are as follows:

	Interest Rate	Balance 6/30/2003	Issued	Retired	Balance 6/30/2004
State Solvency Assistance Advance 2002	0.00%	\$211,000	\$0	\$211,000	\$0
State Solvency Assistance Advance 2003	0.00%	665,000	0	332,000	333,000
Asbestos Abatement Loan 1995	5.75%	105,000	0	50,000	55,000
Energy Conservation Note 1995	0.00%	124,000	0	12,000	112,000
Total		<u>\$1,105,000</u>	<u>\$0</u>	<u>\$605,000</u>	<u>\$500,000</u>

G. - Other Objects

Other objects include dues, fees, liability insurance, and county educational service center costs. For fiscal year 2004, the School District is forecasting \$305,000 in dues and fees, a \$240,000 decrease from fiscal year 2003 due to:

- The School District not being properly billed in fiscal year 2002 by the educational service center; the School District paid for both fiscal years 2002 and 2003 in fiscal year 2003 resulting in a decrease of \$80,000 for 2004.
- The School District was recording open enrollment expenditures in this category prior to fiscal year 2004, resulting in a decrease of \$133,000.
- A decrease of \$15,000 in other adjustments through the State foundation program.
- A decrease of \$12,000 due to the cost of employee bond insurance premiums being recorded as professional and technical purchased services in fiscal year 2004.

In fiscal year 2005, the School District anticipates other objects will increase slightly due to educational service center increases, and increases in auditor and treasurer fees. In fiscal years 2006 through 2008, the School District anticipates other objects will increase marginally each year.

H. – Interfund Transactions

The School District has transferred \$84,000 to the classroom facilities fund this fiscal year for renovations to the high school. In addition, a transfer of \$60,000 to the lunchroom fund is necessary to cover the operating deficits of 2003 and the anticipated operating deficit for 2004. The School District expects to make a transfer from the general fund to the lunchroom fund in the amount of \$30,000 during fiscal years 2005 through 2008 to cover operating deficits. The School District does not anticipate making any advances from the general fund during the forecast period.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2004 through 2008

Note 7 - Encumbrances

Encumbrances represent purchase authorizations and contracts for goods or services that are pending vendor performance and those purchase commitments which have been performed, invoiced, and are awaiting payment. Encumbrances on a budget basis of accounting are treated as the equivalent of an expenditure at the time authorization is made in order to maintain compliance with spending restrictions established by Ohio law. For presentation in the forecast, outstanding encumbrances are presented as a reduction of the general fund balance.

Historically, the School District has very limited encumbrances at the end of a fiscal year. The amount forecasted for fiscal years 2004 through 2008 represents \$8,000 in purchased services.

Note 8 - Reservations of Fund Balance

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

A. - Textbooks and Instructional Materials

The set aside amount for fiscal year 2004 is \$111,000. The School District is carrying over \$36,000 in excess qualifying expenditures from fiscal year 2003. Qualifying expenditures in the amount of \$75,000 are anticipated; therefore, no set aside will be required. In fiscal years 2005 through 2008, the School District anticipates qualifying expenditures to fall short of the required annual set-aside; therefore, a reserve for textbooks is forecasted.

B. - Capital Acquisition and Improvements

The set aside amount for fiscal year 2003 is \$111,000. The School District is carrying over \$4,042,000 in excess qualifying expenditures from fiscal year 2003; therefore, no reserve is anticipated. In fiscal years 2005 through 2008, the School District anticipates qualifying expenditures plus offset from proceeds of a permanent improvement levy to be equal to or more than the required annual set-aside; therefore, no reserve will be required.

C. - Budget Stabilization

In prior years, the School District was also required to set aside money for the budget stabilization. During fiscal year 2003, the School District used the budget stabilization reserve to help reduce the operating deficit.

D. - Disadvantaged Pupil Impact Aid (DPIA)

The School District anticipates both receiving and spending \$344,000 in restricted DPIA monies during fiscal year 2004. Therefore, no reserve is anticipated at June 30, 2004. In fiscal years 2005 through 2008, the District anticipates that the DPIA fund will continue to spend all revenues received during the fiscal year.

Southern Local School District
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Summary of Significant Forecast Assumptions and Accounting Policies
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Note 9 - Levies

In fiscal year 2004, the School District was successful in renewing a 4 mill operating levy. The School District does not currently plan to place any levies on the ballot during fiscal years 2005 through 2008. In the past ten years, the School District has placed several levies on the ballot. The type of levy, rate, term, and election results are as follows:

Date	Type	Amount	Term	Election Results
May 1994	Operating	4 mills	Continuing	Failed
November 1994	Operating	4 mills	3 Years	Passed
March 1996	Bond Issue	5.6 mills	23 Years	Failed
August 1996	Bond Issue	4.92 mills	23 Years	Failed
November 1997	Operating/Renewal	4 mills	3 Years	Passed
May 1998	Bond Issue	4.89 mills	23 Years	Passed
November 2000	Operating/Renewal	4 mills	3 Years	Passed
November 2003	Operating/Renewal	4 mills	3 Years	Passed

Note 10 - Pending Litigation

The School District's management is of the opinion that there are no issues that would have a material effect on the financial forecast.

Note 11 - State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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

Note 12 – Financial Planning and Supervision Commission

On November 8, 1999, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District's declining financial condition. In accordance with the law, a five-member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction, the School District Superintendent, State Director of Budget and Management, the Meigs County Auditor, an appointee of the Superintendent of Public Instruction, and an appointee of the Governor.

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Summary of Significant Forecast Assumptions and Accounting Policies
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The Commission's primary charge is to develop, adopt and implement a financial recovery plan. The original recovery plan was adopted on March 21, 2000. State law requires the plan to be updated annually. The last update was approved on October 17, 2003, for the fiscal year ending June 30, 2004. The update included staff reductions and replacements with an estimated savings of \$265,000, the elimination of the transfer from the general fund to the food service fund, and certain other changes. Although lunch prices were increased to help eliminate the transfer, an increase in operating expenses is forecasted to result in a \$30,000 transfer from the general fund to the lunchroom fund. The plan also identified the elimination of the restrictions on the use of State parity aid in the amount of \$150,000. The Board and the Commission have not yet adopted a long range plan that will eventually return the School District to a sound financial condition.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2004 through 2008

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SOUTHERN LOCAL SCHOOL DISTRICT

MEIGS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 22, 2004**