

Southern Local School District

Perry County, Ohio

Single Audit

July 1, 2005 through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006



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Mary Taylor, CPA  
Auditor of State

Board of Education  
Southern Local School District  
10390 State Route 155 SE  
Corning, Ohio 45730

We have reviewed the *Independent Auditors' Report* of the Southern Local School District, Perry County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Southern Local School District is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

April 12, 2007

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Southern Local School District  
Perry County, Ohio

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Ohio Society of Certified Public Accountants

## Independent Auditors' Report

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Perry County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

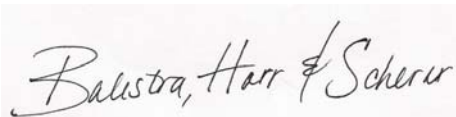
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information of Southern Local School District, Perry County, as of June 30, 2006, and the respective changes in cash basis financial position and budgetary comparison for the General and Classroom Maintenance Funds, for the year then ended in conformity with the accounting basis described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2006, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The schedule of federal awards receipts and expenditures is presented for purposes of additional analysis as 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 schedule of federal awards receipts and expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 16, the District implemented GASB Statement No 46, *Net Assets Restricted by Enabling Legislation*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.  
February 27, 2007

**Southern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

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The discussion and analysis of Southern Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006, within the limitations of the School District's cash basis of accounting. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

## **HIGHLIGHTS**

**Key financial highlights for the fiscal year 2006 are as follows:**

- Net assets of governmental activities decreased \$112,480.
- General Cash receipts accounted for \$6,474,405 or 66% of all cash receipts. Program cash receipts in the form of charges for services, grants, and contributions, accounted for \$3,373,052 or 34% of total cash receipts of \$9,847,456.
- The School District had \$9,959,937 in cash disbursements related to governmental activities; only \$3,373,052 of these cash disbursements were offset by program specific charges for services, grants, and contributions.

## **USING THE BASIC FINANCIAL STATEMENTS**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the School District's cash basis of accounting.

## **REPORT COMPONENTS**

The *Statement of Net Assets – Cash Basis* and *Statement of Activities – Cash Basis* provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specific purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the basic financial statements.

## **BASIS OF ACCOUNTING**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.



**Southern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

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**REPORTING THE DISTRICT AS A WHOLE**

*Statement of Net Assets and Statement of Activities*

The statement of net assets and the statement of activities reflect how the School District did financially during 2006, within the limitations of the cash basis of accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. It is important to note that fiduciary funds are not included in these statements. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as the School District's property tax base, the condition of the School District's capital assets and infrastructure, the extent of the School District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

In the statement of net assets and the statement of activities, the School District has one type of activity; governmental.

***Reporting the School District's Most Significant Funds***

*Fund Financial Statements*

Fund financial statements provide detailed information about the School District's major funds – not the District as a whole. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund, the Bond Retirement Debt Service Fund, the Construction Capital Projects Fund, and the Classroom Maintenance Special Revenue Fund.

***Governmental Funds*** Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed short-term view of the School District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be spent in the near future to finance educational programs. Since the School District is reporting on the cash basis of accounting, there are no differences in the Net Assets and fund cash balances or changes in Net Assets and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements. However, differences will be apparent when comparing gross revenues and expenses on the Fund Financial Statements to the Statement of Activities due to transfers netted on the Statement of Activities. See Note 2 to the basic financial statements in the section entitled *Government-Wide Financial Statements*.

**Southern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

**Proprietary Funds** Proprietary fund reporting focuses on the determination of operating receipts over (under) operating disbursements and changes in net assets. Proprietary funds are classified as enterprise or internal service and the School District only has an internal service fund which is used to account for their self-insurance program for employee dental and vision claims. This fund is reported using the cash basis of accounting.

**Fiduciary Funds** The School District only has agency funds. All of the School District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets – Cash Basis. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature and do not involve measurement of results of operations. Fiduciary funds use the cash basis of accounting.

**THE SCHOOL DISTRICT AS A WHOLE**

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2006 compared to 2005.

Table 1  
Net Assets

	Governmental Activities	
	2006	2005
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$1,391,360	\$1,503,840
Total Assets	<u>1,391,360</u>	<u>1,503,840</u>
<b>Net Assets</b>		
Restricted	1,108,676	1,050,069
Unrestricted	282,684	453,771
Total Net Assets	<u>\$1,391,360</u>	<u>\$1,503,840</u>

Total assets, of the District as a whole, decreased \$112,480. This decrease is due to cash disbursements exceeding cash receipts.

**Southern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006 as compared to 2005.

Table 2  
Changes in Net Assets

	Governmental Activities	
	2006	2005
<b>Cash Receipts</b>		
Program Cash Receipts		
Charges for Services and Sales	\$ 251,068	\$ 257,925
Operating Grants and Contributions	3,121,984	2,638,576
Total Program Cash Receipts	<u>3,373,052</u>	<u>2,896,501</u>
General Cash Receipts		
Property and Other Local Taxes	973,107	804,122
Grants and Entitlements	5,234,763	5,254,942
Investment Earnings	16,732	24,942
Gifts and Donations	-	1,602
Miscellaneous	249,803	175,391
Total General Cash Receipts	<u>6,474,405</u>	<u>6,260,999</u>
Total Cash Receipts	<u>9,847,457</u>	<u>9,157,500</u>
<b>Program Cash Disbursements</b>		
Instruction:		
Regular	3,177,579	3,531,659
Special	2,440,907	2,096,017
Vocational	80,931	112,413
Support Services:		
Pupils	230,290	218,657
Instructional Staff	389,949	401,276
Board of Education	44,885	45,396
Administration	930,075	733,411
Fiscal	217,241	207,305
Operation and Maintenance of Plant	684,864	723,953
Pupil Transportation	624,280	597,346
Central	65,911	58,257
Operation of Non-Instructional Services	555,865	435,325
Extracurricular Activities	300,748	320,312
Capital Outlay	46,500	255,870
Principal Retirement	156,027	136,370
Interest and Fiscal Charges	13,885	18,175
Total Cash Disbursements	<u>9,959,937</u>	<u>9,891,742</u>
Changes in Net Assets	(112,480)	(734,242)
Net Assets, Beginning of Year	1,503,840	2,238,082
Net Assets, End of Year	<u>\$ 1,391,360</u>	<u>\$ 1,503,840</u>

The Statement of Activities shows the cost of program services and the charges for services, grants, and contributions offsetting those services. The increase in operating grants and contributions is due to Reading First and 21<sup>st</sup> Century grants that were received in fiscal year 2006. These grants enabled the District to increase cash disbursements for special instruction and administration. The decrease in cash disbursements for regular instruction is due to staff cuts made by the District. The decrease in cash disbursements for capital outlay is due to the completion of a construction project and the purchase of a school bus in fiscal year 2005 compared to no bus purchases in fiscal year 2006.

**Southern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3  
 Governmental Activities

	<u>Total Cost of Services</u> 2006	<u>Net Cost of Services</u> 2006	<u>Total Cost of Services</u> 2005	<u>Net Cost of Services</u> 2005
Program Cash Disbursements				
Instruction:				
Regular	\$3,177,579	\$2,919,663	\$3,531,659	\$3,216,228
Special	2,440,907	1,035,054	2,096,017	975,699
Vocational	80,931	80,736	112,413	112,144
Pupils	230,290	223,712	218,657	211,296
Instructional Staff	389,949	245,615	401,276	267,185
Board of Education	44,885	44,777	45,396	45,287
Administration	930,075	708,727	733,411	646,045
Fiscal	217,241	203,813	207,305	202,119
Operation and Maintenance of Plant	684,864	657,286	723,953	715,705
Pupil Transportation	624,280	151,999	597,346	144,340
Central	65,911	57,921	58,257	53,723
Operation of Non-Instructional Services	555,865	(903)	435,325	(53,828)
Extracurricular Activities	300,748	56,114	320,312	64,485
Capital Outlay	46,500	46,500	255,870	255,870
Principal Retirement	156,027	156,027	136,370	136,370
Interest and Fiscal Charges	13,885	(156)	18,175	2,573
Total	<u>\$9,959,937</u>	<u>\$6,586,885</u>	<u>\$9,891,742</u>	<u>\$6,995,241</u>

**THE SCHOOL DISTRICT FUNDS**

The School District's governmental funds are accounted for using the cash basis of accounting. All governmental funds had total cash receipts of \$9,847,457 and cash disbursements of \$9,960,489. The most significant change in fund balance was in the General Fund.

For the General Fund, both cash receipts and cash disbursements remained consistent with the prior year. However, cash disbursements exceeded current year cash receipts resulting in the decrease in fund cash balance for the fund in the amount of \$53,385.

The Bond Retirement major debt service fund had a decrease in fund balance of \$10,457. This decrease is a result of required payments made on School Improvement Advance Refunding Bonds and School Facilities Improvement Notes.

The Construction major capital projects fund had an increase in fund balance of \$2,901. This increase is a result of interest earnings.

The Classroom Maintenance major special revenue fund had a decrease in fund balance of \$15,524. This decrease is primarily the result of increases in cash disbursements for contractual services for maintenance.

**Southern Local School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*Unaudited*

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**General Fund Budgeting Highlights**

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

During 2006, there were no significant revisions to the General Fund budget. The General fund's ending unobligated cash balance was \$293,430.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The School District does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements. The School District had capital outlay disbursements of \$46,500 during fiscal year 2006.

**Debt**

Under the cash basis of accounting the School District does not report bonds, long-term notes or short-term notes in the accompanying cash basis financial statements. However, in order to provide information to the readers of this report, we are providing the following detailed information about bonds and long-term notes. At June 30, 2006 the District had \$630,915 in bonds and notes outstanding. For additional information regarding debt, please see Note 6 to the basic financial statements.

Table 4 summarizes bonds and long-term notes outstanding for Governmental Activities for the past two years:

Table 4  
Outstanding Debt at June 30  
Governmental Activities

	<u>2006</u>	<u>2005</u>
School Improvement Advance Refunding Bonds	\$449,995	\$589,995
School Facilities Improvement Notes	<u>180,920</u>	<u>187,621</u>
Totals	<u>\$630,915</u>	<u>\$777,616</u>

**CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Kirk Grandy, Treasurer at Southern Local School District, 10390 St. Rt. 155 SE, Corning, Ohio 45730.

**Southern Local School District, Perry County**  
**Statement of Net Assets - Cash Basis**  
**June 30, 2006**

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	<b>Governmental Activities</b>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$1,239,781
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>151,579</u>
<i>Total Assets</i>	<u>1,391,360</u>
NET ASSETS:	
Restricted for Debt Service	175,824
Restricted for Capital Outlay	311,360
Restricted for Classroom Maintenance	179,936
Restricted for Other Purposes	289,977
Restricted for Set-Asides	151,579
Unrestricted	<u>282,684</u>
<i>Total Net Assets</i>	<u><u>\$1,391,360</u></u>

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

**Southern Local School District, Perry County**  
**Statement of Activities - Cash Basis**  
**For the Fiscal Year Ended June 30, 2006**

	<u>Cash</u> <u>Disbursements</u>	<u>Program Cash Receipts</u>		<u>Net (Disbursements)</u> <u>Receipts and</u> <u>Changes in</u> <u>Net Assets</u>
		<u>Charges for</u> <u>Services and</u> <u>Sales</u>	<u>Operating Grants</u> <u>and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Governmental Activities:				
Instruction:				
Regular	\$ 3,177,579	\$ 7,088	\$ 250,828	\$ (2,919,663)
Special	2,440,907	4,218	1,401,635	(1,035,054)
Vocational	80,931	195	-	(80,736)
Support Services:				
Pupils	230,290	540	6,038	(223,712)
Instructional Staff	389,949	629	143,705	(245,615)
Board of Education	44,885	108	-	(44,777)
Administration	930,075	1,765	219,583	(708,727)
Fiscal	217,241	494	12,934	(203,813)
Operation and Maintenance of Plant	684,864	1,614	25,964	(657,286)
Pupil Transportation	624,280	1,454	470,827	(151,999)
Central	65,911	141	7,849	(57,921)
Operation of Non-Instructional Services	555,865	132,094	424,674	903
Extracurricular Activities	300,748	100,728	143,906	(56,114)
Capital Outlay	46,500	-	-	(46,500)
Debt Service:				
Principal Retirement	156,027	-	-	(156,027)
Interest and Fiscal Charges	13,885	-	14,041	156
<i>Total Governmental Activities</i>	<u>9,959,937</u>	<u>\$ 251,068</u>	<u>\$ 3,121,984</u>	(6,586,885)
General Cash Receipts:				
Property Taxes Levied for:				
General Purposes				824,585
Other Purposes				14,758
Debt Service				133,764
Grants and Entitlements, Not Restricted to Specific Programs				5,234,763
Investment Earnings				16,732
Miscellaneous				249,803
<i>Total General Cash Receipts</i>				<u>6,474,405</u>
<i>Change in Net Assets</i>				(112,480)
<i>Net Assets Beginning of Year</i>				<u>1,503,840</u>
<i>Net Assets End of Year</i>				<u>\$ 1,391,360</u>

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

Southern Local School District, Perry County  
*Statement of Assets and Fund Balances - Cash Basis*  
 Governmental Funds  
 June 30, 2006

	<u>General</u>	<u>Bond Retirement</u>	<u>Construction</u>	<u>Classroom Maintenance</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>						
Equity in Pooled Cash and Cash Equivalents	\$ 195,691	\$ 175,824	\$ 233,848	\$ 179,936	\$ 367,489	\$ 1,152,788
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	151,579	-	-	-	-	151,579
<i>Total Assets</i>	<u>347,270</u>	<u>175,824</u>	<u>233,848</u>	<u>179,936</u>	<u>367,489</u>	<u>1,304,367</u>
<b>FUND BALANCES:</b>						
Reserved:						
Reserved for Encumbrances	53,840	-	-	127	116,108	170,075
Reserved for Textbooks and Instructional Materials	151,579	-	-	-	-	151,579
Unreserved, Undesignated, Reported in:						
General Fund	141,851	-	-	-	-	141,851
Special Revenue Funds	-	-	-	179,809	173,996	353,805
Debt Service Funds	-	175,824	-	-	-	175,824
Capital Projects Funds	-	-	233,848	-	77,385	311,233
<i>Total Fund Balances</i>	<u>\$ 347,270</u>	<u>\$ 175,824</u>	<u>\$ 233,848</u>	<u>\$ 179,936</u>	<u>\$ 367,489</u>	<u>\$ 1,304,367</u>

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



Southern Local School District, Perry County  
 Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis  
 Governmental Funds  
 For the Fiscal Year Ended June 30, 2006

	General	Bond Retirement	Construction	Classroom Maintenance	All Other Governmental Funds	Total Governmental Funds
<b>CASH RECEIPTS:</b>						
Property Taxes	\$ 824,585	\$ 133,764	\$ -	\$ 14,758	\$ -	\$ 973,107
Intergovernmental	6,314,632	19,327	-	2,280	2,015,861	8,352,100
Interest	12,891	-	2,901	-	940	16,732
Tuition and Fees	11,380	-	-	-	1,713	13,093
Rent	6,000	-	-	-	-	6,000
Extracurricular Activities	-	-	-	-	100,311	100,311
Gifts and Donations	-	-	-	-	4,647	4,647
Customer Sales and Services	-	-	-	-	131,664	131,664
Miscellaneous	126,064	-	-	-	123,739	249,803
<i>Total Cash Receipts</i>	<u>7,295,552</u>	<u>153,091</u>	<u>2,901</u>	<u>17,038</u>	<u>2,378,875</u>	<u>9,847,457</u>
<b>CASH DISBURSEMENTS:</b>						
<b>Current:</b>						
<b>Instruction:</b>						
Regular	2,869,362	-	-	-	308,532	3,177,894
Special	1,484,627	-	-	-	956,517	2,441,144
Vocational	80,931	-	-	-	-	80,931
<b>Support Services:</b>						
Pupils	222,868	-	-	-	7,422	230,290
Instructional Staff	211,727	-	-	-	178,222	389,949
Board of Education	44,885	-	-	-	-	44,885
Administration	657,749	-	-	-	272,326	930,075
Fiscal	203,153	4,608	-	480	9,000	217,241
Operation and Maintenance of Plant	652,782	-	-	32,082	-	684,864
Pupil Transportation	598,280	-	-	-	26,000	624,280
Central	56,113	-	-	-	9,798	65,911
Operation of Non-Instructional Services	29,265	-	-	-	526,600	555,865
Extracurricular Activities	122,223	-	-	-	178,525	300,748
Capital Outlay	-	-	-	-	46,500	46,500
<b>Debt Service:</b>						
Principal	9,326	146,701	-	-	-	156,027
Interest	1,646	12,239	-	-	-	13,885
<i>Total Cash Disbursements</i>	<u>7,244,937</u>	<u>163,548</u>	<u>-</u>	<u>32,562</u>	<u>2,519,442</u>	<u>9,960,489</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>50,615</u>	<u>(10,457)</u>	<u>2,901</u>	<u>(15,524)</u>	<u>(140,567)</u>	<u>(113,032)</u>
<b>OTHER FINANCING SOURCES AND USES:</b>						
Transfers In	-	-	-	-	104,000	104,000
Transfers Out	(104,000)	-	-	-	-	(104,000)
<i>Total Other Financing Sources and Uses</i>	<u>(104,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>104,000</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	<u>(53,385)</u>	<u>(10,457)</u>	<u>2,901</u>	<u>(15,524)</u>	<u>(36,567)</u>	<u>(113,032)</u>
<i>Fund Balances at Beginning of Year</i>	<u>400,655</u>	<u>186,281</u>	<u>230,947</u>	<u>195,460</u>	<u>404,056</u>	<u>1,417,399</u>
<i>Fund Balances at End of Year</i>	<u>\$ 347,270</u>	<u>\$ 175,824</u>	<u>\$ 233,848</u>	<u>\$ 179,936</u>	<u>\$ 367,489</u>	<u>\$ 1,304,367</u>

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

**Southern Local School District, Perry County**  
**Statement of Cash Receipts, Disbursements, and Changes**  
**In Fund Balance - Budget and Actual (Budgetary Basis)**  
**GENERAL FUND**  
**For the Fiscal Year Ended June 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>CASH RECEIPTS:</b>				
Property Taxes	\$ 580,925	\$ 824,585	\$ 824,585	\$ -
Intergovernmental	6,314,631	6,314,631	6,314,631	-
Interest	12,000	12,000	12,891	891
Tuition and Fees	11,380	11,380	11,380	-
Rent	6,000	6,000	6,000	-
Miscellaneous	126,064	126,064	126,064	-
Total Cash Receipts	<u>7,051,000</u>	<u>7,294,660</u>	<u>7,295,551</u>	<u>891</u>
<b>CASH DISBURSEMENTS:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	2,719,876	2,963,536	2,877,314	86,222
Special	1,315,518	1,315,518	1,494,337	(178,819)
Vocational	84,354	84,354	80,931	3,423
<b>Support Services:</b>				
Pupils	234,286	234,286	223,018	11,268
Instructional Staff	232,564	232,564	215,084	17,480
Board of Education	45,643	45,643	45,804	(161)
Administration	682,753	682,753	658,821	23,932
Fiscal	227,509	227,509	206,068	21,441
Operation and Maintenance of Plant	798,673	798,673	686,729	111,944
Pupil Transportation	634,090	634,090	603,043	31,047
Central	61,359	61,359	56,140	5,219
Operation of Non-Instructional Services	30,000	30,000	29,265	735
Extracurricular Activities	168,085	168,085	122,223	45,862
Total Cash Disbursements	<u>7,234,710</u>	<u>7,478,370</u>	<u>7,298,777</u>	<u>179,593</u>
Excess of Cash Receipts Over (Under) Cash Disbursements	<u>(183,710)</u>	<u>(183,710)</u>	<u>(3,226)</u>	<u>180,484</u>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Transfers Out	<u>(216,946)</u>	<u>(216,946)</u>	<u>(104,000)</u>	<u>112,946</u>
Total Other Financing Sources and Uses	<u>(216,946)</u>	<u>(216,946)</u>	<u>(104,000)</u>	<u>112,946</u>
Net Change in Fund Balance	(400,656)	(400,656)	(107,226)	293,430
Fund Balance at Beginning of Year	363,171	363,171	363,171	-
Prior Year Encumbrances Appropriated	<u>37,485</u>	<u>37,485</u>	<u>37,485</u>	<u>-</u>
Fund Balance (Deficit) at End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 293,430</u>	<u>\$ 293,430</u>

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

**Southern Local School District, Perry County**  
**Statement of Cash Receipts, Disbursements, and Changes**  
**In Fund Balance - Budget and Actual (Budgetary Basis)**  
**CLASSROOM MAINTENANCE FUND**  
**For the Fiscal Year Ended June 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>CASH RECEIPTS:</b>				
Property Taxes	\$ 14,020	\$ 14,757	\$ 14,758	\$ 1
Intergovernmental	2,280	2,280	2,280	-
<b>Total Cash Receipts</b>	<u>16,300</u>	<u>17,037</u>	<u>17,038</u>	<u>1</u>
<b>CASH DISBURSEMENTS:</b>				
Current:				
Support Services:				
Fiscal	8,160	8,897	480	8,417
Operation and Maintenance of Plant	203,600	203,600	32,209	171,391
<b>Total Cash Disbursements</b>	<u>211,760</u>	<u>212,497</u>	<u>32,689</u>	<u>179,808</u>
<b>Net Change in Fund Balances</b>	<u>(195,460)</u>	<u>(195,460)</u>	<u>(15,651)</u>	<u>179,809</u>
Fund Balance at Beginning of Year	195,247	195,247	195,247	-
Prior Year Encumbrances Appropriated	213	213	213	-
<b>Fund Balance at End of Year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 179,809</u>	<u>\$ 179,809</u>

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

**Southern Local School District, Perry County**  
**Statement of Net Assets - Cash Basis**  
**Governmental Activities - Internal Service Fund**  
**June 30, 2006**

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	<u><b>Internal Service</b></u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 86,993</u>
<i>Total Assets</i>	<u>86,993</u>
NET ASSETS:	
Unrestricted	<u>86,993</u>
<i>Total Net Assets</i>	<u><u>\$ 86,993</u></u>

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

**Southern Local School District, Perry County**  
**Statement of Receipts, Disbursements and Changes in Fund Net Assets - Cash Basis**  
**Governmental Activities - Internal Service Fund**  
**For the Fiscal Year Ended June 30, 2006**

	<b>Internal Service</b>
OPERATING RECEIPTS:	
Other	\$ 88,815
<i>Total Operating Receipts</i>	88,815
OPERATING DISBURSEMENTS:	
Purchased Services	88,263
<i>Total Operating Disbursements</i>	88,263
<i>Change in Net Assets</i>	552
<i>Net Assets at Beginning of Year</i>	86,441
<i>Net Assets at End of Year</i>	\$ 86,993

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

**Southern Perry Local School District, Perry County**  
**Statement of Fiduciary Net Assets - Cash Basis**  
**Agency Fund**  
**June 30, 2006**

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	<u>Agency Fund</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 26,224</u>
<i>Total Assets</i>	<u>26,224</u>
NET ASSETS:	
Unrestricted	<u>26,224</u>
<i>Total Net Assets</i>	<u><u>\$ 26,224</u></u>

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

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**1. DESCRIPTION OF THE ENTITY**

The Southern Local School District, Perry County (the School District), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a local school district as defined by Ohio Revised Code Section 3311.03. The School District operates under an elected Board of Education (five members) and is responsible for the provision of public education to residents of the School District. Average daily membership (ADM) as of October 1, 2005, was 961. The School District employed 80 certificated employees and 40 non-certificated employees.

**Reporting Entity**

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

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

The School District is associated with the Southeastern Ohio Voluntary Education Cooperative and the Coalition of Rural and Appalachian Schools, which are defined as jointly governed organizations, and the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool. The organizations are presented in Notes 11 and 12, respectively.

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

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

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP), the School District chooses to prepare its financial statements in accordance with the cash basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary disbursements when a commitment is made (i.e., when an encumbrance is approved). These statements include adequate disclosure of material matters, in accordance with the basis of accounting described above.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

**Fund Accounting**

The School District's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific functions or activities. The operation of each fund is accounted for within a separate set of self-balancing set of accounts. The School District classifies each fund as either governmental, proprietary, or fiduciary.

**Governmental Funds**

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

*General Fund*

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

*Bond Retirement Fund*

The Bond Retirement fund is a fund provided to account for the payment of long term bonds of the District.

*Construction Fund*

The Construction fund is a fund used to account for the receipts and expenditures related to all special bond funds in the School District. All proceeds from the sale of bonds, notes or certificates of indebtedness, except premium and accrued interest, must be paid into this fund. Expenditures recorded here represent the costs of acquiring capital facilities including real property.



**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

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

*Classroom Maintenance Fund*

This fund accounts for the proceeds of a special levy for capital maintenance purposes.

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

**Proprietary Fund Type**

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

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

**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. The School District's only fiduciary funds are agency funds.

*Agency Funds*

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements. The District's agency funds are used to account for student-managed activities.

**Basis of Presentation**

For fiscal year 2006, the School District has followed the provisions of GASB 34 and 37 for financial reporting on a cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America and GASB 38, for certain financial statement note disclosures. The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

**Government-wide Financial Statements**

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

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

The statement of net assets-cash basis presents the cash basis financial condition of governmental activities of the School District at year-end. The statement of activities-cash basis presents a comparison between direct cash disbursements and program cash receipts for each program or function of the School District's governmental activities. Direct cash disbursements are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program cash receipts include charges paid by the recipient of the 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. Cash receipts which are not classified as program cash receipts are presented as general cash receipts of the School District. The comparison of direct cash disbursements with program cash receipts identifies the extent to which each governmental function is self-financing or draws from the general cash receipts of the School District.

**Fund Financial Statements**

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

**Cash Receipts – Exchange and Non-exchange Transactions**

Cash receipts resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the cash basis when the exchange takes place. On a cash basis, receipts are recorded in the year in which the resources are received.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On a cash basis, receipts from property taxes are recognized in the year in which the taxes are received. Receipts from grants, entitlements and donations are recognized in the year in which the monies have been received.

**Cash Disbursements**

On the cash basis of accounting, disbursements are recognized at the time payments are made.

**Budgetary Process**

**Budget**

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

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

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

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.

**Tax Budget**

Prior to January 15, the Superintendent and Treasurer submit, to the Board of Education, a proposed operating budget for the fiscal year commencing the following July 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 express purpose of this budget document is to reflect the need for existing or increased tax rates.

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

**Estimated Resources**

The County Budget Commission certifies its actions to the School District by September 1. As part of this certification, the School District receives the official certificate of estimated resources that states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the School District must revise its budget so that the total contemplated disbursements from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2005 unencumbered fund balances. However, those fund balances are available for appropriations.

**Appropriations**

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

**Encumbrances**

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

**Operating Receipts and Disbursements**

Operating receipts are those receipts that are generated directly from the primary activity of the proprietary funds. For the District, these receipts are charges for services to the various funds to cover the costs of the self insurance program. Operating disbursements are necessary costs incurred to provide the goods and/or service that is the primary activity of the fund.

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**Cash and Cash Equivalents and Investments**

Cash and cash equivalents consist of the total of fund cash balances of all funds as of June 30, 2006. Individual fund balance integrity is maintained through the School District's records. Balances of all funds are maintained in these accounts or are temporarily used to purchase certificates of deposit or investments. All interest receipts are reported in the General Fund except those specifically related to those funds deemed appropriate according to School Board policy. For fiscal year 2006, interest receipts amounted to \$16,732 in which \$12,891 was recorded in the General Fund, \$2,901 in the Construction Fund, and \$940 was recorded in the All Other Governmental Funds.

**Capital Assets and Depreciation**

Capital assets acquired or constructed for the School District are recorded as disbursements at the time of acquisition. However, under the cash basis of accounting, capital assets and the related depreciation are not reported separately on the financial statements.

**Compensated Absences**

Vacation and sick leave benefits are not accrued under the cash basis of accounting as previously described. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees.

**Long-Term Obligations**

In general, bonds, long-term loans, and capital leases are not accrued, but rather are recorded as cash disbursements in the basic financial statements when paid.

**Net Assets**

Net cash assets represent the difference between assets and liabilities. Net assets consist of cash receipts reduced by cash disbursements for the current year. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Restricted for Other Purposes is comprised of net assets restricted for state and federal programs. The School District applies restricted resources when a cash disbursement is made for purposes for which both restricted and unrestricted net assets are available.

**Fund Balance Reserves**

The School District records reservations for portions of cash fund balance which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves are established for encumbrances and textbooks and instructional materials.

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**Interfund Transactions**

Exchange transactions between funds are reported as cash receipts in the seller funds and as cash disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented on the financial statements. In the government-wide financial statements transfers within governmental activities are eliminated.

**Restricted Assets**

Restricted assets in the General Fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set aside by the School District for the purchase of textbooks and materials. See Note 13 for additional information regarding set-asides.

**3. EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

The School District maintains a cash pool which is used by all funds. Each fund type's portion of this pool is displayed on the "Statement of Assets and Fund Balances – Cash Basis" as "Equity in Pooled Cash and Cash Equivalents."

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

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

- A. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
- B. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- C. Written purchase 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;

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

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

- D. Bonds and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the School District;
- E. Time certificates of deposit or savings or deposit accounts, including, but not limited to passbook accounts;
- F. No-load money market mutual funds consisting exclusively of obligations described in division (A) or (B) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- G. The State Treasurer's investment pool (STAR Ohio);
- H. Securities lending agreements in which the School District lends securities and the eligible institution agrees to exchange either securities described in division (A) or (B) or cash or both securities and cash, equal value for equal value;
- I. High grade commercial paper in an amount not to exceed five percent of the School District's total average portfolio;
- J. Certain bankers' acceptance and commercial paper notes for a period not to exceed 180 days and in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and
- K. Under limited circumstances, corporate debt interest rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. The School District maintains a cash pool which is used by all funds.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Deposits:** Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2006, \$1,481,943 of the School District's bank balance of \$1,581,943 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The School District held no investments at June 30, 2006.

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

**4. BUDGETARY BASIS FUND BALANCES**

Differences between the budgetary basis fund balances and fund cash balances are due to encumbrances. The table below presents those differences for the School District's General and Major Special Revenue Funds:

	General Fund	Classroom Maintenance
Budgetary Basis Fund Balance	\$293,430	\$179,809
Encumbrances	53,840	127
Fund Cash Balance	\$347,270	\$179,936

**5. PROPERTY TAX**

Real property taxes are levied on assessed values which equal 35% of appraised values. The County Auditor reappraises all real property every six years with a triennial update. The last reappraisal was completed for tax year 2005 for Perry County.

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

The full tax rate applied to real property for the fiscal year ended June 30, 2006, was \$39.10 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$27.80 per \$1,000 of assessed valuation for real property classified as residential/agricultural and was \$31.13 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the School District by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for tax year 2005 was \$39.10 per \$1,000 of assessed valuation.

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

**5. PROPERTY TAX (Continued)**

	Perry and Hocking Counties			
	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
<u>Real Property</u>				
Resident/Agricultural	27,136,700	78.15%	32,813,750	79.67%
Commercial/Industrial	2,031,690	5.85%	2,597,270	6.31%
Public Utilities	844,780	2.43%	140,080	0.34%
Minerals	-	0.00%	870,380	2.11%
<u>Tangible Personal Property</u>				
General	1,152,280	3.32%	781,910	1.90%
Public Utilities	3,559,000	10.25%	3,982,120	9.67%
Total	<u>34,724,450</u>	<u>100.00%</u>	<u>41,185,510</u>	<u>100.00%</u>

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

**6. DEBT OBLIGATIONS**

Debt outstanding at June 30, 2006, consisted of the following:

<u>Debt</u>	<u>Balance 6/30/2005</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 6/30/2006</u>	<u>Due in One Year</u>
School Improvement					
Advance Refunding					
Bonds, 3.7% to 9.6%	\$ 589,995	\$ -	\$ 140,000	\$ 449,995	\$ 60,943
School Facilities					
Improvement Notes, 5.0%	187,621	-	6,701	180,920	7,041
Capital Lease	13,502	-	9,326	4,176	4,176
Total	<u>\$ 791,118</u>	<u>\$ -</u>	<u>\$ 156,027</u>	<u>\$ 635,091</u>	<u>\$ 72,160</u>

The School Improvement Advance Refunding Bonds are direct obligations of the School District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the School District. The Advance Refunding Bonds were issued in the amount of \$1,204,995 in 1998 to reduce the School District's debt service requirements from a previously issued school building construction issue. The School District utilizes a trustee bank to service the bonds. Payments to the bank are recorded as disbursements in the year deposited with the bank. Payments are made from the Bond Retirement fund.

The School Facilities Improvement Notes were issued in the amount of \$214,000 in 2000 to finance building improvements. The notes are direct obligations of the School District for which its full faith, credit and resources are pledged. Payments are made from the Bond Retirement fund.



**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

**6. DEBT OBLIGATIONS (Continued)**

The annual requirements to amortize debt outstanding as of June 30, 2006 are as follows:

Year Ending June 30	Advance Refunding Bonds		School Facilities Improvement Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 60,943	\$ 79,057	\$ 7,041	\$ 8,959	\$ 67,984	\$ 88,016
2008	58,038	81,962	7,397	8,603	65,435	90,565
2009	55,220	84,780	7,772	8,228	62,992	93,008
2010	54,046	90,954	8,165	7,835	62,211	98,789
2011	50,975	94,025	8,579	7,421	59,554	101,446
2012-2016	170,773	389,228	49,865	30,135	220,638	419,363
2017-2021	-	-	63,831	16,169	63,831	16,169
2022-2023	-	-	28,270	1,715	28,270	1,715
Total	<u>\$ 449,995</u>	<u>\$ 820,006</u>	<u>\$ 180,920</u>	<u>\$ 89,065</u>	<u>\$ 630,915</u>	<u>\$ 909,071</u>

The School District's overall legal debt margin was \$3,706,696 with an unvoted debt margin of \$41,186 at June 30, 2006.

**7. LEASE OBLIGATION**

The School District entered into two, 60 month lease agreements with IOS Capital Inc. for the use of three copiers during fiscal year 2002. The annual requirements to amortize the lease obligations outstanding as of June 30, 2006, are as follows:

Year Ending June 30	Amount
2007	\$ 4,916
Less interest:	(740)
Present value of minimum lease payments	<u>\$ 4,176</u>

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

**8. RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During the year ended June 30, 2006, the School District contracted with the Indiana Insurance Company for property insurance and boiler and machinery coverage. Buildings and contents are 90% coinsured.

Vehicles are covered the Indiana Insurance Company and include deductibles of \$25 to \$500. Vehicle liability has a \$1,000,000 single occurrence limit. Professional and general liability is covered through the Indiana Insurance Company with a \$1,000,000 single occurrence limit and a \$2,000,000 aggregate limit.

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

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

The School District has chosen to establish a risk financing fund for risks associated with the employee dental and vision insurance plans. The risk financing fund is accounted for as an Internal Service Fund where assets are set aside for claims and assessments. Medical Claims Services, Inc., acts as a third-party administrator for the payment of claims. A premium is charged to each fund that accounts for part-time and full-time employees. The premium charge is allocated to each of the funds based on trends in actual claims expense and the percentage of each fund's current year payroll expense to the total payroll expense of the School District. Under the cash basis of accounting the School District does not record a claims liability at fiscal year end, nor do they report claims liability information for previous years.

**9. PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension system. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling toll free (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contribution to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$148,236, \$149,436, and \$152,582, respectively; 100 percent has been contributed for fiscal years 2006, 2005 and 2004.

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

**9. PENSION PLANS (Continued)**

**B. State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. STRS issues a publicly available, stand-alone financial report that includes financial statements and required information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions in to the DC plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

The DB Plan Benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

The DC Plan Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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 lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designed beneficiary is entitled to receive the member's account balance.

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

**9. PENSION PLANS (Continued)**

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

Member contributions for the Combined Plan Benefits are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase or a lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. 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.

For the fiscal year ended June 30, 2006, 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. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$519,408, \$526,584, and \$537,944, respectively; 100 percent has been contributed for fiscal years 2006, 2005 and 2004.

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

**10. POST-EMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, the amount to fund health care benefits equaled \$37,101 for fiscal year 2006. As of June 30, 2005 (the most recent year available), eligible recipients totaled 115,395. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000. The balance in the fund was \$3.3 billion at June 30, 2005.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing healthcare benefits. At June 30, 2006, the healthcare allocation is 3.42%. In addition, SERS levies a surcharge to fund healthcare benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established as \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for health care fund.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 (the most recent year available) were \$178,221,113. The target level for health care reserve is 150% of projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123.

**11. JOINTLY GOVERNED ORGANIZATIONS**

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

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

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

**11. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**B. The Coalition of Rural and Appalachian Schools**

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

**12. INSURANCE PURCHASING POOL**

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

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

**13. STATUTORY RESERVES**

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

	Textbooks & Instructional Materials	Capital Acquisition	Total
Set-Aside Reserve Cash Balance as of June 30, 2005	\$ 33,325	\$ (2,787,493)	\$ (2,754,168)
Current Year Set-aside Requirement	139,791	139,791	279,582
Qualifying Disbursements	(21,537)	(105,621)	(127,158)
Totals	151,579	(2,753,323)	(2,601,744)
Set-Aside Balances Carried Forward to Future Fiscal Years	\$ 151,579	\$ (2,753,323)	\$ (2,601,744)
Set-Aside Reserve Cash Balance as of June 30, 2006	\$ 151,579	\$ 0	\$ 151,579

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)**

**13. STATUTORY RESERVES (Continued)**

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

**14. CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims would not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

**B. Litigation**

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

**15. INTERFUND ACTIVITY**

**Interfund Transfers**

Transfers made during the year ended June 30, 2006, were as follows:

Fund:	Transfer <u>To:</u>	Transfer <u>From:</u>
General Fund	\$ 0	\$104,000
Non-Major Special Revenue Fund:		
Lunchroom Fund	<u>104,000</u>	<u>0</u>
Total	<u>\$104,000</u>	<u>\$104,000</u>

Transfers are made to move unrestricted balances to support programs and projects accounted for in other funds.

**16. CHANGE IN ACCOUNTING PRINCIPLE**

For the fiscal year 2006, the School District implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. The application of this new standard did not have a material effect on the financial statements, nor did its implementation require a restatement of prior year balances.

**17. NET ASSETS RESTRICTED BY ENABLING LEGISLATION**

As of June 30, 2006, of the School District's \$1,108,676 restricted net assets, \$0 was restricted by enabling legislation.

Southern Local School District  
Perry County

Schedule of Federal Awards and Expenditures  
For the Year Ended June 30, 2006

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
National School Breakfast Program	05PU	10.553	74,349	-	74,349	-
National School Lunch Program and After School Care Snack Program	LLP4	10.555	171,079	-	171,079	-
Total Nutrition Cluster			245,428		245,428	
Food Distribution Program	NA	10.550	\$ -	\$ 28,446	\$ -	\$ 28,446
<b>Total United States Department of Agriculture</b>			245,428	28,446	245,428	28,446
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>						
<i>Passed through the Ohio Department of Education:</i>						
Title 1 Grants to Local Educational Agencies	C1S1	84.010	252,272	-	266,456	-
Special Education- Grants to States	6BSF	84.027	276,885	-	276,618	-
Safe and Drug Free Schools and Communities - State Grants	DRS1	84.186	7,573	-	7,573	-
Twenty-First Century Community Learning Centers	T1S1	84.287	256,566		331,901	
Innovative Education Program Strategy	C2S1	84.298	3,174	-	5,349	-
Education Technology State Grants	TJS1	84.318	5,171	-	6,850	-
Comprehensive School Reform Demonstration	RFS2	84.332	-	-	20,025	-
Reading First	N/A	84.357	470,911	-	438,077	-
Improving Teacher Quality State Grants	TRS1	84.367	66,418	-	64,591	-
<b>Total United States Department of Education</b>			1,338,970	-	1,417,440	-
<b>Total Federal Financial Assistance</b>			\$ 1,584,398	\$ 28,446	\$ 1,662,868	\$ 28,446

N/A = Pass through entity number could not be located.  
See Notes to the Schedule of Federal Awards Expenditures.



***SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY***

*Notes to Schedule of Federal Awards and Expenditures  
For the Fiscal Year Ended June 30, 2006*

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of federal awards receipts and expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B -FOOD DISTRIBUTIONS**

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

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

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

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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

Members of the Board  
Southern Local School District  
Perry County  
10390 State Route 155 SE  
Corning, Ohio 45730

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Perry County, Ohio (the School District), as of and for the year ended June 30, 2006 and have issued our report thereon dated February 27, 2006, wherein we noted the School District prepared its financial statements on a basis of accounting other than accounting principles generally accepted in the United States of America, and implemented GASB Statement No. 46. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

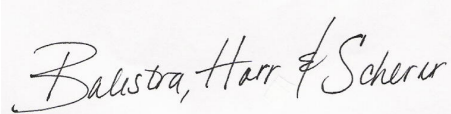
In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2006-001.

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

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored, slightly textured background.

Balestra, Harr & Scherer, CPAs, Inc.  
February 27, 2006

**BALESTRA, HARR & SCHERER, CPAs, INC.**  
528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**Report on Compliance with Requirements Applicable to Each Major Program and on Internal  
Control Over Compliance in Accordance with OMB Circular A-133**

Members of the Board  
Southern Local School District  
Perry County  
10390 State Route 155 SE  
Corning, Ohio 45730

**Compliance**

We have audited the compliance of the Southern Local School District, Perry County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

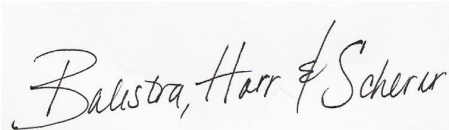
In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

**Internal Control Over Compliance**

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

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

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer CPAs, Inc.  
February 27, 2007

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY  
JUNE 30, 2006**

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505*

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

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA # 84.357: Reading First Program
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY  
JUNE 30, 2005**

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505*

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

**FINDING NUMBER 2006-001**

**Noncompliance Citation**

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

Ohio Administrative Code Section 117-2-03(B) requires the School District to file its annual financial report in accordance with generally accepted accounting principles. However, the School District prepares its financial statements in accordance with the cash basis of accounting. The accompanying financial statements and notes omit assets, liabilities, fund equities and disclosures that, while material, cannot be determined at this time.

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

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

**Client Response:**

The School District officials do not believe that preparing financial statement in accordance with generally accepted accounting principles is cost beneficial.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

**SOUTHERN LOCAL SCHOOL DISTRICT  
PERRY COUNTY  
JUNE 30, 2006**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 SECTION .315(b)**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2005-001	Failing to prepare the School District's financial statements in accordance with generally accepted accounting principles.	No	Not Corrected. Reissued as Finding 2006-001.





**Mary Taylor, CPA**  
Auditor of State

**SOUTHERN LOCAL SCHOOL DISTRICT**  
**PERRY COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED**  
**MAY 10, 2007**