



Mary Taylor, CPA
Auditor of State

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

**Financial Forecast
For the Fiscal Year Ended June 30, 2007**

Local Government Services Section



Mary Taylor, CPA
Auditor of State

February 9, 2007

The attached financial forecast was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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Southern Local School District
Meigs County

Table of Contents

Title	Page
Table of Contents	1
Certification.....	2
Accountant's Report.....	3
Statement of Revenues, Expenditures and Changes in Fund Balance for the Fiscal Years Ended June 30, 2004, 2005, and 2006 Actual; Fiscal Year Ending June 30, 2007 Forecasted.....	4
Summary of Significant Forecast Assumptions and Accounting Policies	5



Mary Taylor, CPA
Auditor of State

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

and

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

CERTIFICATION

Certification is hereby made that, based upon the requirement set forth in Section 3316.08, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the General Fund of the Southern Local School District, Meigs County, Ohio and issued a report dated December 15, 2006. This forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating balance of \$385,000 for the fiscal year ending June 30, 2007.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2008 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2007.

MARY TAYLOR, CPA
Auditor of State

A handwritten signature in black ink that reads "Peter R. Sorem".

Peter R. Sorem
Chief of Local Government Services

February 13, 2007

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**Auditor of State
Betty Montgomery**

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

Independent Accountant's Report

We have examined the accompanying forecasted statement of revenues, expenditures and changes in fund balance of the general fund of the Southern Local School District for the fiscal year ending June 30, 2007. The Southern Local School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

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

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

We have compiled the historical financial statements of the Southern Local School District for the fiscal years ended June 30, 2004, June 30, 2005, and June 30, 2006, in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Betty Montgomery

Betty Montgomery
Auditor of State

December 15, 2006

Southern Local School District
Statement of Revenues, Expenditures and Changes in Fund Balance
For The Fiscal Years Ended June 30, 2004, 2005 and 2006 Actual;
Fiscal Year Ending June 30, 2007 Forecasted
General Fund

	Fiscal Year 2004 Actual	Fiscal Year 2005 Actual	Fiscal Year 2006 Actual	Fiscal Year 2007 Forecasted
Revenues				
General Property Tax	\$1,309,000	\$1,335,000	\$1,405,000	\$1,448,000
Tangible Personal Property Tax	76,000	61,000	49,000	40,000
Unrestricted Grants-in-Aid	3,247,000	3,325,000	3,649,000	3,575,000
Restricted Grants-in-Aid	413,000	431,000	440,000	428,000
Property Tax Allocation	189,000	204,000	194,000	212,000
All Other Revenues	193,000	181,000	213,000	236,000
Total Revenues	5,427,000	5,537,000	5,950,000	5,939,000
Other Financing Sources				
Solvency Assistance Advance	671,000	291,000	41,000	0
Proceeds from Sale of Notes	0	351,000	350,000	0
Transfers In	1,000	0	0	0
Advances In	0	0	44,000	15,000
Total Other Financing Sources	672,000	642,000	435,000	15,000
Total Revenues and Other Financing Sources	6,099,000	6,179,000	6,385,000	5,954,000
Expenditures				
Personal Services	2,645,000	2,575,000	2,636,000	2,513,000
Employees' Retirement/Insurance Benefits	1,379,000	1,265,000	1,311,000	1,323,000
Purchased Services	360,000	589,000	964,000	1,048,000
Supplies and Materials	182,000	194,000	291,000	286,000
Capital Outlay	26,000	71,000	134,000	68,000
Debt Service:				
Principal - Asbestos Loan	12,000	12,000	12,000	12,000
Principal - Tax Anticipation Loan	0	351,000	350,000	0
Principal - Solvency Assistance Advances	543,000	668,000	481,000	187,000
Principal - HB 264 Energy Conservation Note	50,000	55,000	0	0
Interest and Fiscal Charges	6,000	8,000	5,000	0
Other Objects	570,000	438,000	206,000	197,000
Total Expenditures	5,773,000	6,226,000	6,390,000	5,634,000
Other Financing Uses				
Operating Transfers Out	109,000	9,000	17,000	30,000
Advances Out	8,000	55,000	2,000	0
Total Other Financing Uses	117,000	64,000	19,000	30,000
Total Expenditures and Other Financing Uses	5,890,000	6,290,000	6,409,000	5,664,000
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	209,000	(111,000)	(24,000)	290,000
Cash Balance July 1	29,000	238,000	127,000	103,000
Cash Balance June 30	238,000	127,000	103,000	393,000
Less Encumbrances and Reserves:				
Encumbrances at June 30	24,000	15,000	4,000	4,000
Textbook and Instructional Materials	10,000	0	0	0
Bus Purchase	0	38,000	4,000	4,000
Total Encumbrances and Reservations of Fund Balance	34,000	53,000	8,000	8,000
Unencumbered/Unreserved Fund Balance (Deficit) June 30	\$204,000	\$74,000	\$95,000	\$385,000

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

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

Note 1 – The School District

The Southern Local School District (School District) is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District provides educational services as authorized by state and local guidelines. The School District currently operates 2 instructional/support facilities staffed by 63 certificated employees and 33 non-certificated employees who provide services to 728 students.

Note 2 - Nature of the Forecast

This financial forecast presents, to the best of the Southern Local School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of December 15, 2006, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

Note 3 - Nature of the Presentation

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund resources received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. State laws also require general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund. For presentation in the forecast, the poverty based assistance fund and general fund supported debt are included in the general fund.

Note 4 - Summary of Significant Accounting Policies

A. - Basis of Accounting

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

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

B. - Fund Accounting

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

Governmental Funds

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

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

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

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

Proprietary Funds

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

Fiduciary Funds

Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations or other government units. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds.

C. - Budgetary Process

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

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

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

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

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

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

Note 5 - General Operating Assumptions

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

Note 6 - Significant Assumptions for Revenues and Other Financing Sources

A. - General and Tangible Personal Property Taxes

Property taxes are applied to real estate, public utility real and personal property, manufactured homes, and tangible personal property used in business. Property taxes are collected for, and distributed to, the school districts of the county by the Meigs County Auditor and Treasurer. The School District may request advances from the Meigs County Auditor as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the School District are paid. Final settlement dates, on which collections are distributed to the School District, are set by state statute. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times. The amounts shown in the revenue section of the forecast represent gross property tax revenue.

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. Property tax revenue received during calendar year 2006 (the collection year) for real and public utility property taxes represents collections of calendar year 2005 taxes (the tax year). Property tax payments received during calendar year 2006 for tangible personal property (other than public utility property) are for calendar year 2006 taxes. First half calendar year tax collections are received by the School District in the second half of the fiscal year. Second half calendar year tax distributions occur in the first half of the following fiscal year.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

State law allows for certain reductions in the form of rollbacks and homestead exemptions for real estate taxes. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is presented in the account "Property Tax Allocation". Beginning in collection year 2006, the State eliminated the ten percent rollback on commercial and industrial property. This change increased real property taxes collected against commercial and industrial real property and decreased property tax allocation revenue.

Prior to fiscal year end, a school district may request an advance of real property tax collections that ordinarily would be settled in August and used to finance the upcoming fiscal year. The forecast excludes the receipt of any advances against the 2008 fiscal year's scheduled property tax settlements. The potential advances have been excluded due to the District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2007.

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

Tax Levies	Year Approved	Last Calendar Year of Collection	Full Tax Rate (per \$1,000 of assessed valuation)
Inside Ten Mill Limitation	n/a	n/a	\$3.50
Continuing Operating	Prior to 1976	n/a	16.50
Continuing Operating	1982	n/a	3.00
Current Operating	2006	2009	4.00
Total Tax Rate			\$27.00

The School District has other levies that total \$4.40 per \$1,000 of assessed value; \$3.90 is used for the payment of bonds issued for the construction of school facilities, and a \$.50 is used for the upkeep and maintenance of buildings constructed as part of a school facilities project. The School Districts total rate is \$31.40 per \$1,000 of valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of real property taxes on carry over property as in the year in which the levy was approved. For all voted levies except emergency and debt levies, increases in revenues are restricted to amounts generated from new construction. Emergency and debt levies are intended to generate a set amount of revenue annually. The revenue generated by emergency and debt levies is not affected by changes in real property valuation. The reduction factors are computed annually and applied separately for residential/agricultural property and commercial/industrial property. Reduction factors are not applied to inside millage (an unvoted levy) and tangible personal property levy rates. State law also prohibits the reduction factors from reducing the effective millage of the sum of the general fund current operating levies (excluding emergency levies) plus inside millage below 20 mills. The effective residential and agricultural real property tax rate is \$20.00 per \$1,000 of assessed valuation and the effective commercial and industrial real property tax rate is \$23.70 per \$1,000 of assessed valuation for collection year 2007.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

Public utility real and personal property taxes are collected and settled by the county with real estate taxes and are recorded as general property taxes. Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25 percent. Starting in tax year 2005, the assessment rate for personal property owned by telephone utilities prior to 1995 was being phased down from 88 percent to 25 percent (in tax year 2007) over a three-year period. Beginning in 2007, HB 66 will switch telephone companies from being public utilities to general business taxpayers and phase out the tangible personal property tax on local and inter-exchange telephone companies. No tangible personal property taxes will be levied or collected after 2010 on local and inter-exchange telephone companies. The State of Ohio will reimburse the School District for the loss of tangible personal property taxes as a result of these changes within certain limitations (see Property Tax Allocation Revenue below).

General Property Tax - The general property tax revenue account appearing on the forecast Statement includes real estate taxes, public utility property taxes, and manufactured home taxes. The general property tax revenue estimate is based upon actual receipts and information provided by the Meigs County Auditor's office. The School District anticipates an increase of \$43,000 due to new construction.

Tangible Personal Property Tax - Tangible personal property tax is levied on machinery and equipment, furniture and fixtures, and inventory of businesses. Effective for tax years 2005 and 2006, the assessment rate on business inventory, currently at 23 percent, was to be reduced by two percent if the total statewide collections of personal property taxes for the second preceding year exceed the total statewide collections of property taxes for the third preceding year. Effective for tax years 2007 and beyond, the assessment rate for inventory was to be reduced by two percent per year until it was completely phased out regardless of the growth in collections.

Beginning in calendar year 2006, HB 66 will phase out by 25 percent each year tangible personal property tax on most business inventory, manufacturing machinery and equipment, and furniture and fixtures. This change supersedes the changes and phase out periods addressed above. No tangible personal property taxes will be levied or collected in 2009 from general business taxpayers (except telephone companies whose last year to pay tangible personal property tax is 2010). Most new manufacturing machinery and equipment that would have been first taxable in tax year 2006 and thereafter will not be subject to any tangible personal property tax. The School District, based on the 2005 calendar year tangible personal property tax collections, will lose \$67,000 when the tangible personal property tax is completely phased out in 2009. These changes do not affect tangible personal property of public utilities. The State of Ohio will reimburse the School District for the loss of tangible personal property taxes as a result of the changes in HB 66 within certain limitations (see Property Tax Allocation below).

Tangible personal property tax revenues include the actual settlement scheduled for June 2006 but received in fiscal year 2007 and the October 2006 personal property tax settlement. The June 2007 tangible person property tax settlement has been excluded because it historically is received in July of the next fiscal year and the amount is not significant. The \$9,000 decrease in tangible personal property tax revenues for the forecast period compared to the prior fiscal year is due to the phase out of taxable personal property tax.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

B. - Unrestricted Grants-in-Aid

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

The State's foundation program is established by Chapter 3317 of the Ohio Revised Code. The semi-monthly payments are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM) times a per pupil foundation level (adjusted for a regional cost of doing business factor set by the State legislature), less the equivalent of 23 mills times the school district's taxable property valuation. The regional cost of doing business factor is being phased out over a three-year period through fiscal year 2008. The per pupil foundation level has been set by the State Legislature. Historically, the per pupil amount has increased 2.2 percent since 2004 and 2.8 percent in fiscal years prior to fiscal year 2004. The per pupil amount for fiscal years 2003 to 2007 is as follows:

<u>Fiscal Year</u>	<u>Per Pupil Foundation Level</u>
2003	\$4,949
2004	5,058
2005	5,169
2006	5,283
2007	5,403

The anticipated unrestricted grants-in-aid for fiscal year 2007 are based on current estimates provided by the Ohio Department of Education. The most recent estimates reported on the December school foundation statement for fiscal year 2007 are summarized as follows:

	<u>Actual Fiscal Year 2004</u>	<u>Actual Fiscal Year 2005</u>	<u>Actual Fiscal Year 2006</u>	<u>Forecast Fiscal Year 2007</u>	<u>Variance Increase (Decrease)</u>
Formula Aid	\$2,338,000	\$2,231,000	\$2,389,000	\$2,288,000	(\$101,000)
Categorical Funding	225,000	228,000	309,000	291,000	(18,000)
Charge-Off Supplement	190,000	232,000	192,000	236,000	44,000
Transportation	227,000	193,000	198,000	201,000	3,000
Excess Cost	76,000	93,000	139,000	141,000	2,000
Parity Aid	280,000	349,000	406,000	402,000	(4,000)
Foundation Adjustments	(71,000)	(1,000)	16,000	16,000	0
County Board Deduction	(18,000)	0	0	0	0
Totals	<u>\$3,247,000</u>	<u>\$3,325,000</u>	<u>\$3,649,000</u>	<u>\$3,575,000</u>	<u>(\$74,000)</u>

Formula Aid and categorical funding are anticipated to decrease due to a decrease in ADM of 36. Parity aid is completely phased in with the percentage of the distribution going from 58 percent in fiscal year 2004 to 76 percent in fiscal year 2005, and to 100 percent in fiscal year 2006.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

The intent of the charge-off supplement is to fill any gap that exists between the local revenue raised by a district and the amount the foundation formula assumes the district should raise to meet its local share of formula aid, special education and vocational education weighted aid and transportation aid. If a district's local revenue falls below the sum of the district's charge-off plus its assumed local share of special education and vocational education weighted aid and transportation aid, the State makes up the shortfall in charge-off supplement aid.

The excess cost supplement aid establishes a 3.3-mill limit on the district's share of combined funding for special education, vocational education and transportation. If the assumed local share of special and vocational weighted aid plus the assumed local share of transportation exceeds 3.3 mills times the district's recognized valuation, the state pays the difference in excess cost supplement aid.

The parity aid funding program is given to districts that fall below the "per pupil wealth threshold" or below the 80th percentile district on the wealth measure as ranked by the Ohio Department of Education

C. - Restricted Grants-in-Aid

Restricted grants-in-aid consist of the bus purchase allowance, career tech monies and Poverty Based Assistance monies. The anticipated revenue for restricted grants-in-aid for fiscal year 2006 is based on estimates obtained from the Ohio Department of Education. For fiscal year 2007, the School District anticipates \$4,000 in bus purchase allowance monies, and \$73,000 in career tech monies. In addition, the School District anticipates \$351,000 in Poverty Based Assistance monies which is a \$4,000 decrease from fiscal year 2006.

D. - Property Tax Allocation

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs. Beginning in 2006, the State eliminated the ten percent rollback credit on commercial and industrial real property and the reimbursement to local governments.

The State exempted the first \$10,000 in personal property from taxation. The State reimburses the School District for the lost revenue. Beginning with tax year 2004, the State began phasing out the reimbursement by 10 percent each year. Under HB 66, the phase-out period has been accelerated. The last reimbursement for this exemption will be in October 2008.

Beginning in tax year 2001, there were significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123rd General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes were enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes is used to reimburse school districts for the loss of public utility property tax revenue. Reimbursements are made twice a year in February and August and are identified as utility deregulation payments. For fiscal year 2007, the School District anticipates \$54,000 in public utility reimbursements based on information provided by the Ohio Department of Taxation.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

Beginning in fiscal year 2006, the State will reimburse the School District for lost revenue due to the phase out of tangible personal property tax. In the first five years, the School District will be fully reimbursed relative to prior law for revenue lost due to the taxable value reductions prescribed by HB 66. Over the next seven years, the reimbursements are phased out. The reimbursement will be for the difference between the assessment values under prior law and the assessment values under HB 66. This means the School District is only reimbursed for the difference between the amounts that would have been received under the prior law and the amounts actually received as the phase-outs in HB 66 are implemented.

Property tax allocation revenue, based on information provided by both the Meigs County Auditor and the Ohio Department of Taxation, is anticipated to increase by \$18,000 in fiscal year 2007.

E. - All Other Revenues

Presented below is a comparison of all other revenue for the last three fiscal years and the forecast period:

	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecasted Fiscal Year 2007	Variance Increase (Decrease)
Interest	\$2,000	\$5,000	\$4,000	\$4,000	\$0
Classroom Materials and Fees	8,000	11,000	12,000	12,000	0
Tuition	1,000	0	2,000	2,000	0
Open Enrollment	128,000	137,000	186,000	209,000	23,000
Miscellaneous	54,000	28,000	9,000	9,000	0
Totals	<u>\$193,000</u>	<u>\$181,000</u>	<u>\$213,000</u>	<u>\$236,000</u>	<u>\$23,000</u>

The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the greatest allocation being recorded in the general fund. Open enrollment revenues are increasing due to an increase of 3.5 students coming into the School District and an increase in the per pupil formula level.

F. – Other Financing Sources

During fiscal year 2006, the School District issued \$350,000 in tax anticipation notes. The notes were repaid during fiscal year 2006. The School District received \$41,000 in a State solvency assistance advance during fiscal year 2006. The advance will be repaid without interest in fiscal year 2007. The general fund is forecasting the return of advances made in fiscal year 2006 to several state and federal grant funds in the amount of \$15,000.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

Note 7 - Significant Assumptions for Expenditures and Other Financing Uses

A. - Personal Services

Personal service expenditures represent the salaries and wages paid to certified, classified and administrative staff, substitutes, and board members. In addition to regular salaries, it includes payment for supplemental contracts, severance pay and payment in lieu of benefits. All employees receive their compensation on a bi-weekly basis. The certified staff, including administrative staff, and classified staff levels, are expected to decrease by two full-time equivalents during the forecast period. A comparison of staffing levels by fiscal year is presented below:

	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007
General Fund:				
Certified	55	53	56	54
Classified	25	26	27	25
Total General Fund	<u>80</u>	<u>79</u>	<u>83</u>	<u>79</u>
Other Funds:				
Certified	9	8	7	9
Classified	12	7	8	8
Total Other Funds	<u>21</u>	<u>15</u>	<u>15</u>	<u>17</u>
Totals	<u>101</u>	<u>94</u>	<u>98</u>	<u>96</u>

Certified (teaching) staff salaries are based on a negotiated contract which includes a one percent base increase, two percent step increases and educational incentives for fiscal year 2007. Classified staff salaries are also based on a negotiated contract which includes a one percent base increase and step increases for fiscal year 2007. The contracts cover the period from July 1, 2005 to June 30, 2008.

The School District offers severance pay to its retiring employees of one-fourth of their accumulated sick leave to a maximum accumulation of 240 days, depending on years of service. Severance payments are expected to be \$29,000 in fiscal year 2007.

Salaries for fiscal year 2007 are forecasted to decrease from fiscal year 2006 by \$123,000 due the elimination of two certified teaching positions, one classified maintenance position and a classified technology position. Other salaries and wages are decreasing due to a decrease in overtime costs in the Treasurer's office.

Presented below is a comparison of salaries and wages for the last three fiscal years and the forecast period.

	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecast Fiscal Year 2007	Variance Increase (Decrease)
Certified Salaries	\$1,896,000	\$1,905,000	\$1,903,000	\$1,827,000	(\$76,000)
Classified Salaries	470,000	454,000	552,000	478,000	(74,000)
Substitute Salaries	92,000	127,000	89,000	89,000	0
Supplemental Contracts	62,000	59,000	57,000	65,000	8,000
Severance Pay	98,000	0	0	29,000	29,000
Other Salaries and Wages	27,000	30,000	35,000	25,000	(10,000)
Totals	<u>\$2,645,000</u>	<u>\$2,575,000</u>	<u>\$2,636,000</u>	<u>\$2,513,000</u>	<u>(\$123,000)</u>

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

B. - Employees' Retirement/Insurance Benefits

Employees' retirement and insurance benefits include employer contributions to the State pension systems, medicare, workers' compensation, health care, and other insurance benefits arising from the negotiated agreements. Retirement costs are based on the employers' contribution rate of 14 percent of the salaries for STRS and SERS members. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from over/under estimates are prorated over the next calendar year.

Medicare benefits are based on the employers' rate of 1.45 percent of the payroll costs for contributing staff.

Workers' compensation is based on the School District's assigned rate and the amount of wages paid in a calendar year. Premiums are paid in the following calendar year. The School District may choose to pay the entire premium in May or 45 percent in May and 55 percent in September. The School District anticipates paying the entire premium in May as in prior years. The premium for calendar year 2006, due in May 2007, decreased to \$1.57 per hundred dollars of payroll from \$1.68 per hundred dollars of payroll for 2005. In 2004 and 2005, the State Workers' Compensation System granted all local government employers a premium reduction of 20 percent.

Health care costs are based on the coverage terms of the existing health insurance contracts, the anticipated number of employees participating in the program, and the monthly premiums. The School District participates in a traditional health plan. The School District pays 99 percent of the premiums and employees pay the remaining one percent, except for new employees who pay 10 percent of the premiums. The School District will experience an increase in health insurance costs due to a 4 percent rate increase in fiscal year 2007. The School District also anticipates a 15 percent increase in dental rates and a 3 percent increase in vision rates.

Presented below is a comparison for the last three fiscal years and the forecast period:

	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecasted Fiscal Year 2007	Variance Increase (Decrease)
STRS Retirement	\$270,000	\$264,000	\$300,000	\$281,000	(\$19,000)
SERS Retirement	92,000	81,000	88,000	83,000	(5,000)
SERS Surcharge	7,000	14,000	11,000	11,000	0
Medicare/Workers' Compensation	40,000	62,000	70,000	72,000	2,000
Health Insurance	892,000	773,000	780,000	809,000	29,000
Other Employee Insurances	78,000	71,000	62,000	67,000	5,000
Totals	<u>\$1,379,000</u>	<u>\$1,265,000</u>	<u>\$1,311,000</u>	<u>\$1,323,000</u>	<u>\$12,000</u>

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

C. - Purchased Services

Presented below are the purchased service expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecasted Fiscal Year 2007	Variance Increase (Decrease)
Professional and Technical Services	\$49,000	\$53,000	\$338,000	\$389,000	\$51,000
Property Services	91,000	64,000	67,000	58,000	(9,000)
Travel and Meeting Expenses	12,000	10,000	10,000	22,000	12,000
Communication Costs	22,000	22,000	19,000	24,000	5,000
Utility Services	169,000	182,000	190,000	203,000	13,000
Tuition Payments	13,000	11,000	36,000	41,000	5,000
Pupil Transportation	3,000	0	0	0	0
Open Enrollment	0	246,000	303,000	310,000	7,000
Other Purchased Services	1,000	1,000	1,000	1,000	0
Totals	\$360,000	\$589,000	\$964,000	\$1,048,000	\$84,000

The \$51,000 increase in professional and technical services is due to increased legal costs relating to the termination of an employee and to the contracting for technology services that were performed by an employee in fiscal year 2006. Property services will decrease by \$9,000 due to a decrease in property and transportation insurance. The \$13,000 increase in utility services is due to an increase in electricity and heating costs. Open enrollment costs rose due to an increase of 8.3 students leaving the School District and an increase in per pupil funding.

In years prior to fiscal year 2006, the School District paid its Educational Service Center costs from the Other Objects expenditure codes instead of the professional and technical services codes.

D. - Supplies and Materials

Presented below are the supplies and materials expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2004	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Forecasted Fiscal Year 2007	Variance Increase (Decrease)
General Supplies	\$40,000	\$57,000	\$80,000	\$94,000	\$14,000
Operations, Maintenance and Repair Textbooks, Library Books and Periodicals	111,000	102,000	141,000	148,000	7,000
	31,000	35,000	70,000	44,000	(26,000)
Totals	\$182,000	\$194,000	\$291,000	\$286,000	(\$5,000)

The School District purchased many new textbooks in fiscal year 2006; therefore, expenditures for textbooks in fiscal year 2007 are anticipated to decrease by \$26,000. The increase in operations, maintenance, and repair supplies is due to an anticipated increase for fuel for the buses. General supplies are also increasing based upon amounts already expended in fiscal year 2007.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

E. - Capital Outlay

The acquisition or construction of property, plant and equipment used for general governmental services is recorded as an expenditure. Capital Outlay is anticipated to decrease in fiscal year 2007 due to the School District purchasing a school bus in fiscal year 2006. No bus purchases are anticipated during fiscal year 2007.

F. - Debt Service

General fund supported debt consists of solvency assistance fund advances, and an asbestos abatement loan. The solvency assistance fund advance from fiscal year 2005 will be repaid during fiscal year 2007. It is the School District's intentions to repay the State Solvency Assistance Advance from 2006 entirely in 2007 rather than over a two year period. The asbestos loan will reach final maturity in fiscal year 2013. The forecasted changes in the general fund obligations for fiscal year 2007 are as follows:

	Interest Rate	Balance 6/30/2006	Retired	Estimated Balance 6/30/2007
State Solvency Assistance Advance 2006	0.00%	41,000	41,000	0
State Solvency Assistance Advance 2005	0.00%	146,000	146,000	0
Asbestos Abatement Loan 1995	0.00%	77,000	12,000	65,000
Total		<u>\$264,000</u>	<u>\$199,000</u>	<u>\$65,000</u>

G. - Other Objects

Other objects include dues, fees, liability insurance, and county educational service center costs. For fiscal year 2007, the School District is forecasting a decrease of \$9,000 in other objects due to the following:

- A decrease of \$13,000 in foundation adjustments;
- An increase of \$2,000 in additional costs for a special audit;
- An increase in memberships and dues of \$1,000 based on disbursements already made in fiscal year 2007; and,
- An increase of \$1,000 in foundation deductions relating to the Athens-Meigs Educational Service Center costs.

H. - Other Financing Uses

The School District expects to make a transfer from the general fund to the lunchroom fund in the amount of \$5,000 during fiscal year 2007 to reduce an expected cash deficit. The School District has also transferred \$25,000 to various federal funds in fiscal year 2007 to close out grants from fiscal year 2006.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

Note 8 - Encumbrances

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

Historically, the School District has had very few encumbrances at the end of a fiscal year. The amount forecasted for fiscal year 2007 is \$4,000. This amount represents \$1,000 in purchased services and \$3,000 in supplies.

Note 9 - Reservations of Fund Balance

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

Beginning in fiscal year 2006, HB 66 allows school districts in fiscal emergency to set aside less than the annual required set aside amount or set aside nothing in the textbook and instruction materials and the capital and maintenance set aside funds. The Board of Education, by resolution, has chosen to set aside no current year revenue in the textbook and instructional materials and the capital and maintenance set asides for the current fiscal year.

The School District had no set aside reserves at the June 30, 2006 and there will be no reserves at June 30, 2007.

Poverty Based Assistance

The School District anticipates receiving \$351,000 in restricted Poverty Based Assistance monies during fiscal year 2007 and having \$351,000 in Poverty Based Assistance expenditures during the current fiscal year. Therefore, no reserve for Poverty Based Assistance is forecasted.

Bus Purchases

At June 30, 2006, the School District had \$4,000 in unspent bus monies. The School District received \$4,000 in a bus purchase allowance during fiscal year 2006. The School District does not anticipate purchasing a new school bus during the fiscal year 2007; therefore, a reserve amount of \$4,000 is forecasted for bus purchases at fiscal year-end.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

Note 10 - Levies

In fiscal year 2006, the School District was successful in passing a Operating/Renewal levy on the May, 2006 ballot. In the past ten years, the School District has placed several levies on the ballot. The type of levy, rate, term, and election results are as follows:

Date	Type	Amount	Term	Election Results
May 1994	Operating	4 mills	Continuing	Failed
November 1994	Operating	4 mills	3 Years	Passed
March 1996	Bond Issue	5.6 mills	23 Years	Failed
August 1996	Bond Issue	4.92 mills	23 Years	Failed
November 1997	Operating/Renewal	4 mills	3 Years	Passed
May 1998	Bond Issue	\$4,042,000	23 Years	Passed
November 2000	Operating/Renewal	4 mills	3 Years	Passed
November 2003	Operating/Renewal	4 mills	3 Years	Passed
November 2005	Permanent Improvement	1 mill	2 Years	Failed
May 2006	Operating/Renewal	4 mills	3 Years	Passed

Note 11 - Pending Litigation

The School District is currently party to legal proceedings. The School District management is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

Note 12 – Financial Planning and Supervision Commission

On November 8, 1999, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District's declining financial condition. In accordance with the law, a five-member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction, the School District Superintendent, the State Director of Budget and Management, the Meigs County Auditor, an appointee of the Superintendent of Public Instruction, and an appointee of the Governor. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. Once the plan has been adopted, the Board of Education's discretion is limited in that all financial activity of the School District must be in accordance with the plan.

The original recovery plan was adopted on March 21, 2000. State law requires the plan to be updated annually. The last update was approved on April 26, 2006, for the fiscal year ending June 30, 2006. The update recommended that the District continue to develop and maintain a five-year forecast that establishes the parameters of expenditures versus revenue for the School District and that the Board of Education contain expenditures within the five year forecast.

Southern Local School District
Meigs County
Summary of Significant Forecast Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2007

Note 13 - Information Related to Periods Beyond the Forecast Period

Management is required to annually prepare and file a five-year financial plan with the Ohio Department of Education. The financial plan for the fiscal years 2007 through 2011 was filed on November 2, 2006. Management believes that the following information, although it does not constitute a financial forecast, is necessary in order for users to make a meaningful analysis of the forecast results. The financial plan assumes the continued operation of the School District with continual increases in property tax revenues due to growth within the School District. The unreserved fund balances increases from \$633,000 for fiscal year 2008 to \$1,831,000 for fiscal year 2011.

The information presented in this note is less reliable than the information presented in the financial forecast and, accordingly, is presented for information purposes only. Furthermore, there can be no assurance that events and circumstances described in this note will occur.



Mary Taylor, CPA
Auditor of State

SOUTHERN LOCAL SCHOOL DISTRICT

MEIGS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 13, 2007**