



Mary Taylor, CPA  
Auditor of State



**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Southern Local School District  
Columbiana County  
38095 State Route 39 East  
Salineville, Ohio 43945  
To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Columbiana County, Ohio, as of June 30, 2009, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The accompanying federal awards expenditure schedule is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

January 15, 2010

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
UNAUDITED**

The management discussion and analysis of the Southern Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2009 are as follows:

- In total, net assets of governmental activities decreased \$324,963, which represents a 2.82% decrease from 2008.
- General revenues accounted for \$7,976,164 in revenue or 78.70% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,159,132 or 21.30% of total revenues of \$10,135,296.
- The District had \$10,460,259 in expenses related to governmental activities; \$2,159,132 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$7,976,164 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and bond retirement fund. The general fund had \$8,652,378 in revenues and \$8,879,778 in expenditures and other financing uses. During fiscal year 2009 the general fund's fund balance decreased \$227,400 from \$459,928 to \$232,528.
- The District's bond retirement fund had \$257,308 in revenues and \$231,051 in expenditures. During fiscal year 2009, the bond retirement fund's fund balance increased \$26,257 from \$400,797 to \$427,054.

**Using these Basic Financial Statements**

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
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**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2009?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

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

***Fund Financial Statements***

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and bond retirement fund.

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

***Proprietary Funds***

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical and dental self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
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***Reporting the District's Fiduciary Responsibilities***

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate statement of fiduciary net assets on page 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 24-52 of this report.

**The District as a Whole**

The table below provides a summary of the District's net assets for 2009 and 2008.

	<b>Net Assets</b>	
	Governmental Activities <u>2009</u>	Governmental Activities <u>2008</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 3,588,155	\$ 3,683,758
Capital assets, net	<u>13,532,243</u>	<u>13,784,906</u>
Total assets	<u>17,120,398</u>	<u>17,468,664</u>
<b><u>Liabilities</u></b>		
Current liabilities	2,646,754	2,538,711
Long-term liabilities	<u>3,294,899</u>	<u>3,426,245</u>
Total liabilities	<u>5,941,653</u>	<u>5,964,956</u>
<b><u>Net assets</u></b>		
Invested in capital assets, net of related debt	10,834,205	10,989,976
Restricted	760,319	605,746
Unrestricted (deficit)	<u>(415,779)</u>	<u>(92,014)</u>
Total net assets	<u>\$ 11,178,745</u>	<u>\$ 11,503,708</u>

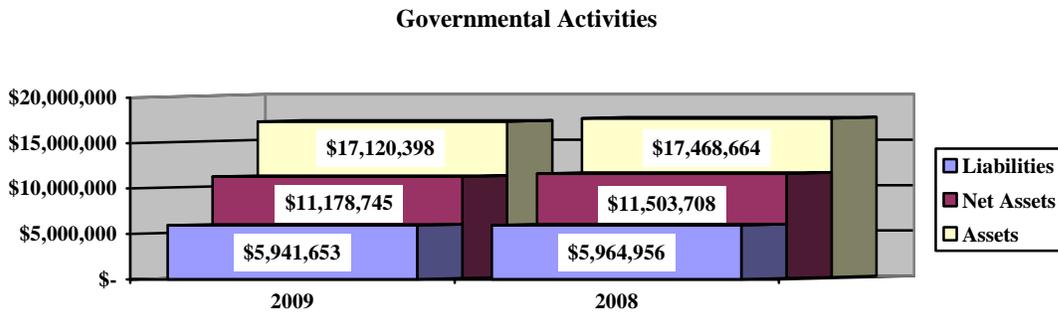
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2009, the District's assets exceeded liabilities by \$11,178,745. Of this total, \$760,319 is restricted in use.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
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At year-end, capital assets represented 79.04% of total assets. Capital assets include land, land improvements, buildings and improvements, infrastructure, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2009, were \$10,834,205. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

The graph below presents the District's governmental activities assets, liabilities and net assets for fiscal year 2009 and 2008.



The table below shows the change in net assets for fiscal year 2009 and 2008.

**Change in Net Assets**

	Governmental Activities <u>2009</u>	Governmental Activities <u>2008</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 640,655	\$ 581,649
Operating grants and contributions	1,498,489	1,438,970
Capital grants and contributions	19,988	9,885
General revenues:		
Property taxes	1,808,186	1,809,525
Grants and entitlements	6,136,246	6,083,240
Investment earnings	9,554	42,378
Other	<u>22,178</u>	<u>47,767</u>
Total revenues	<u>10,135,296</u>	<u>10,013,414</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
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**Change in Net Assets**

	Governmental Activities <u>2009</u>	Governmental Activities <u>2008</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 3,760,591	\$ 3,633,454
Special	1,284,638	1,242,509
Vocational	235,277	234,165
Other	1,336	18,923
Support services:		
Pupil	348,561	315,610
Instructional staff	252,362	214,092
Board of education	1,277,910	1,293,006
Administration	705,377	681,372
Fiscal	220,777	225,368
Business	49,972	49,058
Operations and maintenance	467,611	1,011,838
Pupil transportation	997,766	950,075
Operation of non-instructional services:		
Food service operations	443,364	457,767
Operations of other non-instructional services	11,465	4,908
Extracurricular activities	240,001	225,145
Interest and fiscal charges	<u>163,251</u>	<u>135,039</u>
Total expenses	<u>10,460,259</u>	<u>10,692,329</u>
Change in net assets	<u>(324,963)</u>	<u>(678,915)</u>
Net assets at beginning of year	<u>11,503,708</u>	<u>12,182,623</u>
Net assets at end of year	<u>\$ 11,178,745</u>	<u>\$ 11,503,708</u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$324,963. Total governmental expenses of \$10,460,259 were offset by program revenues of \$2,159,132 and general revenues of \$7,976,164. Program revenues supported 20.64% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 78.38% of total governmental revenue.

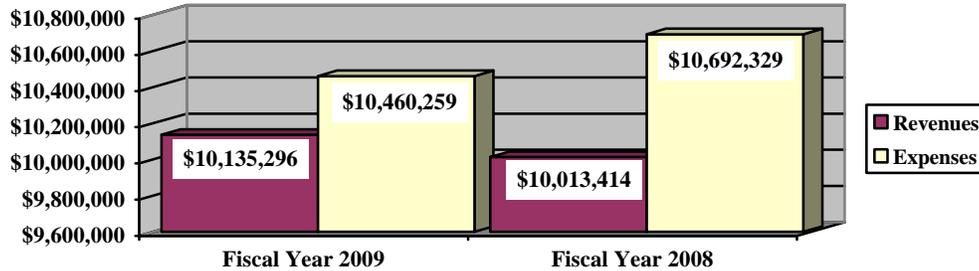
The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,281,842 or 50.49% of total governmental expenses for fiscal 2009.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
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The graph below presents the District's governmental activities revenue and expenses for fiscal year 2009 and 2008.

**Governmental Activities - Revenues and Expenses**



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

**Governmental Activities**

	Total Cost of Services <u>2009</u>	Net Cost of Services <u>2009</u>	Total Cost of Services <u>2008</u>	Net Cost of Services <u>2008</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 3,760,591	\$ 3,632,664	\$ 3,633,454	\$ 3,469,790
Special	1,284,638	216,104	1,242,509	157,421
Vocational	235,277	203,128	234,165	199,220
Other	1,336	1,336	18,923	18,923
Support services:				
Pupil	348,561	345,676	315,610	313,090
Instructional staff	252,362	182,289	214,092	212,249
Board of education	1,277,910	967,162	1,293,006	1,043,526
Administration	705,377	701,695	681,372	681,372
Fiscal	220,777	220,777	225,368	225,368
Business	49,972	49,972	49,058	49,058
Operations and maintenance	467,611	461,611	1,011,838	1,005,838
Pupil transportation	997,766	973,961	950,075	939,368
Food service operations	443,364	44,341	457,767	64,309
Operations of non-instructional services	11,465	(2,697)	4,908	(92)
Extracurricular activities	240,001	139,857	225,145	147,346
Interest and fiscal charges	163,251	163,251	135,039	135,039
<b>Total expenses</b>	<u>\$ 10,460,259</u>	<u>\$ 8,301,127</u>	<u>\$ 10,692,329</u>	<u>\$ 8,661,825</u>

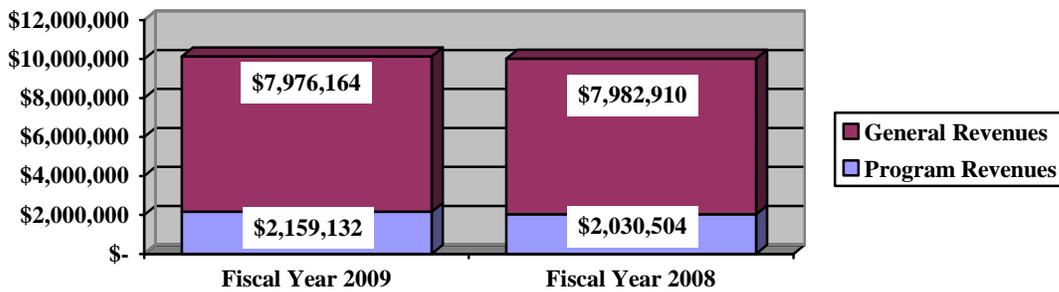
**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
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The dependence upon tax and other general revenues for governmental activities is apparent, 76.74% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.36%. The District's taxpayers and unrestricted grants and entitlements from the State are by far the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2009 and 2008.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$970,097, which is less than last year's total of \$1,035,211. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2009 and 2008.

	Fund Balance <u>June 30, 2009</u>	Fund Balance <u>June 30, 2008</u>	Increase (Decrease)	Percentage <u>Change</u>
General	\$ 232,528	\$ 459,928	\$ (227,400)	(49.44) %
Bond Retirement	427,054	400,797	26,257	6.55 %
Other Governmental	<u>310,515</u>	<u>174,486</u>	<u>136,029</u>	77.96 %
Total	<u>\$ 970,097</u>	<u>\$ 1,035,211</u>	<u>\$ (65,114)</u>	(6.29) %

**General Fund**

The District's general fund balance decreased \$227,400. The decrease in fund balance can be attributed to revenues of \$8,652,378 being less than expenditures and other financing uses of \$8,879,778. Expenditures and other financing uses exceed revenues for fiscal year 2009 by \$227,400. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
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	<u>2009</u> <u>Amount</u>	<u>2008</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 1,551,756	\$ 1,584,067	\$ (32,311)	(2.04) %
Tuition	343,438	300,809	42,629	14.17 %
Earnings on investments	7,774	41,969	(34,195)	(81.48) %
Intergovernmental	6,657,789	6,617,876	39,913	0.60 %
Other revenues	<u>91,621</u>	<u>131,464</u>	<u>(39,843)</u>	<u>(30.31) %</u>
Total	<u>\$ 8,652,378</u>	<u>\$ 8,676,185</u>	<u>\$ (23,807)</u>	<u>(0.27) %</u>
<b><u>Expenditures</u></b>				
Instruction	\$ 4,120,002	\$ 3,973,409	\$ 146,593	3.69 %
Support services	4,442,942	4,491,472	(48,530)	(1.08) %
Extracurricular activities	126,128	133,201	(7,073)	(5.31) %
Debt service	<u>10,706</u>	<u>10,705</u>	<u>1</u>	<u>0.01 %</u>
Total	<u>\$ 8,699,778</u>	<u>\$ 8,608,787</u>	<u>\$ 90,991</u>	<u>1.06 %</u>

The increase in tuition revenue of \$42,629 is due to an increase in open enrollment revenue received during the fiscal year. Earnings on investments decreased \$34,195 due to the District having fewer funds available to invest and decreased interest rates during the fiscal year. Other revenues decreased \$39,843, which is primarily due to fewer services provided to other entities during the fiscal year. The increase in instruction expenditures is primarily due to increased wage and benefit costs during the fiscal year. The decrease in support services is due to the decrease in maintenance expenditures.

***Bond Retirement Fund***

The District's bond retirement fund balance increased \$26,257 from \$400,797 to \$427,054 at June 30, 2009. The increase in fund balance can be attributed to revenues of \$257,308 being greater than expenditures of \$231,051.

***General Fund Budgeting Highlights***

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

During the course of fiscal 2009, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$8,585,565 and final budgeted revenues and other financing sources were \$8,456,000. Actual revenues and other financing sources for fiscal 2009 were \$8,654,797, which represents an increase \$198,797 over final budgeted revenues and other financing sources.

General fund original appropriations (appropriated expenditures including other financing uses) were \$8,822,642. General fund final appropriations (appropriated expenditures including other financing uses) were \$8,929,771. The actual budget basis expenditures and other financing uses for fiscal year 2009 totaled \$8,924,855, which was \$4,916 less than the final budgeted appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
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**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2009, the District had \$13,532,243 invested in land, land improvements, buildings and improvements, furniture and equipment, infrastructure and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2009 balances compared to 2008:

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

	Governmental Activities	
	2009	2008
Land	\$ 84,670	\$ 84,670
Land improvements	472,636	494,759
Building and improvements	12,410,251	12,798,750
Furniture and equipment	153,363	153,466
Infrastructure	118,880	122,376
Vehicles	292,443	130,885
Total	\$ 13,532,243	\$ 13,784,906

The overall decrease in capital assets of \$252,663 is due to depreciation expense of \$683,978 exceeding capital outlay of \$431,315 during the fiscal year.

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

***Debt Administration***

At June 30, 2009, the District had \$2,622,266 in general obligation bonds outstanding. Of this total, \$128,510 is due within one year and \$2,493,756 is due within greater than one year. The following table summarizes the bonds outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities	Governmental Activities
	2009	2008
General obligation bonds	\$ 2,622,266	\$ 2,696,969
Total	\$ 2,622,266	\$ 2,696,969

At June 30, 2009, the District's overall legal debt margin was \$5,291,285, and an unvoted debt margin of \$81,214

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009  
UNAUDITED

**Current Financial Related Activities**

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

The District completed a 14 million dollar project that closed two schools and housed all their students at one site. The OSFC does not allow for administrative offices, so the current offices are located behind the new school building in a doublewide trailer. The Board has been setting aside money into a construction account to accommodate any extra money that the building project may have needed. The Board continued to set aside the money, even though the school project was finished, and now has enough to purchase a modular unit for the administrative offices. The new administrative offices should be in place by the first of the year, and will be located in front of the football field next to the entrance gate.

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

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

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

**Contacting the District's Financial Management**

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

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

STATEMENT OF NET ASSETS  
JUNE 30, 2009

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 1,482,124
Receivables:	
Taxes . . . . .	1,871,883
Accounts . . . . .	460
Intergovernmental . . . . .	157,706
Prepayments . . . . .	572
Materials and supplies inventory . . . . .	6,060
Unamortized bond issue costs . . . . .	69,350
Capital assets:	
Land . . . . .	84,670
Depreciable capital assets, net . . . . .	13,447,573
Capital assets, net. . . . .	13,532,243
 Total assets. . . . .	 17,120,398
<b>Liabilities:</b>	
Accounts payable. . . . .	27,190
Accrued wages and benefits . . . . .	654,634
Pension obligation payable. . . . .	164,271
Intergovernmental payable . . . . .	52,520
Accrued interest payable . . . . .	8,703
Claims payable. . . . .	148,491
Unearned revenue. . . . .	1,590,945
Long-term liabilities:	
Due within one year. . . . .	185,546
Due in more than one year . . . . .	3,109,353
Total liabilities . . . . .	5,941,653
<b>Net assets:</b>	
Invested in capital assets, net of related debt. . . . .	10,834,205
Restricted for:	
Capital projects. . . . .	211,984
Debt service. . . . .	443,858
State funded programs. . . . .	2,908
Federally funded programs. . . . .	59,694
Student activities. . . . .	8,602
Other purposes . . . . .	33,273
Unrestricted (deficit) . . . . .	(415,779)
Total net assets . . . . .	\$ 11,178,745

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

		Program Revenues				Net (Expense) Revenue and
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Changes in Net Assets
<b>Governmental activities:</b>						
Instruction:						
Regular . . . . .	\$ 3,760,591	\$ 104,423	\$ 23,504	\$ -		\$ (3,632,664)
Special . . . . .	1,284,638	-	1,068,534	-		(216,104)
Vocational . . . . .	235,277	-	32,149	-		(203,128)
Other . . . . .	1,336	-	-	-		(1,336)
Support services:						
Pupil . . . . .	348,561	-	2,885	-		(345,676)
Instructional staff . . . . .	252,362	-	70,073	-		(182,289)
Board of education . . . . .	1,277,910	310,748	-	-		(967,162)
Administration . . . . .	705,377	-	3,682	-		(701,695)
Fiscal . . . . .	220,777	-	-	-		(220,777)
Business . . . . .	49,972	-	-	-		(49,972)
Operations and maintenance . . . . .	467,611	-	6,000	-		(461,611)
Pupil transportation . . . . .	997,766	-	3,817	19,988		(973,961)
Operation of non-instructional services:						
Food service operations . . . . .	443,364	125,340	273,683	-		(44,341)
Other non-instructional services . . . . .	11,465	-	14,162	-		2,697
Extracurricular activities . . . . .	240,001	100,144	-	-		(139,857)
Interest and fiscal charges . . . . .	163,251	-	-	-		(163,251)
<b>Total governmental activities . . . . .</b>	<b>\$ 10,460,259</b>	<b>\$ 640,655</b>	<b>\$ 1,498,489</b>	<b>\$ 19,988</b>		<b>(8,301,127)</b>
<b>General revenues:</b>						
Property taxes levied for:						
General purposes . . . . .						1,557,822
Debt service . . . . .						222,538
Capital projects . . . . .						27,826
Grants and entitlements not restricted						
to specific programs . . . . .						6,136,246
Investment earnings . . . . .						9,554
Miscellaneous . . . . .						22,178
<b>Total general revenues . . . . .</b>						<b>7,976,164</b>
Change in net assets . . . . .						(324,963)
<b>Net assets at beginning of year . . . . .</b>						<b>11,503,708</b>
<b>Net assets at end of year . . . . .</b>						<b>\$ 11,178,745</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 676,423	\$ 416,604	\$ 364,300	\$ 1,457,327
Receivables:				
Taxes. . . . .	1,612,711	230,333	28,839	1,871,883
Accounts . . . . .	36	-	424	460
Intergovernmental . . . . .	16,494	-	141,212	157,706
Interfund loans . . . . .	83,953	-	-	83,953
Due from other funds. . . . .	160,452	-	-	160,452
Prepayments . . . . .	572	-	-	572
Materials and supplies inventory . . . . .	-	-	6,060	6,060
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	24,797	-	-	24,797
Total assets . . . . .	<u>\$ 2,575,438</u>	<u>\$ 646,937</u>	<u>\$ 540,835</u>	<u>\$ 3,763,210</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 27,190	\$ -	\$ -	\$ 27,190
Accrued wages and benefits . . . . .	592,262	-	62,372	654,634
Compensated absences payable . . . . .	14,371	-	-	14,371
Pension obligation payable. . . . .	144,135	-	20,136	164,271
Intergovernmental payable. . . . .	16,182	-	36,338	52,520
Interfund loans payable. . . . .	-	-	83,953	83,953
Deferred revenue. . . . .	177,456	24,681	3,092	205,229
Unearned revenue. . . . .	1,371,314	195,202	24,429	1,590,945
Total liabilities . . . . .	<u>2,342,910</u>	<u>219,883</u>	<u>230,320</u>	<u>2,793,113</u>
<b>Fund balances:</b>				
Reserved for encumbrances . . . . .	14,805	-	72,256	87,061
Reserved for materials and supplies inventory. . . . .	-	-	6,060	6,060
Reserved for prepayments . . . . .	572	-	-	572
Reserved for property tax unavailable for appropriation . . . . .	73,366	10,450	1,318	85,134
Reserved for BWC refunds. . . . .	24,797	-	-	24,797
Reserved for debt service. . . . .	-	416,604	-	416,604
Unreserved, undesignated, reported in:				
General fund . . . . .	118,988	-	-	118,988
Special revenue funds. . . . .	-	-	22,481	22,481
Capital projects funds. . . . .	-	-	208,400	208,400
Total fund balances. . . . .	<u>232,528</u>	<u>427,054</u>	<u>310,515</u>	<u>970,097</u>
Total liabilities and fund balances . . . . .	<u>\$ 2,575,438</u>	<u>\$ 646,937</u>	<u>\$ 540,835</u>	<u>\$ 3,763,210</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2009

<b>Total governmental fund balances</b>		\$	970,097
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			13,532,243
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	195,804	
Intergovernmental receivable		9,425	
Total			205,229
An internal service fund is used by management to charge the costs of health and dental insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.			(308,943)
Unamortized bond issuance costs are not recognized in the funds.			69,350
Unamortized premiums on bond issuances are not recognized in the funds.			(166,803)
Unamortized deferred charges on refundings are not recognized in the funds.			103,668
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(8,703)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences payable		405,222	
Capital lease obligation payable		3,510	
Lease purchase obligations payable		186,395	
General obligation bonds payable		2,622,266	
Total			(3,217,393)
<b>Net assets of governmental activities</b>		<b>\$</b>	<b>11,178,745</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 1,551,756	\$ 219,860	\$ 27,589	\$ 1,799,205
Tuition. . . . .	343,438	-	-	343,438
Charges for services. . . . .	-	-	125,340	125,340
Earnings on investments. . . . .	7,774	-	45	7,819
Extracurricular. . . . .	-	-	100,144	100,144
Other local revenues. . . . .	91,621	-	2,290	93,911
Intergovernmental - State. . . . .	6,657,789	37,448	49,851	6,745,088
Intergovernmental - Federal . . . . .	-	-	952,042	952,042
Total revenue . . . . .	<u>8,652,378</u>	<u>257,308</u>	<u>1,257,301</u>	<u>10,166,987</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	3,112,872	-	29,354	3,142,226
Special. . . . .	760,222	-	510,863	1,271,085
Vocational. . . . .	245,572	-	-	245,572
Other. . . . .	1,336	-	-	1,336
Support services:				
Pupil. . . . .	340,772	-	3,686	344,458
Instructional staff . . . . .	174,975	-	64,601	239,576
Board of education . . . . .	1,277,910	-	-	1,277,910
Administration. . . . .	694,379	-	3,420	697,799
Fiscal . . . . .	216,757	5,648	695	223,100
Business . . . . .	49,972	-	-	49,972
Operations and maintenance. . . . .	768,731	-	95,279	864,010
Pupil transportation . . . . .	919,446	-	-	919,446
Operation of non-instructional services:				
Food service operations . . . . .	-	-	435,632	435,632
Other non-instructional services. . . . .	-	-	11,465	11,465
Extracurricular activities. . . . .	126,128	-	102,627	228,755
Debt service:				
Principal retirement . . . . .	9,987	125,000	31,657	166,644
Interest and fiscal charges . . . . .	719	100,403	11,993	113,115
Total expenditures . . . . .	<u>8,699,778</u>	<u>231,051</u>	<u>1,301,272</u>	<u>10,232,101</u>
Excess of revenues over (under) expenditures . . . . .	<u>(47,400)</u>	<u>26,257</u>	<u>(43,971)</u>	<u>(65,114)</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	-	-	180,000	180,000
Transfers (out). . . . .	<u>(180,000)</u>	<u>-</u>	<u>-</u>	<u>(180,000)</u>
Total other financing sources (uses) . . . . .	<u>(180,000)</u>	<u>-</u>	<u>180,000</u>	<u>-</u>
Net change in fund balances . . . . .	(227,400)	26,257	136,029	(65,114)
<b>Fund balance at beginning of year . . . . .</b>	<u>459,928</u>	<u>400,797</u>	<u>174,486</u>	<u>1,035,211</u>
<b>Fund balance at end of year . . . . .</b>	<u>\$ 232,528</u>	<u>\$ 427,054</u>	<u>\$ 310,515</u>	<u>\$ 970,097</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

<b>Net change in fund balances - total governmental funds</b>	\$	(65,114)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Additions	\$ 431,315	
Depreciation expense	(683,978)	
Total		(252,663)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	8,981	
Intergovernmental	(42,452)	
Total		(33,471)
 Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		166,644
 In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due. The following items resulted in additional interest being recorded in the statement of activities:		
Accrued interest payable	563	
Accreted interest	(50,297)	
Amortization of deferred charges	(6,724)	
Amortization of bond premium	10,820	
Amortization of bond issuance costs	(4,498)	
Total		(50,136)
 Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		18,365
 The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		(108,588)
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>(324,963)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 1,593,041	\$ 1,569,000	\$ 1,539,017	\$ (29,983)
Tuition. . . . .	290,382	286,000	343,438	57,438
Earnings on investments. . . . .	30,460	30,000	7,774	(22,226)
Other local revenues . . . . .	124,885	123,000	91,585	(31,415)
Intergovernmental - State . . . . .	6,516,338	6,418,000	6,649,460	231,460
Total revenue . . . . .	<u>8,555,106</u>	<u>8,426,000</u>	<u>8,631,274</u>	<u>205,274</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	3,048,872	3,085,893	3,085,893	-
Special. . . . .	761,205	770,448	770,448	-
Vocational. . . . .	240,602	243,523	243,523	-
Other. . . . .	1,320	1,336	1,336	-
Support services:				
Pupil. . . . .	333,443	337,492	337,492	-
Instructional staff . . . . .	165,032	167,036	167,036	-
Board of education . . . . .	1,265,851	1,281,222	1,278,653	2,569
Administration. . . . .	686,353	694,687	694,585	102
Fiscal . . . . .	214,893	217,502	217,502	-
Business . . . . .	49,372	49,972	49,972	-
Operations and maintenance. . . . .	775,725	785,144	782,899	2,245
Pupil transportation . . . . .	894,105	904,962	904,962	-
Extracurricular activities. . . . .	125,082	126,601	126,601	-
Total expenditures . . . . .	<u>8,561,855</u>	<u>8,665,818</u>	<u>8,660,902</u>	<u>4,916</u>
Excess of expenditures over revenues. . . . .	<u>(6,749)</u>	<u>(239,818)</u>	<u>(29,628)</u>	<u>210,190</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure. . . . .	5,076	5,000	2,954	(2,046)
Transfers (out) . . . . .	(177,841)	(180,000)	(180,000)	-
Advances in. . . . .	25,383	25,000	20,569	(4,431)
Advances (out) . . . . .	(82,946)	(83,953)	(83,953)	-
Total other financing sources (uses) . . . . .	<u>(230,328)</u>	<u>(233,953)</u>	<u>(240,430)</u>	<u>(6,477)</u>
Net change in fund balance . . . . .	(237,077)	(473,771)	(270,058)	203,713
<b>Fund balance at beginning of year. . . . .</b>	1,098,525	1,098,525	1,098,525	-
<b>Prior year encumbrances appropriated . . . . .</b>	17,928	17,928	17,928	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 879,376</u>	<u>\$ 642,682</u>	<u>\$ 846,395</u>	<u>\$ 203,713</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2009

	<b>Governmental Activities - Internal Service Fund</b>
<b>Liabilities:</b>	
Due to other funds . . . . .	\$ 160,452
Claims payable . . . . .	<u>148,491</u>
 Total liabilities . . . . .	 <u>308,943</u>
 <b>Net assets:</b>	
Unrestricted (deficit) . . . . .	<u>(308,943)</u>
 Total net assets (deficit) . . . . .	 <u><u>\$ (308,943)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Charges for services. . . . .	<u>\$ 1,870,732</u>
Total operating revenues . . . . .	<u>1,870,732</u>
<b>Operating expenses:</b>	
Purchased services . . . . .	224,111
Claims . . . . .	<u>1,756,989</u>
Total operating expenses . . . . .	<u>1,981,100</u>
Operating loss . . . . .	<u>(110,368)</u>
<b>Nonoperating revenues:</b>	
Interest revenue . . . . .	<u>1,780</u>
Total nonoperating revenues . . . . .	<u>1,780</u>
Change in net assets. . . . .	(108,588)
<b>Net assets (deficit) at beginning of year. . .</b>	<u>(200,355)</u>
<b>Net assets (deficit) at end of year . . . . .</b>	<u><u>\$ (308,943)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services . . . . .	\$ 1,870,732
Cash payments for purchased services . . . . .	(224,111)
Cash payments for claims. . . . .	<u>(1,687,203)</u>
Net cash used in operating activities . . . . .	<u>(40,582)</u>
<b>Cash flows from noncapital financing activities:</b>	
Cash received from interfund loans . . . . .	160,452
Cash payments for interfund loans. . . . .	<u>(121,650)</u>
Net cash provided by noncapital financing activities . . . . .	<u>38,802</u>
<b>Cash flows from investing activities:</b>	
Interest received. . . . .	<u>1,780</u>
Net cash provided by investing activities . . . . .	<u>1,780</u>
Net increase in cash and cash equivalents . . . . .	-
<b>Cash with fiscal agent at beginning of year . . . . .</b>	<u>-</u>
<b>Cash with fiscal agent at end of year. . . . .</b>	<u><u>\$ -</u></u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss. . . . .	\$ (110,368)
Changes in assets and liabilities:	
Increase in claims payable . . . . .	<u>69,786</u>
Net cash used in operating activities . . . . .	<u><u>\$ (40,582)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2009

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 30,289
Total assets. . . . .	<u>\$ 30,289</u>
<b>Liabilities:</b>	
Due to students . . . . .	\$ 30,289
Total liabilities . . . . .	<u>\$ 30,289</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

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

The District ranks as the 513<sup>th</sup> largest by total enrollment among the 922 public school districts and community schools in the State. The District operates under a locally-elected five-member Board form of government. Each member is elected to a four-year term. The District provides educational services as authorized by its charter and further mandated by State and/or Federal agencies. The Board of Education controls the District's 4 instructional/support facilities staffed by 41 classified employees and 73 certified employees who provide services to 889 students and other community members.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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

*JOINTLY GOVERNED ORGANIZATIONS*

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

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

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

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

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

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

Lincoln Way Special Education Regional Resource Center (LWSERRC)

LWSERRC is a special education regional resource center, which selects its own Board, adopts its own budget and receives direct federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

LWSERRC is governed by a Governing Board of 5 members made up of representatives from each of the local participating school districts. LWSERRC serves 5 local school districts as well as 6 non-local school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Salem City School District, 1226 East State Street, Salem, Ohio 44460.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

*PUBLIC ENTITY RISK POOL*

Ohio Association of School Business Officials

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

*INSURANCE PURCHASING POOL*

Ohio Mid-Eastern Regional Education Services Agency

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; (b) grants and other resources whose use is restricted to a particular purpose; and (c) food service operations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

*PROPRIETARY FUNDS*

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

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

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation and Measurement Focus**

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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

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

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

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

**D. Basis of Accounting**

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2009, but which were levied to finance fiscal year 2010 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period, including delinquent property taxes due at June 30, 2009, are recorded as deferred revenue.

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

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

**E. Budgets**

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2009 is as follows:

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificates of estimated resources issued for fiscal year 2009.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary comparison statements at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2009, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

**F. Cash and Investments**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

The District has invested funds in STAR Ohio during fiscal year 2009. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2009.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2009 amounted to \$7,774, which includes \$3,301 assigned from other funds.

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

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

**G. Inventory**

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

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

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2009, the District maintained its capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

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

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

**I. Interfund Balances**

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund loans receivable/payable”. On the fund financial statements, the amount payable to the general fund to cover a deficit cash balance in the internal service fund is classified as “due to/from other funds”. These amounts are eliminated in the governmental activities column on the statement of net assets.

**J. Compensated Absences**

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

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

The total liability for vacation and sick leave has been calculated using pay rates in effect at June 30, 2009 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

**K. Accrued Liabilities and Long-Term Obligations**

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

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

**L. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a 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 equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, BWC refunds, debt service and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

**M. Net Assets**

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

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

**N. Prepayments**

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

**O. Estimates**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

**P. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish reserves for BWC refunds. These reserves are required by State statute. A schedule of statutory reserves is presented in Note 17.

**Q. Interfund Activity**

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2009, the District had no extraordinary or special items.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2009, the District has implemented GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments", GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of GASB Statement No. 49 did not have an effect on the financial statements of the District.

GASB Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. The implementation of GASB Statement No. 52 did not have an effect on the financial statements of the District.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The implementation of GASB Statement No. 55 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

GASB Statement No. 56 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The implementation of GASB Statement No. 56 did not have an effect on the financial statements of the District.

**B. Deficit Fund Balances/Net Assets**

Fund balances/net assets at June 30, 2009 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Food service	\$ 10,267
Ohio reads	381
Poverty aid	3,192
Education stabilization	4,572
Title VI	2
<u>Proprietary fund</u>	
Internal service fund	\$ 308,943

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances/net assets are the result of adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

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

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

**A. Deposits with Financial Institutions**

At June 30, 2009, the carrying amount of all District deposits was \$1,391,081. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", \$1,394,387 of the District's bank balance of \$1,646,387 was exposed to custodial risk as discussed below, while \$252,000 was covered by the FDIC.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

**B. Investments**

As of June 30, 2009, the District had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	\$ <u>121,332</u>	\$ <u>121,332</u>

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2009:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ <u>121,332</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2009:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,391,081
Investments	<u>121,332</u>
Total	<u>\$ 1,512,413</u>

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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 1,482,124
Agency fund	<u>30,289</u>
Total	<u>\$ 1,512,413</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund balances at June 30, 2009 as reported on the fund statements consist of the following individual interfund loans receivable and payable.

<u>Receivable fund</u>	<u>Payable funds</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 83,953</u>

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore no internal balances at June 30, 2009 are reported on the statement of net assets.

- B. Due to/from other funds at June 30, 2009 as reported on the fund statements, consist of the following amounts receivable/payable:

<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Amount</u>
General	Internal service fund	<u>\$ 160,452</u>

The primary purpose of the amount payable to other funds is to cover a cash deficit in the internal service fund. This interfund balance will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds and the internal service fund are eliminated on the government-wide financial statements; therefore no internal balances at June 30, 2009 are reported on the statement of net assets.

- C. Interfund transfers for the year ended June 30, 2009, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:	<u>Amount</u>
General fund	<u>\$ 180,000</u>

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

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

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real property, public utility property and tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2009 represent the collection of calendar year 2008 taxes. Real property taxes received in calendar year 2009 were levied after April 1, 2008, on the assessed values as of January 1, 2008, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2009 represent the collection of calendar year 2008 taxes. Public utility real and tangible personal property taxes received in calendar year 2009 became a lien on December 31, 2007, were levied after April 1, 2008, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2009 (other than public utility property) represent the collection of calendar year 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2009 were levied after October 1, 2008, on the value as of December 31, 2008. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Columbiana, Jefferson and Carroll Counties. The County Auditors periodically advance to the Districts its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2009, are available to finance fiscal year 2009 operations. The amount available as an advance at June 30, 2009 was \$73,366 in the general fund, \$10,450 in the bond retirement fund and \$1,318 in the permanent improvement fund (a nonmajor governmental fund). These amounts are recorded as revenue. The amount available for advance at June 30, 2008 was \$60,627 in the general fund, \$8,635 in the bond retirement fund and \$1,065 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year end can vary based on the date the tax bills are sent.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 6 - PROPERTY TAXES - (Continued)**

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2009 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

The assessed values upon which the fiscal year 2009 taxes were collected are:

	2008 Second Half Collections		2009 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 74,444,580	89.91	\$ 75,877,290	92.40
Public utility personal	7,075,145	8.54	5,829,630	7.10
Tangible personal property	<u>1,282,830</u>	<u>1.55</u>	<u>409,674</u>	<u>0.50</u>
Total	<u>\$ 82,802,555</u>	<u>100.00</u>	<u>\$ 82,116,594</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$42.64		\$39.44

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2009 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental activities:**

Taxes	\$ 1,871,883
Accounts	460
Intergovernmental	<u>157,706</u>
Total	<u>\$ 2,030,049</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance <u>06/30/08</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/09</u>
<b>Governmental activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 84,670	\$ -	\$ -	\$ 84,670
Total capital assets, not being depreciated	<u>84,670</u>	<u>-</u>	<u>-</u>	<u>84,670</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	698,426	16,975	-	715,401
Buildings and improvements	16,246,880	167,021	-	16,413,901
Furniture and equipment	388,436	23,208	-	411,644
Infrastructure	139,856	-	-	139,856
Vehicles	669,246	224,111	-	893,357
Total capital assets, being depreciated	<u>18,142,844</u>	<u>431,315</u>	<u>-</u>	<u>18,574,159</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(203,667)	(39,098)	-	(242,765)
Buildings and improvements	(3,448,130)	(555,520)	-	(4,003,650)
Furniture and equipment	(234,970)	(23,311)	-	(258,281)
Infrastructure	(17,480)	(3,496)	-	(20,976)
Vehicles	(538,361)	(62,553)	-	(600,914)
Total accumulated depreciation	<u>(4,442,608)</u>	<u>(683,978)</u>	<u>-</u>	<u>(5,126,586)</u>
Governmental activities capital assets, net	<u>\$ 13,784,906</u>	<u>\$ (252,663)</u>	<u>\$ -</u>	<u>\$ 13,532,243</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 556,912
<u>Support services:</u>	
Instructional staff	6,969
Board of education	1,850
Operations and maintenance	42,474
Pupil transportation	64,363
Food service operations	6,844
Extracurricular activities	<u>4,566</u>
Total depreciation expense	<u>\$ 683,978</u>

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE**

- A.** In a prior year, the District entered into a capital lease for the acquisition of copiers. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term. At inception, the lease was accounted for as an other financing source and a capital outlay expenditure in the general fund. Capital lease payments have been reclassified and shown as debt service expenditures in the general fund. These expenditures will be reflected as function expenditures on a budgetary basis. The general capital assets acquired by this capital lease have been capitalized in the governmental activities on the statement of net assets in the amount of \$44,022, which is equal to the present value of the future minimum lease payments as of the date of their inception. Accumulated depreciation as of June 30, 2009 was \$30,814, leaving a current book value of \$13,208. A corresponding liability has been recorded in the governmental activities on the statement of net assets. Principal payments made during fiscal year 2009 totaled \$9,987.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2009.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2010	<u>\$ 3,569</u>
Total minimum lease payments	3,569
Less: amount representing interest	<u>(59)</u>
Present value of minimum lease payments	<u>\$ 3,510</u>

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

Capital assets consisting of building improvements have been capitalized in the amount of \$330,500. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2009 was \$66,100, leaving a current book value of \$264,400. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2009 totaled \$31,657 paid by the building fund, a nonmajor governmental fund.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2009.

Fiscal Year Ending June 30	Amount
2010	\$ 43,650
2011	43,650
2012	43,649
2013	43,649
2014	43,649
Total	218,247
Less: amount representing interest	(31,852)
Present value of minimum lease payments	\$ 186,395

**NOTE 10 - LONG-TERM OBLIGATIONS**

A. During fiscal year 2009, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding 06/30/08	Additions	Reductions	Balance Outstanding 06/30/09	Amounts Due in One Year
<b>Governmental activities:</b>					
General obligation bonds - Series 2001					
Current interest	\$ 100,000	\$ -	\$ (100,000)	\$ -	\$ -
Capital appreciation	35,000	-	-	35,000	19,335
Accreted interest	116,795	35,573	-	152,368	84,175
Refunding bonds - Series 2007					
Current interest	2,370,000	-	(25,000)	2,345,000	25,000
Capital appreciation	64,998	-	-	64,998	-
Accreted interest	10,176	14,724	-	24,900	-
Total general obligation bonds	2,696,969	50,297	(125,000)	2,622,266	128,510
Compensated absences	430,496	15,771	(26,674)	419,593	20,128
Capital lease obligation	13,497	-	(9,987)	3,510	3,510
Lease purchase obligation	218,052	-	(31,657)	186,395	33,398
Total	\$ 3,359,014	\$ 66,068	\$ (193,318)	3,231,764	\$ 185,546
Add: Unamortized premium on refunding				166,803	
Less: Unamortized deferred charge on refunding				(103,668)	
Total on statement of net assets				\$ 3,294,899	

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

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

*Series 2001 general obligation bonds:* On June 1, 2001, the District issued general obligation bonds to provide funds for renovations and additions to the existing junior-senior high school to house grades K-12, abandonment of the primary and intermediate school buildings, and demolition of the modular classrooms at the primary and junior-senior high school buildings (hereinafter called "Construction Project"). These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for on the statement of net assets. Payments of principal and interest relating to this bond are recorded as an expenditure in the bond retirement fund. The source of payment is derived from a current 3.71 mils bonded debt tax levy.

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC).

In conjunction with the 3.71 mils which support the bond issue, the District also passed in fiscal 2001 a .5 mil levy to ultimately fund the maintenance costs of the new facilities. Tax revenue from this levy has been reported in the nonmajor governmental funds.

This issue is comprised of both current interest bonds, par value \$3,057,000, and capital appreciation bonds, par value \$35,000. The interest rates on the current interest bonds range from 4.00% to 5.25%. The capital appreciation bonds mature on December 1, 2009 (stated interest 22.20%) and December 1, 2010 (stated interest 22.20%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$230,000. As of June 30, 2009, \$152,368 of accreted interest on the capital appreciation bonds has been included in long-term liabilities on the statement of net assets.

During fiscal year 2008, a portion of the Series 2001 general obligation bonds were refunded in the amount of \$2,465,000. The remaining balance of the Series 2001 current interest bonds matures December 1, 2010. Payments of principal and interest relating to these liabilities are recorded as expenditures in the bond retirement fund.

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

The refunding issue is comprised of both current interest bonds, par value \$2,400,000 and capital appreciation bonds par value \$64,998. The interest rates on the current interest bonds range from 3.75% - 4.35%. The capital appreciation bonds mature on December 1, 2016 and December 1, 2017 (stated interest rates 18.783%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds maturing December 1, 2016 and December 1, 2017 is \$375,000. Total accreted interest of \$24,900 has been included in the statement of net assets at June 30, 2009.

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

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

The reacquisition price exceeded the net carrying amount of the old debt by \$115,996. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

- B.** Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2009 are as follows:

Fiscal Year Ending June 30	Capital Appreciation Bonds - Series 2001		
	Principal	Interest	Total
2010	\$ 19,335	\$ 95,665	\$ 115,000
2011	15,665	99,335	115,000
Total	<u>\$ 35,000</u>	<u>\$ 195,000</u>	<u>\$ 230,000</u>

Fiscal Year Ending June 30	Current Interest Bonds - Series 2007			Capital Appreciation Bonds - Series 2007		
	Principal	Interest	Total	Principal	Interest	Total
2010	\$ 25,000	\$ 97,277	\$ 122,277	\$ -	\$ -	\$ -
2011	25,000	96,278	121,278	-	-	-
2012	150,000	92,777	242,777	-	-	-
2013	160,000	86,378	246,378	-	-	-
2014	165,000	79,471	244,471	-	-	-
2015 - 2019	530,000	317,466	847,466	64,998	310,002	375,000
2020 - 2024	1,050,000	163,283	1,213,283	-	-	-
2025	240,000	5,040	245,040	-	-	-
Total	<u>\$ 2,345,000</u>	<u>\$ 937,970</u>	<u>\$ 3,282,970</u>	<u>\$ 64,998</u>	<u>\$ 310,002</u>	<u>\$ 375,000</u>

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2009, are a voted debt margin of \$5,291,285 (including available funds of \$427,054) and an unvoted debt margin of \$81,214

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 11 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

Principals, teachers, aides, secretaries, bus drivers and cafeteria workers do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to the number of annual work days per contract plus 90 days, not to exceed 286 days for certified employees and 280 for non-certified employees. Upon retirement, certified employees are paid for one-fourth of their total sick leave accumulation, up to their maximum accumulation, and classified employees are paid for one-fourth of their total sick leave accumulation, up to their maximum accumulation.

**B. Life Insurance**

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

**NOTE 12 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. For fiscal year 2009, the District contracted with Nationwide Insurance for property, boiler and inland marine insurance. This risk policy has a \$1,000 deductible.

General liability is protected by The Nationwide Insurance Company with a \$1,000,000 single occurrence limit and \$5,000,000 aggregate and no deductible. Vehicles, including school buses, are covered by The Nationwide Insurance Company and hold a \$1,000 deductible for comprehensive and collision. There is a \$1,000,000 combined single limit of liability.

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

**B. Workers' Compensation Plan**

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 12 - RISK MANAGEMENT - (Continued)**

**C. Medical, Vision, Dental and Prescription Insurance**

Medical, vision, dental and prescription insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of several Districts within the Eastern Region, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. The claims liability of \$148,491 reported in the internal service fund at June 30, 2009, is based on an estimate provided by Professional Risk Management (the third party administrator) and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims.

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2009	\$ 78,705	\$ 1,756,989	\$ (1,687,203)	\$ 148,491
2008	80,541	1,662,078	(1,663,914)	78,705

**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Forms and Publications*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2009, 9.09 percent 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$82,777, \$82,996 and \$88,966, respectively; 45.90 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 13 - PENSION PLANS - (Continued)**

**B. State Teachers Retirement System of Ohio**

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2009, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008 and 2007 were \$416,403, \$404,420 and \$382,180, respectively; 84.36 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$3,252 made by the District and \$9,217 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2009, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2009, 4.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, the actuarially determined amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2009, 2008, and 2007 were \$55,528, \$51,060 and \$46,132, respectively; 45.90 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2009, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$6,830, \$5,980 and \$6,050, respectively; 45.90 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

**B. State Teachers Retirement System of Ohio**

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)**

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$32,031, \$31,109 and \$29,398, respectively; 84.36 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

<b>Net Change in Fund Balance</b>	
	<u>General fund</u>
Budget basis	\$ (270,058)
Net adjustment for revenue accruals	21,104
Net adjustment for expenditure accruals	(54,153)
Net adjustment for other financing sources and uses	60,430
Adjustment for encumbrances	<u>15,277</u>
GAAP basis	<u>\$ (227,400)</u>

**NOTE 16 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement 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 District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

**NOTE 17 - STATUTORY RESERVES**

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2009, the reserve activity was as follows:

	Textbooks Instructional/ <u>Materials</u>	Capital <u>Acquisition</u>	BWC <u>Refunds</u>
Set-aside balance as of June 30, 2008	\$ (389,795)	\$ 0	\$ 24,797
Current year set-aside requirement	155,138	155,138	-
Qualifying disbursements	<u>(120,305)</u>	<u>(346,685)</u>	<u>-</u>
Total	<u>\$ (354,962)</u>	<u>\$ (191,547)</u>	<u>\$ 24,797</u>
Balance carried forward to fiscal year 2010	<u>\$ (354,962)</u>	<u>\$ -</u>	<u>\$ -</u>
A schedule of the restricted assets at June 30, 2009 follows:			
Amounts restricted for BWC refund	<u>\$ 24,797</u>		
Total restricted assets	<u>\$ 24,797</u>		

The District had qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbooks/instructional materials reserve. These extra amounts may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to the next fiscal year. The capital acquisition reserve had current year qualifying disbursements in excess of current year set-aside requirement. This amount may not be carried forward to future years.

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SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY  
FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2009

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<b>U.S. Department OF Agriculture</b>				
<b><i>Passed Through Ohio Department of Education:</i></b>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	03-PU-09	10.550	\$47,227	\$47,227
Cash Assistance:				
School Breakfast Program	05-PU-09	10.553	59,315	59,315
National School Lunch Program	04-PU-09	10.555	183,084	183,084
Subtotal Cash Assistance			<u>242,399</u>	<u>242,399</u>
Total U.S., Department of Agriculture - Nutrition Cluster (Cash and Non-cash)			<u>289,626</u>	<u>289,626</u>
Total U.S. Department of Agriculture			<u><b>289,626</b></u>	<u><b>289,626</b></u>
<b>U.S. Department OF Education</b>				
<b><i>Passed Through Ohio Department of Education</i></b>				
Title I Grants to Local Educational Agencies	C1-S1-2008 C1-S1-2009	84.010	26,181 <u>242,101</u>	45,423 <u>243,042</u>
Total Title I			<u>268,282</u>	<u>288,465</u>
Title IV Part A Safe and Drug-Free Districts and Communities	DR-S1-2008 DR-S1-2009	84.186	2,416 <u>5,007</u>	1,183 <u>4,081</u>
Total Title IV Part A			<u>7,423</u>	<u>5,264</u>
Title V Grants for Innovative Programs	C2-S1-2008 C2-S1-2009	84.298	1,599 <u>1,049</u>	3,598 <u>1,049</u>
Total Title V			<u>2,648</u>	<u>4,647</u>
Title II Part D Education Technology Grant	TJ-S1-2008 TJ-S1-2009	84.318	2,395 <u>2,664</u>	2,395 <u>2,276</u>
Total Title II Part D			<u>5,059</u>	<u>4,671</u>
Title VI-B Grant		84.358	<u>22,046</u>	<u>5,390</u>
Total Title VI-B Grant			22,046	5,390
Title II Part A Improving Teacher Quality Grant	TR-S1-2008 TR-S1-2009	84.367	39,127 <u>38,749</u>	39,127 <u>33,918</u>
Total Title II Part A Grant			<u>77,876</u>	<u>73,045</u>
Total U.S. Department of Education			<u><b>383,334</b></u>	<u><b>381,482</b></u>
<b>Total Federal Awards</b>			<u><b>\$672,960</b></u>	<u><b>\$671,108</b></u>

*The accompanying notes are an integral part of this schedule.*

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2009**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Southern Local School District's (the District's) federal award programs' receipts and expenditures. The schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. The District reports commodities consumed on the Schedule at the fair value.



# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Columbiana County, (the District) as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

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

We noted certain matters that we reported to the District's management in a separate letter dated January 15, 2010.

### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item 2009-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 15, 2010.

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

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



**Mary Taylor, CPA**  
Auditor of State

January 15, 2010



# Mary Taylor, CPA

## Auditor of State

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of Southern Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2009. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

As described in finding 2009-002 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable costs applying to its Title I program. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Southern Local School District complied, in all material respects, with the requirements referred to above applying to its major federal program for the year ended June 30, 2009. In a separate letter to the District's management dated January 15, 2010, we reported another matter relating to federal compliance not requiring inclusion in this report.

### Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding number 2009-002 to be a significant deficiency.

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. We consider the significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs, finding 2009-002, to be a material weakness.

We also noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated January 15, 2010.

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

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



**Mary Taylor, CPA**  
Auditor of State

January 15, 2010

**SOUTHERN LOCAL SCHOOL DISTRICT**

**COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**OMB CIRCULAR A -133 § .505**

**JUNE 30, 2009**

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

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2009-001**

**Noncompliance Finding**

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

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

1. **Then and Now Certificate** – If no certificate is furnished as required, upon receipt of the Treasurer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

If the amount involved is less than \$3,000 the Treasurer may authorize payment through a Then and Now Certificate without affirmation of the Board of Education if such expenditure is otherwise valid.

2. **Blanket Certificate** – Treasurers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not be, limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line item appropriation in a specified fund upon certification of the Treasurer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket may be outstanding a particular time for any line item appropriation.

The District did not certify the amount against the applicable appropriation accounts for 19% of tested expenditures in fiscal year 2009. The District did not utilize the certification exceptions described above for those expenditures lacking prior certification.

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

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

**Officials' Response:**

The Treasurer will make every attempt to correct this procedure.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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**Noncompliance Finding/Material Weakness/Questioned Cost**

<b>Finding Number</b>	2009-002
<b>CFDA Title and Number</b>	CFDA# 84.010 Title I Grants to Local Educational Agencies
<b>Federal Award Number / Year</b>	2009
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**2 CFR Part 225 Appendix B Section 8h(3)** states that an employee who works solely on a single federal award or cost objective, must furnish a semi-annual certification that he/she has engaged solely in activities of that single federal award of cost objective. The certifications must be signed by the employee or a supervisory official having first-hand knowledge of the work performed by the employee.

Three employees, who worked solely on the Title I federal program, did not sign semi-annual certifications. The coordinator of the Title I federal program should establish specific procedures by which each employee working solely on a single federal award program will sign the semi-annual certifications on a timely basis.

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

Three employees, who worked on multiple federal programs and were partially paid with Title I monies, did not complete time and effort reports. Failure to maintain the time and effort logs, as required, has resulted in questioned costs in the amount of \$29,430.95 for that portion of the salaries paid with Title I monies. The coordinator of the Title I federal program should establish specific procedures by which each employee working on multiple activities or multiple federal programs will complete time and effort logs on a timely basis.

The semi annual certifications and time and effort logs should be an "after the fact" representation of the hours worked. Therefore, these should be completed in a reasonably short time after the end of the period the log or certification is meant to cover. All certifications and time and effort logs should be full disclosure of the facts and should include credible signatures.

**Officials' Response:**

Title teachers are completing time sheets for the 2009-2010 school year.

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**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2008-001	Ohio Revised Code Section 5705.41(D) Disbursements were not properly certified.	No	Repeated as Finding Number 2009-001.

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Southern Local School District (the District) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on March 17, 1992 and revised the policy on January 9, 2006.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
  - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
  - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
  - (3) A procedure for reporting prohibited incidents;
  - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
  - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
  - (6) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
  - (7) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
  - (8) A procedure for reporting prohibited incidents;

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- (9) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
- (10) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

January 15, 2010



**Mary Taylor, CPA**  
Auditor of State

**SOUTHERN LOCAL SCHOOL DISTRICT**

**COLUMBIANA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 6, 2010**