



OHIO AUDITOR OF STATE
KEITH FABER



**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY
JUNE 30, 2018**

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**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY
JUNE 30, 2018**

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INDEPENDENT AUDITOR'S REPORT

Southern Local School District
Perry County
10390 State Route 155 SE
Corning, Ohio 43730-9710

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Local School District, Perry County, Ohio (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

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www.ohioauditor.gov

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Local School District, Perry County, Ohio, as of June 30, 2018, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof, for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplementary Information

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

We applied no procedures to management's discussion & analysis as listed in the Table of Contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2019, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Keith Faber
Auditor of State
Columbus, Ohio

March 12, 2019

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Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

The discussion and analysis of 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, 2018, within the limitations of the District's cash basis of accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

HIGHLIGHTS

Key financial highlights for the fiscal year 2018 are as follows:

- Net position of governmental activities increased \$394,468.
- General cash receipts accounted for \$9,164,736 or 77% of all cash receipts. Program cash receipts in the form of charges for services and sales, grants, and contributions, accounted for \$2,749,768 or 23% of total cash receipts of \$11,914,504.
- The District had \$11,520,036 in cash disbursements related to governmental activities; only \$2,749,768 of these cash disbursements were offset by program specific charges for services and sales, grants, and contributions.

USING THE BASIC FINANCIAL STATEMENTS

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

REPORT COMPONENTS

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

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

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

BASIS OF ACCOUNTING

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

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

Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

REPORTING THE DISTRICT AS A WHOLE

Statement of Net Position and Statement of Activities

The statement of net position and the statement of activities reflect how the District did financially during 2018, within the limitations of the cash basis of accounting. The statement of net position presents the cash balances and investments of the governmental activities of the District at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the District's general receipts.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds – not the District as a whole. 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 the School Facilities Project Capital Projects Funds.

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 fiscal year end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be spent in the near future to finance educational programs.

Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

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

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The District's fiduciary funds are an agency fund which is used to maintain financial activity of the District's Student Managed Activities and a private purpose trust fund which is used to maintain the financial activity of the District's scholarship funds. Agency funds are custodial in nature (assets equal net position) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements. 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 AS A WHOLE

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position for 2018 compared to 2017.

Table 1
Net Position

	Governmental Activities	
	2018	2017
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 4,459,918	\$ 4,065,450
Total Assets	4,459,918	4,065,450
Net Position		
Restricted	1,366,659	1,517,816
Unrestricted	3,093,259	2,547,634
Total Net Position	\$ 4,459,918	\$ 4,065,450

Total assets of the District increased in the amount of \$394,468. This increase is due to cash receipts exceeding cash disbursements, which will be further discussed under Table 2 on the following page.

Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

Table 2 shows the changes in net position for the fiscal year ended June 30, 2018 as compared to 2017.

Table 2
Changes in Net Position

	Governmental Activities	
	2018	2017
Cash Receipts		
Program Cash Receipts		
Charges for Services and Sales	\$ 374,332	\$ 325,286
Operating Grants and Contributions	2,375,436	2,735,566
Total Program Cash Receipts	<u>2,749,768</u>	<u>3,060,852</u>
General Cash Receipts		
Property Taxes	1,167,108	1,056,224
Grants and Entitlements, Not Restricted	7,724,398	7,472,439
Interest	13,206	11,976
Gifts and Donations, Not Restricted	3,500	21,193
Miscellaneous	256,524	217,165
Total General Cash Receipts	<u>9,164,736</u>	<u>8,778,997</u>
Total Cash Receipts	<u>11,914,504</u>	<u>11,839,849</u>
Program Cash Disbursements		
Instruction:		
Regular	4,065,986	3,755,897
Special	2,154,778	2,192,358
Vocational	162,461	167,496
Support Services:		
Pupils	309,069	400,252
Instructional Staff	151,373	237,497
Board of Education	82,198	67,438
Administration	897,721	867,788
Fiscal	245,929	259,593
Operation and Maintenance of Plant	981,366	703,394
Pupil Transportation	673,090	668,851
Central	102,680	113,816
Operation of Non-Instructional Services	506,586	490,737
Extracurricular Activities	244,965	257,561
Capital Outlay	616,012	2,054,688
Principal Retirement	218,346	214,260
Interest and Fiscal Charges	107,476	118,857
Total Cash Disbursements	<u>11,520,036</u>	<u>12,570,483</u>
Changes in Net Position	394,468	(730,634)
Net Position, Beginning of Year	4,065,450	4,796,084
Net Position, End of Year	<u>\$ 4,459,918</u>	<u>\$ 4,065,450</u>

Cash receipts increased \$74,655. The increase is primarily due to increases in grants and entitlements, not restricted due to additional foundation monies received, which was partially offset by a decrease in operating grants and contributions due to decreases in miscellaneous federal grants.

Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

Cash disbursements decreased \$1,050,447 which was mainly caused by a decrease to capital outlay. This decrease is due to the District's construction projects related to a building roof, HVAC units, and lighting projects which were completed mostly in 2017. The increase to grants and entitlements, not restricted is due to additional foundation monies for Capacity Aid. Regular instruction increased due to increased excess costs and tuition and health insurance premiums. Operation and maintenance of plant increased due to increases in classroom facilities maintenance disbursements.

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

Table 3
 Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	2018	2018	2017	2017
Program Cash Disbursements				
Instruction:				
Regular	\$ 4,065,986	\$ 3,921,432	\$ 3,755,897	\$ 3,650,271
Special	2,154,778	753,766	2,192,358	550,312
Vocational	162,461	92,453	167,496	99,981
Support Services:				
Pupils	309,069	237,928	400,252	277,961
Instructional Staff	151,373	37,356	237,497	16,110
Board of Education	82,198	79,277	67,438	65,575
Administration	897,721	741,216	867,788	691,921
Fiscal	245,929	237,221	259,593	252,948
Operation and Maintenance of Plant	981,366	752,271	703,394	673,459
Pupil Transportation	673,090	640,289	668,851	642,976
Central	102,680	99,031	113,816	110,671
Operation of Non-Instructional Services	506,586	85,308	490,737	(567)
Extracurricular Activities	244,965	150,886	257,561	90,208
Capital Outlay	616,012	616,012	2,054,688	2,054,688
Principal Retirement	218,346	218,346	214,260	214,260
Interest and Fiscal Charges	107,476	107,476	118,857	118,857
Total	<u>\$ 11,520,036</u>	<u>\$ 8,770,268</u>	<u>\$ 12,570,483</u>	<u>\$ 9,509,631</u>

Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

THE DISTRICT FUNDS

The District's governmental funds are accounted for using the cash basis of accounting. All governmental funds had total cash receipts and other financing sources of \$12,454,933 and cash disbursements and other financing uses of \$12,062,856.

For the General Fund, cash receipts and other financing sources increased \$478,768 and cash disbursements and other financing uses increased \$450,073 from the prior year. The most significant change in revenue was to intergovernmental revenue. The increase to intergovernmental revenue is due to additional foundation monies received for economically disadvantaged funding and capacity aid.

The most significant increase in disbursements and other financing uses was for regular instruction and operation and maintenance of plant.

The School Facilities Project Fund had an increase in fund balance of \$304,064 due to a transfer from the General Fund, which was partially offset by principal and interest payment.

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 2018, there were revisions to the General Fund budget. The final budget cash receipts of \$10,293,270 increased \$599,570 from original cash receipts. This increase is due to an increase in intergovernmental revenues. Actual cash receipts of \$10,294,150 were \$880 more than the final estimate.

Final budget cash disbursements of \$12,702,099 increased \$599,581 from original budgeted cash disbursements. Actual cash disbursements of \$9,905,366 were \$2,796,733 less than the final estimate due to a significantly less amount of transfers out of the General Fund needed by the District than was budgeted. The General fund's ending unobligated cash balance was \$2,798,089.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements. The District had \$616,012 in capital outlay disbursements during 2018.

Debt

Under the cash basis of accounting the District does not report bonds or long-term notes in the accompanying cash basis financial statements. However, in order to provide information to the readers of this report, we are providing the following detailed information about bonds and long-term notes. At June 30, 2018 the District had \$2,670,017 in long term obligations outstanding. For additional information regarding debt, please see Note 6 to the basic financial statements.

Southern Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

Table 4 summarizes long term obligations outstanding for Governmental Activities for the past two years:

Table 4
Outstanding Long Term Obligations at June 30
Governmental Activities

	<u>2018</u>	<u>2017</u>
Lease Purchase Financing	\$2,055,000	\$2,180,000
Capital Lease	16,253	31,341
School Facilities Improvement Notes	68,442	80,564
Energy Conservation Improvement Notes	<u>530,322</u>	<u>596,458</u>
Totals	<u>\$2,670,017</u>	<u>\$2,888,363</u>

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 any questions about this report or need additional financial information, contact Jeff Kaaz, Treasurer at Southern Local School District, 10397 State Route 155 SE, Corning, Ohio 43730.

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Southern Local School District
Statement of Net Position - Cash Basis
June 30, 2018

	<u>Governmental Activities</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 4,459,918</u>
<i>Total Assets</i>	<u>4,459,918</u>
NET POSITION:	
Restricted for Debt Service	144,156
Restricted for Capital Outlay	1,156,232
Restricted for Classroom Maintenance	19,013
Restricted for Other Purposes	47,258
Unrestricted	<u>3,093,259</u>
<i>Total Net Position</i>	<u><u>\$ 4,459,918</u></u>

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

Southern Local School District
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2018

	Program Cash Receipts			Net (Disbursements)
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Receipts and Changes in Net Position
			Governmental Activities	
Governmental Activities:				
Instruction:				
Regular	\$ 4,065,986	\$ 144,554	\$ -	\$ (3,921,432)
Special	2,154,778	52,718	1,348,294	(753,766)
Vocational	162,461	5,774	64,234	(92,453)
Support Services:				
Pupils	309,069	8,141	63,000	(237,928)
Instructional Staff	151,373	245	113,772	(37,356)
Board of Education	82,198	2,921	-	(79,277)
Administration	897,721	26,016	130,489	(741,216)
Fiscal	245,929	8,708	-	(237,221)
Operation and Maintenance of Plant	981,366	25,715	203,380	(752,271)
Pupil Transportation	673,090	23,502	9,299	(640,289)
Central	102,680	3,649	-	(99,031)
Operation of Non-Instructional Services	506,586	22,342	398,936	(85,308)
Extracurricular Activities	244,965	50,047	44,032	(150,886)
Capital Outlay	616,012	-	-	(616,012)
Debt Service:				
Principal Retirement	218,346	-	-	(218,346)
Interest and Fiscal Charges	107,476	-	-	(107,476)
Total Governmental Activities	<u>\$ 11,520,036</u>	<u>\$ 374,332</u>	<u>\$ 2,375,436</u>	(8,770,268)
General Cash Receipts:				
Property Taxes Levied for:				
General Purposes				1,140,892
Debt Service				26,216
Grants and Entitlements, Not Restricted to Specific Programs				7,724,398
Gifts and Donations, Not Restricted to Specific Programs				3,500
Interest				13,206
Miscellaneous				256,524
Total General Cash Receipts				<u>9,164,736</u>
Change in Net Position				394,468
Net Position Beginning of Year				<u>4,065,450</u>
Net Position End of Year				<u>\$ 4,459,918</u>

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

Southern Local School District
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2018

	<u>General</u>	<u>School Facilities Project</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:				
Equity in Pooled Cash and Cash Equivalents	\$ 3,095,809	\$ 1,106,670	\$ 149,665	\$ 4,352,144
<i>Total Assets</i>	<u>\$ 3,095,809</u>	<u>\$ 1,106,670</u>	<u>\$ 149,665</u>	<u>\$ 4,352,144</u>
FUND BALANCES:				
Nonspendable	\$ 8,107	\$ -	\$ -	\$ 8,107
Restricted	-	-	259,989	259,989
Committed	-	1,106,670	-	1,106,670
Assigned	3,063,984	-	-	3,063,984
Unassigned	23,718	-	(110,324)	(86,606)
<i>Total Fund Balances</i>	<u>\$ 3,095,809</u>	<u>\$ 1,106,670</u>	<u>\$ 149,665</u>	<u>\$ 4,352,144</u>

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

Southern Local School District
*Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2018*

Total Governmental Fund Balances \$ 4,352,144

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

An internal service fund is used by management to account for their self-insurance program for employee dental and vision claims. The cash basis assets of the internal service fund are included in governmental activities in the statement of net position.

107,774

Net Position of Governmental Activities \$ 4,459,918

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

Southern Local School District
Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2018

	General	School Facilities Project	All Other Governmental Funds	Total Governmental Funds
CASH RECEIPTS:				
Property Taxes	\$ 1,140,892	\$ -	\$ 26,216	\$ 1,167,108
Intergovernmental	8,603,246	-	1,496,088	10,099,334
Interest	12,895	-	311	13,206
Tuition and Fees	294,352	-	-	294,352
Extracurricular Activities	14,310	-	43,328	57,638
Gifts and Donations	3,500	-	500	4,000
Customer Sales and Services	-	-	22,342	22,342
Miscellaneous	248,810	-	7,714	256,524
<i>Total Cash Receipts</i>	<u>10,318,005</u>	<u>-</u>	<u>1,596,499</u>	<u>11,914,504</u>
CASH DISBURSEMENTS:				
Current:				
Instruction:				
Regular	4,067,270	-	-	4,067,270
Special	1,483,336	-	672,122	2,155,458
Vocational	162,461	-	-	162,461
Support Services:				
Pupils	229,069	-	80,000	309,069
Instructional Staff	6,900	-	144,473	151,373
Board of Education	82,198	-	-	82,198
Administration	732,020	-	165,701	897,721
Fiscal	245,022	-	907	245,929
Operation and Maintenance of Plant	723,533	-	258,260	981,793
Pupil Transportation	661,282	-	11,808	673,090
Central	102,680	-	-	102,680
Operation of Non-Instructional Services	-	-	506,586	506,586
Extracurricular Activities	189,051	-	55,914	244,965
Capital Outlay	355,371	-	260,641	616,012
Debt Service:				
Principal Retirement	81,224	125,000	12,122	218,346
Interest and Fiscal Charges	32,662	70,936	3,878	107,476
<i>Total Cash Disbursements</i>	<u>9,154,079</u>	<u>195,936</u>	<u>2,172,412</u>	<u>11,522,427</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>1,163,926</u>	<u>(195,936)</u>	<u>(575,913)</u>	<u>392,077</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	-	500,000	40,429	540,429
Transfers Out	(540,429)	-	-	(540,429)
<i>Total Other Financing Sources and Uses</i>	<u>(540,429)</u>	<u>500,000</u>	<u>40,429</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	623,497	304,064	(535,484)	392,077
<i>Fund Balances at Beginning of Year</i>	<u>2,472,312</u>	<u>802,606</u>	<u>685,149</u>	<u>3,960,067</u>
<i>Fund Balances at End of Year</i>	<u>\$ 3,095,809</u>	<u>\$ 1,106,670</u>	<u>\$ 149,665</u>	<u>\$ 4,352,144</u>

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

Southern Local School District
*Reconciliation of the Statement of Cash Receipts, Disbursements and Changes
in Fund Balances of Governmental Funds - Cash Basis to the Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2018*

Net Change in Fund Balances - Total Governmental Funds \$ 392,077

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

The internal service fund used by management to account for their self-insurance program for employee dental and vision claims is not reported in the government-wide statement of activities. Governmental fund disbursements and the related internal service fund receipts are eliminated. The net receipt (disbursement) of the internal service fund is allocated among the governmental activities.

2,391

Net Change in Net Position of Governmental Activities

\$ 394,468

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

Southern Local School District
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget (Budgetary Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
Total Cash Receipts and Other Financing Sources	\$ 9,693,700	\$ 10,293,270	\$ 10,294,150	\$ 880
Total Cash Disbursements and Other Financing Uses	12,102,518	12,702,099	9,905,366	2,796,733
Net Change in Fund Balance	(2,408,818)	(2,408,829)	388,784	2,797,613
Fund Balance at Beginning of Year	1,856,815	1,856,815	1,856,815	-
Prior Year Encumbrances Appropriated	552,490	552,490	552,490	-
Fund Balance at End of Year	\$ 487	\$ 476	\$ 2,798,089	\$ 2,797,613

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

Southern Local School District
Statement of Net Position - Cash Basis
Governmental Activities - Internal Service Fund
June 30, 2018

	<u>Internal Service</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 107,774</u>
<i>Total Assets</i>	<u>107,774</u>
NET POSITION:	
Unrestricted	<u>107,774</u>
<i>Total Net Position</i>	<u><u>\$ 107,774</u></u>

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

Southern Local School District
Statement of Cash Receipts, Disbursements and Changes in Fund Net Position - Cash Basis
Governmental Activities - Internal Service Fund
For the Fiscal Year Ended June 30, 2018

	Internal Service
OPERATING RECEIPTS:	
Charges for Services	\$ 9,851
<i>Total Operating Receipts</i>	9,851
OPERATING DISBURSEMENTS:	
Purchased Services	1,340
Claims	6,120
<i>Total Operating Disbursements</i>	7,460
<i>Change in Net Position</i>	2,391
<i>Net Position at Beginning of Year</i>	105,383
<i>Net Position at End of Year</i>	\$ 107,774

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

Southern Local School District
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2018

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	\$ 7,118	\$ 37,342
<i>Total Assets</i>	<u>7,118</u>	<u>37,342</u>
NET POSITION:		
Held in Trust for Scholarships	7,118	-
Unrestricted	<u>-</u>	<u>37,342</u>
<i>Total Net Position</i>	<u><u>\$ 7,118</u></u>	<u><u>\$ 37,342</u></u>

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

Southern Local School District
Statement of Changes in Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2018

	<u>Private Purpose Trust Funds</u>
ADDITIONS:	
Gifts and Contributions	<u>\$ 5,618</u>
Total Additions	5,618
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>-</u>
Change in Net Position	5,618
Net Position Beginning of Year	<u>1,500</u>
Net Position End of Year	<u><u>\$ 7,118</u></u>

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

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Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

1. DESCRIPTION OF THE ENTITY

The Southern Local School District, Perry County (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 is a local school district as defined by Ohio Revised Code Section 3311.03. The District operates under an elected Board of Education (five members) and is responsible for the provision of public education to residents of the District. Average daily membership (ADM) was 643. The District employed 59 certificated employees/administrators and 41 non-certificated employees/administrators.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the District 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.

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 organizations' 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 organizations' resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or 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. There are no component units of the District.

The District is associated with the Metropolitan Educational Technology Association (META) Solutions and the Coalition of Rural and Appalachian Schools, which are defined as jointly governed organizations, the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool. The organizations are presented in Notes 11 and 12, respectively.

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

- Tri-County Career Center
- Athens-Meigs Educational Service Center

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental 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 purpose for which they may or must be used. Cash disbursements are assigned to the fund from which they are paid. The following are the District's major governmental funds:

General Fund

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

School Facilities Project Fund

This fund accounts for the receipts and expenditures for one or more capital projects.

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

Proprietary Fund Type

Proprietary fund reporting focuses on the determination of operating cash receipts over/(under) cash disbursements, changes in net position, and cash basis financial position. Proprietary funds are classified as enterprise or internal service; the District has no enterprise funds.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The District's fiduciary funds are an agency fund and a private purpose trust fund. 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. Agency funds are custodial in nature (assets equal net position) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

The District's agency fund is used to maintain financial activity of the District's student managed activities, and its private purpose trust fund is used to maintain the financial activity of the District's scholarship funds.

Basis of Presentation

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

Government-wide Financial Statements

The statement of net position 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.

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

Fund Financial Statements

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

Cash Receipts - Exchange and Non-exchange Transactions

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

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cash Disbursements

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

Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement are based on estimates made before the end of the prior fiscal year. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed by the Board.

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

Operating Receipts and Disbursements

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

Cash and Cash Equivalents and Investments

Cash and cash equivalents consist of the total of fund cash balances of all funds as of June 30, 2018. Individual fund balance integrity is maintained through the District's records. Balances of all funds are maintained in these accounts or are temporarily used to purchase certificates of deposit or investments. All interest receipts are reported in the General Fund except those specifically related to those funds deemed appropriate according to School Board policy. For fiscal year 2018, interest receipts amounted to \$13,206 of which \$12,895 was recorded in the General Fund and \$311 was recorded in the Building Project Construction Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation

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

Compensated Absences

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

Long-Term Obligations

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

Net Position

Net cash position represents the cash assets held by the District at year end. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted for Other Purposes is comprised of net position restricted for state and federal programs. The District applies restricted resources when a cash disbursement is made for purposes for which both restricted and unrestricted net position is available. As of June 30, 2018, of the District's \$1,366,659 in restricted net position, none was restricted by enabling legislation.

Fund Balance

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

Nonspendable The nonspendable fund balance classification includes amounts that cannot be spent because they are not in the spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

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

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

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assigned Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by policies of the District Board of Education. State statute authorizes the District's Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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

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

Interfund Transactions

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

Flows of cash from one fund to another with a requirement for repayment are reported as advances in and out. Advances between governmental activities are eliminated in the statement of activities. The District had no advances during the fiscal year.

Pensions and Other Post-Employment Benefits (OPEB)

For purposes of measuring the net pension liability and the net OPEB liability, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB systems report investments at fair value.

3. 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 District 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.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

3. DEPOSITS AND INVESTMENTS (Continued)

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 bills, bonds, notes, or other obligations of or securities issued by the United States Treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or 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, and Government National Mortgage 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; and with certain limitations, bonds and other obligations of political subdivisions of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met."

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits: Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

3. DEPOSITS AND INVESTMENTS (Continued)

The District held no investments at June 30, 2018.

4. BUDGETARY BASIS FUND BALANCES

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The statement of cash receipts, disbursements and changes in fund balance - budget and actual (budgetary basis) presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The following table summarized the adjustments necessary to reconcile the cash basis and the budgetary basis statement for the General Fund:

Net Change in Fund Balance

	<u>General</u>
Cash Basis (as reported)	\$623,497
Perspective Difference:	
Activity of Funds Reclassified for Cash Reporting Purposes	27,563
Encumbrances	<u>(262,276)</u>
Budget Basis	<u>\$388,784</u>

5. PROPERTY TAX

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 and public utility (used in business) located in the District. Real property tax revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed value listed as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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 revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien on December 31, 2017, were levied after April 1, 2018, and are collected in 2018 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

5. PROPERTY TAX (Continued)

	2017 Second- Half Collections		2018 First- Half Collections	
	Amount	Percent	Amount	Percent
<u>Real Property</u>				
Resident/Agricultural	\$ 43,239,790	78.29%	\$ 49,748,040	78.99%
Commercial/Industrial	2,739,540	4.96%	3,429,150	5.44%
Public Utilities	146,670	0.27%	302,920	0.48%
Minerals	2,077,040	3.76%	2,028,190	3.22%
<u>Tangible Personal Property</u>				
Public Utilities	<u>7,023,450</u>	<u>12.72%</u>	<u>7,471,820</u>	<u>11.87%</u>
Total	<u>\$ 55,226,490</u>	<u>100.00%</u>	<u>\$ 62,980,120</u>	<u>100.00%</u>

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

6. DEBT OBLIGATIONS

Debt outstanding at June 30, 2018, consisted of the following:

Debt	Beginning Balance 6/30/2017	Additions	Payments	Ending Balance 6/30/2018	Due in One Year
Lease Purchase Financing Agreement, 3.35%	\$2,180,000	\$0	(\$125,000)	\$2,055,000	\$130,000
School Facilities Improvement Notes, 5.0%	80,564	0	(12,122)	68,442 0	12,735
Energy Conservation Improvement Notes, 4.5% to 5.5%	596,458	0	(66,136)	530,322	69,218
Capital Lease	31,341	0	(15,088)	16,253	14,972
Total	<u>2,888,363</u>	<u>0</u>	<u>(218,346)</u>	<u>2,670,017</u>	<u>226,925</u>

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

The Energy Conservation Improvement Notes were issued in the amount of \$998,947 in 2010 for the purpose of purchasing and installing energy conservation measures. The notes are direct obligations of the District for which its full faith, credit and resources are pledged. Payments are made from the General fund.

The Lease Purchase Financing Agreement was issued in the amount of \$2,300,000 in May 2016 for the purpose of constructing, enlarging, improving, furnishing and equipping of school facilities. Payments will be made from the School Facilities Project fund.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

6. DEBT OBLIGATIONS (Continued)

The annual requirements to amortize debt outstanding as of June 30, 2018 are as follows:

Year Ending June 30	School Facilities Improvement Notes		Energy Conservation Improvement Notes		Lease Purchase Financing Agreement	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$12,735	\$3,265	\$69,218	\$27,748	\$130,000	\$66,665
2020	13,380	2,620	72,765	23,878	130,000	62,310
2021	14,057	1,943	77,354	19,782	140,000	57,787
2022	14,769	1,231	81,870	15,432	140,000	53,097
2023	13,501	482	87,063	10,829	145,000	48,324
2024-2028	0	0	142,052	6,930	815,000	162,894
2029-2031	0	0	0	0	555,000	28,224
Total	\$68,442	\$9,541	\$530,322	\$104,599	\$2,055,000	\$479,301

The District's overall legal debt margin was \$5,213,601 with an unvoted debt margin of \$62,980 at June 30, 2018.

7. LEASE OBLIGATION

During previous fiscal years, the District entered into leases for security equipment and a new phone system. The leases are being paid from the General fund.

In a previous fiscal year, the District entered into leases for security equipment and the use of copiers. The leases are being paid from the General fund. The annual requirements to amortize the lease obligations outstanding as of June 30, 2018, are as follows:

Year Ending June 30	Amount
2019	\$ 15,444
2020	1,282
Total	16,726
Less: Amount Representing Interest	(473)
Present Value of Net Minimum Lease Payments	\$ 16,253

8. RISK MANAGEMENT

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. During the year ended June 30, 2018, the District contracted with the Liberty Mutual Insurance for property insurance and boiler and machinery coverage. Buildings and contents are 100 percent coinsured.

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

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

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

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

8. RISK MANAGEMENT (Continued)

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

A comparison of Self Insurance Fund Equity in Pooled Cash and Cash Equivalents to the actuarially-measured liability follows:

	2018	2017
Equity in Pooled Cash and Cash Equivalents	\$107,774	\$105,383
Estimated claims liabilities	\$415	\$518

9. DEFINED BENEFIT PENSION PLAN

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

Net Pension Liability/Net OPEB Liabilities

Pensions and OPEB are a component of exchange transactions between an employer and its employees of salaries and benefits for employee services. Pensions are provided to an employee on a deferred payment basis as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability and the net OPEB liability represents the District's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions/OPEB are financed; however, the District does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the pension amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

Since the District is using the cash basis of accounting, there is no accrued pension liability reported in the accompanying financial statements.

The remainder of this note includes the pension disclosures. See Note 10 for the OPEB disclosures.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

9. DEFINED BENEFIT PENSION PLAN (Continued)

Plan Description - Employees Retirement System (SERS)

Plan Description - District non-teaching employees participate in SERS, a cost-sharing multiple- employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, 13.5% was designated to pension, death benefits, and Medicare B. There was 0.5% allocated to the Health Care Fund for fiscal year 2018.

The District's contractually required contribution to SERS was \$134,880 for fiscal year 2016, \$139,334 for fiscal year 2017, and \$143,094 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at 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. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service.

9. DEFINED BENEFIT PENSION PLAN (Continued)

Plan Description - State Teachers Retirement System (STRS) (Continued)

Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until Aug. 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5% of the 14% employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, 12% of the 14% member rate goes to the DC Plan and the remaining 2% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC Plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS Ohio plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS Ohio bearing the risk of investment gain or loss on the account. STRS Ohio therefore has included all three plan options in the GASB 68 schedules of employer allocations and pension amounts by employer.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least 10 years of qualifying service credit to apply for disability 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 - Employer and member contribution rates are established by the Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory employer rate is 14% and the statutory member rate is 14% of covered payroll effective July 1, 2016. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS Ohio was \$486,216 for fiscal year 2016, \$470,532 for fiscal year 2017, and \$468,563 for fiscal year 2018.

Net Pension Liability

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

9. DEFINED BENEFIT PENSION PLAN (Continued)

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability - Current Year	0.0331704%	0.02846025%	
Proportionate Share of the Net Pension Liability - Prior Year	0.0334034%	0.03075935%	
Change in Proportionate Share Proportion of the Net Pension Liability	-0.0002330%	-0.00229910%	
	\$1,981,858	\$6,760,793	\$8,742,651

Actuarial Assumptions – SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Future Salary Increases, including inflation	3.50 percent to 18.20percent
COLA or Ad Hoc COLA	2.50 percent
Inflation	3.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Prior to 2017, an assumption of 3 percent was used for COLA or ad Hoc COLA.

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement. The most recent experience study was completed for the five-year period ended June 30, 2015.

Southern Local School District
Notes to the Basic Financial Statements
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9. DEFINED BENEFIT PENSION PLAN (Continued)

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Actuarial Assumptions - SERS

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Estate	15.00	5.00
Multi-Asset Strategy	10.00	3.00
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
School District's proportionate share of the net pension liability	\$2,750,304	\$1,981,858	\$1,338,128

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

9. DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions - STRS (Continued)

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP- 2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2017 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS Ohio's investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

9. DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions - STRS (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return*</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55 %
Alternatives	17.00	7.09 %
Fixed Income	21.00	3.00 %
Real Estate	10.00	6.00 %
Liquidity Reserves	1.00	2.25 %
Total	<u>100.00 %</u>	

* 10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS Ohio's investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.45% as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with the rates described previously. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS Ohio's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
School District's proportionate share of the net pension liability	\$9,691,367	\$6,760,793	\$4,292,224

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2018, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

10. POSTEMPLOYMENT BENEFITS

Net Other Post-Employment Benefits (OPEB) Liability

GASB Statement No. 75 (GASB 75) establishes accounting and financial reporting requirements for governmental employers who have other post-employment benefits (OPEB) plans.

The net OPEB liability is the portion of the actuarial present value of projected benefit payments related to past periods. The net OPEB liability for the employers is based on the allocation percentages from the Schedules of Employer Allocations for both SERS and STRS. GASB 75 replaces GASB 45, and represents a significant departure from the requirements of the prior statement. GASB 45 was issued as a "funding friendly" statement that required post-employment benefit plans other than pension plans (OPEB) to report items consistent with the results of the System's actuarial valuations, as long as those valuations met certain parameters. GASB 75 basically separates accounting from funding by creating disclosure and reporting requirements that may or may not be consistent with the basis used for funding the System. Two major changes in GASB 75 are the requirements to determine the Net OPEB Liability (NOL) and recognize an OPEB Expense (OE) in the financial statements of the participating employer.

The District reports on the cash basis of accounting, so there is no net OPEB liability recorded in the accompanying financial statements.

School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions.

10. POSTEMPLOYMENT BENEFITS (Continued)

School Employees Retirement System(Continued)

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2018, 2017, and 2016, the health care allocations were .5 percent, 0 percent, and 0 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the minimum compensation level was established at \$23,700. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2018 fiscal year equaled \$35,741, respectively, which equaled the required allocation.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending upon the plan selected, qualified years of service, Medicare eligibility, and retirement status. The financial reports of SERS' Health Care Plan are included in its *Comprehensive Annual Financial Report*. The report can be obtained on SERS' website at www.ohsers.org under *Employer/Audit Resources*.

State Teachers Retirement System of Ohio

Plan Description - The District participates in the cost-sharing multiple-employer defined benefit Health 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. Ohio law authorizes STRS to offer this plan. 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 can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 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 Health Care Plan. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

Net Other Post Employment Benefit (OPEB) Liability

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of net OPEB liability for the employers is based on the allocation percentages from the Schedules of Employer Allocations for both SERS and STRS.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

10. POSTEMPLOYMENT BENEFITS (Continued)

	<u>SERS</u>	<u>STRS</u>	
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.03342210%	0.02846025%	
Proportion of the Net OPEB Liability			
Current Measurement Date	<u>0.03342210%</u>	<u>0.02846025%</u>	
Change in Proportionate Share	<u>0.00000000%</u>	<u>0.00000000%</u>	
			<u>Total</u>
Proportionate Share of the Net OPEB Liability	\$896,961	\$1,110,414	\$2,007,375

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation are presented below:

Valuation Date	June 30, 2017
Actuarial Assumptions Experience Study Date	5 year period ended June 30, 2015
Investment Rate of Return	7.50 percent, net of investment expenses, including inflation
Price Inflation	3.00%
Salary increases, including price inflation	3.50% - 18.20%
Municipal Bond Index Rate	
Prior Measurement Date	2.92%
Measurement Date	3.56%
Year FNP is projected to be depleted	2026
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Prior Measurement Date	2.98%
Measurement Date	3.63%
Medical Trend Assumption	
Pre-Medicare	7.50% - 5.00%
Medicare	5.50% - 5.00%

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

10. POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Assumptions - SERS (Continued)

Mortality Assumptions - Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120% of male rates and 110% of female rates. RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50%, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 9.

Discount Rate

The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63%. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56%, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%).

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

10. POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Assumptions - STRS (Continued)

Experience Studies — Actuarial assumptions used in the June 30, 2017 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

Investment Return Assumptions — STRS Ohio's investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return*</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55 %
Alternatives	17.00	7.09 %
Fixed Income	21.00	3.00 %
Real Estate	10.00	6.00 %
Liquidity Reserves	<u>1.00</u>	<u>2.25 %</u>
Total	<u>100.00 %</u>	

* 10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS Ohio's investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate — The discount rate used to measure the total OPEB liability was 4.13% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, a blended discount rate of 4.13%, which represents the long-term expected rate of return of 7.45% for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58% for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

10. POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Assumptions - STRS (Continued)

The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13%, as well as what the net OEPB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13%) or one percentage point higher (5.13%) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates

	1% Decrease in Discount Rate (3.13%)	Current Discount Rate (4.13%)	1% Increase in Discount Rate (5.13%)
School District's proportionate share of the net OPEB liability	\$1,490,713	\$1,110,414	\$809,853

	1% Decrease in Trend Rates	Current Trend Rate	1% Increase in Trend Rates
School District's proportionate share of the net OPEB liability	\$771,468	\$1,110,414	\$1,156,506

11. JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Technology Association (META) Solutions

META is an educational solutions partner providing services across Ohio. META provides cost-effective fiscal, network, technology and student services, a purchasing cooperative, and other individual services based on each client's needs.

The governing board of META consists of a president, vice president and six board members who represent the members of META. The board works with META's Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer to manage operations and ensure the continued progress of the organization's mission, vision, and values. The Board exercises total control over the operations of the Council including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the Board. The District paid META \$10,579 for services provided during the fiscal year. Financial information can be obtained from David Varda, who serves as Chief Financial Officer, at 100 Executive Drive, Marion, Ohio 43302.

The Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization of 136 school districts in the 35-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of fifteen members. The Board members are composed of one superintendent from each County elected by the school districts within that County. The Coalition provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent upon the continued participation of the District and the District does not maintain an equity interest in or a financial responsibility for the Coalition. The District's membership fee was \$325 for fiscal year 2018. The financial information for the Coalition can be obtained from the Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

12. PURCHASING POOLS

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

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

13. STATUTORY RESERVES

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

	Capital Acquisition
Set-Aside Reserve Cash Balance as of June 30, 2017	\$ -
Current Year Set-Aside Requirement	119,509
Qualifying Disbursements	(119,509)
Totals	-
Set-Aside Reserve Cash Balance as of June 30, 2018	\$ -

The amount presented for Prior Year Offset from Bond Proceeds is limited to an amount needed to reduce the reserve for capital improvements to zero. The District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$2,388,974 at June 30, 2018.

14. CONTINGENCIES

A. Grants

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2018, if applicable, cannot be determined at this time.

B. Litigation

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

C. School Foundation

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2018 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

15. INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the year ended June 30, 2018, were as follows:

Funds:	Transfer To:	Transfer From:
Major Funds		
General Fund	\$ -	\$ 540,429
School Facilities Project Fund	500,000	
Non-Major Funds		
Lunchroom Fund	34,429	-
Athletic Fund	6,000	
Total	\$ 540,429	\$ 540,429

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

16. COMPLIANCE

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its financial report in accordance with accounting principles generally accepted in the United States of America (GAAP), the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. This is not in compliance with Ohio law.

17. SIGNIFICANT COMMITMENTS

A. Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance account is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year-end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

	<u>Governmental Funds</u>
General	\$262,276
Other Governmental Funds	<u>331,410</u>
Total Governmental Funds	<u><u>\$593,686</u></u>

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

18. FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on the fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	School Facilities Project	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Unclaimed Monies	\$8,107	\$0	\$0	\$8,107
Restricted for				
Other Purposes	0	0	47,258	47,258
Classroom Maintenance	0	0	19,013	19,013
Debt Services Payments	0	0	144,156	144,156
Capital Projects	0	0	49,562	49,562
Total Restricted	<u>0</u>	<u>0</u>	<u>259,989</u>	<u>259,989</u>
Committed to				
Capital Projects	<u>0</u>	<u>1,106,670</u>	<u>0</u>	<u>1,106,670</u>
Assigned to				
Future Obligations	2,797,476	0	0	2,797,476
Other Purposes	266,508	0	0	266,508
Total Assigned	<u>3,063,984</u>	<u>0</u>	<u>0</u>	<u>3,063,984</u>
Unassigned (Deficit)	<u>23,718</u>	<u>0</u>	<u>(110,324)</u>	<u>(86,606)</u>
Total Fund Balances	<u><u>\$3,095,809</u></u>	<u><u>\$1,106,670</u></u>	<u><u>\$149,665</u></u>	<u><u>\$4,352,144</u></u>

19. ACCOUNTABILITY

The following funds had deficit fund balances at June 30, 2018.

Other Governmental Funds	Deficit
Title VI-B	14,922
Title I	93,329
21st Century Grant	2,060
	<u>\$110,324</u>

These deficits were created as these funds are awaiting receipts of requested grant funds.

20. NEW ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2018, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement No. 82, *Pension Issues-An Amendment of GASB Statements No. 67, No. 68, and No. 73*, and GASB Statement No. 85, *Omnibus 2017*.

GASB Statement No. 75 (GASB 75) establishes accounting and financial reporting requirements for governmental employers who have other post-employment benefits (OPEB) plans. The implementation of GASB Statement No. 75 did not have an effect on the financial statements of the District as the District reports on the cash basis of accounting and the net OPEB is not recorded in the accompanying financial statements; however, certain additional disclosures have been made in the notes to the basic financial statements.

Southern Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

20. NEW ACCOUNTING PRINCIPLES (Continued)

GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. GASB Statement No. 82 did not have an effect on the financial statements of the District.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). GASB Statement No. 85 did not have an effect on the financial statements of the District.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education</i>				
Child Nutrition Cluster				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	10.555	2017/2018		\$27,616
Cash Assistance:				
School Breakfast Program	10.553	2017/2018		186,572
National School Lunch Program	10.555	2017/2018		255,902
Cash Assistance Subtotal				442,474
Total Child Nutrition Cluster				470,090
Total U.S. Department of Agriculture				470,090
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Title I Grants to Local Educational Agencies	84.010	2017 2018		93,738 311,995
Total Title I Grants to Local Educational Agencies				405,733
Special Education Cluster:				
Special Education - Grants to States	84.027	2017 2018		6,421 195,082
Total Special Education - Grants to States				201,503
Special Education - Preschool Grants	84.173	2018		1,901
Total Special Education Cluster				203,404
Twenty-First Century Community Learning Centers	84.287	2017 2018	86,096	93,565
Total Twenty-First Century Community Learning Centers			166,756	203,616
			252,852	297,181
Rural Education	84.358	2017		16,293
Improving Teacher Quality- State Grants	84.367	2017 2018		8,034 53,454
Total Improving Teacher Quality- State Grants				61,488
Student Support and Academic Enrichment	84.424	2018		10,000
Total U.S. Department of Education			252,852	994,099
Total Expenditures of Federal Awards			\$252,852	\$1,464,189

The accompanying notes are an integral part of this Schedule.

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Southern Local School District (the District) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C – INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - SUBRECIPIENTS

The District passes certain federal awards received from the U.S. Department of Education to other governments or not-for-profit agencies (subrecipients). As Note B describes, the District reports expenditures of Federal awards to subrecipients when paid in cash.

NOTE D - 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 School District assumes it expends federal monies first.

NOTE E – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

OHIO AUDITOR OF STATE KEITH FABER



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

Southern Local School District
Perry County
10390 State Route 155 SE
Corning, Ohio 43730-9710

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Local School District, Perry County, Ohio (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 12, 2019, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2018-001.

District's Response to Findings

The District's response to the Finding identified in our audit is described in the accompanying Schedule of Findings and Corrective Action Plan. We did not subject the District's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

March 12, 2019



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Southern Local School District
Perry County
10390 State Route 155 SE
Corning, Ohio 43730-9710

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Southern Local School District, Perry County, Ohio (the District), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying Schedule of Findings identifies the District's major federal programs.

Management's Responsibility

The District's management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

Opinion on each Major Federal Program

In our opinion, the Southern Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

March 12, 2019

**SOUTHERN SCHOOL DISTRICT
PERRY COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d)(1)(vii)	Major Programs: <ul style="list-style-type: none"> • Child Nutrition Cluster – CFDA #10.553/10.555 • Title I Grants to Local Educational Agencies – CFDA #84.010 	
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR § 200.520?	No

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

FINDING NUMBER 2018-001

Noncompliance

Ohio Rev. Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.

Ohio Admin. Code § 117-2-03(B), which further clarifies the requirements of Ohio Rev. Code § 117.38, requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

**SOUTHERN LOCAL SCHOOL DISTRICT
PERRY COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2018-001 (Continued)

Noncompliance (Continued)

The District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, and deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while material, cannot be determined at this time.

Pursuant to Ohio Rev. Code § 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the District's ability to evaluate and monitor the overall financial condition of the District. To help provide the users with more meaningful financial statements, the District should prepare its annual financial statements according to generally accepted accounting principles.

Officials' Response: District officials do not believe preparing GAAP statements is cost beneficial to the District.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None.

Southern Local Schools

*The Mission of Southern Local Schools is to
Provide an excellent student-centered environment that prepares all students to become active
learners and responsible citizens.*

10397 State Route 155 SE #1, Corning, OH 43730 * Scott Christman, Superintendent * (740) 721-0520 FAX (740) 394-2083

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS 2 CFR 200.511(b) JUNE 30, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	A material noncompliance citation was issued under Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) for not preparing the annual financial report pursuant to generally accepted accounting principles.	Not Corrected.	District officials do not believe preparing GAAP statements is cost beneficial to the District. Repeated as Finding Number 2018-001

Board of Education

Wendy Aichele
President

Jim Palmer
Vice President

Pattie Jo Duffy
Pete Nelson
Cassie Starlin

Miller High School

Tony Losco
Principal
740-721-0522

Millcreek Elementary

Annette Losco
Principal
740-721-0521

Jeffrey Kaaz
Treasurer
740-721-0527

2011-2012
Ohio
Local Report Card



Awarded by the **Ohio** State Board of Education

Michael P. Sawyer

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Southern Local Schools

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**CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2018**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	District officials do not believe preparing GAAP statements is cost beneficial to the District.	Assessed Annually	Jeff Kaaz, Treasurer

Board of Education

Wendy Aichele
President

Jim Palmer
Vice President

Pattie Jo Duffy
Pete Nelson
Cassie Starlin

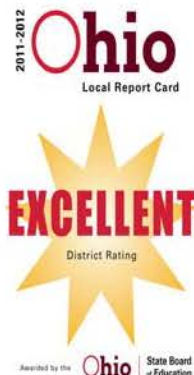
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Jeffrey Kaaz
Treasurer
740-721-0527



Michael P. Sawyer

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OHIO AUDITOR OF STATE
KEITH FABER



SOUTHERN LOCAL SCHOOL DISTRICT

PERRY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 26, 2019**