



**Auditor of State
Betty Montgomery**

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Southern Local School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis- for State and Local Governments*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Local School District, Columbiana County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

April 26, 2005

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The management discussion and analysis of the Southern Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$497,520 which represents a 2.90% decrease from 2003.
- General revenues accounted for \$6,482,317 in revenue or 84.11% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,224,935 or 15.89% of total revenues of \$7,707,252.
- The District had \$8,204,772 in expenses related to governmental activities; \$1,224,935 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$6,428,317 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and classroom facilities fund. The general fund had \$6,238,277 in revenues and other financing sources and \$6,563,045 in expenditures and other financing uses. During fiscal year 2004, the general fund's fund balance decreased \$324,768 from \$141,592 to a deficit of \$183,176.
- The District's classroom facilities fund had \$417,062 in revenues and other financing sources and \$2,516,434 in expenditures. During fiscal year 2004, the classroom facilities fund's fund balance decreased \$2,099,372 from \$2,311,894 to \$212,522.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Proprietary Funds

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

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-53 of this report.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting; therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2004.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

	Governmental Activities <u>2004</u>
<u>Assets</u>	
Current and other assets	\$ 6,601,366
Capital assets	<u>15,980,233</u>
Total assets	<u>22,581,599</u>
<u>Liabilities</u>	
Current liabilities	2,511,724
Long-term liabilities	<u>3,414,020</u>
Total liabilities	<u>5,925,744</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	12,999,841
Restricted	4,231,873
Unrestricted (deficit)	<u>(575,859)</u>
Total net assets	<u>\$ 16,655,855</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$16,655,855. Of this total, \$4,231,873 is restricted in use.

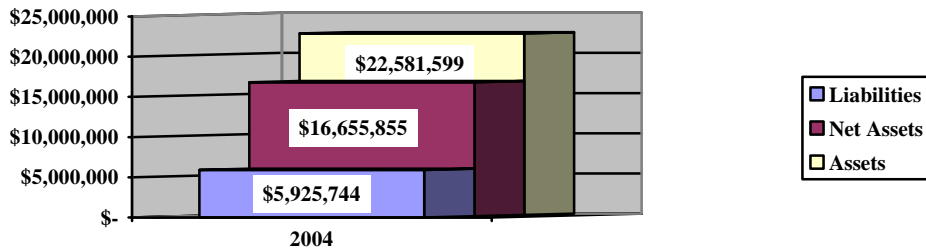
At year-end, capital assets represented 70.77% of total assets. Capital assets include land, land improvements, infrastructure, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$12,999,841. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$4,231,873, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, a deficit of \$575,859 may be used to meet the District's ongoing obligations to the students and creditors.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Governmental Activities



The table below shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2004
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 252,509
Operating grants and contributions	948,172
Capital grants and contributions	24,254
General revenues:	
Property taxes	1,611,608
Grants and entitlements	4,822,958
Investment earnings	12,914
Other	<u>34,837</u>
 Total revenues	 <u>7,707,252</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Change in Net Assets

	Governmental Activities <u>2004</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	\$ 3,218,586
Special	1,108,724
Vocational	265,547
Support services:	
Pupil	284,369
Instructional staff	194,632
Board of education	183,976
Administration	643,744
Fiscal	186,615
Operations and maintenance	911,278
Pupil transportation	538,640
Central	198
Food service operations	288,299
Extracurricular activities	220,512
Interest and fiscal charges	<u>159,652</u>
Total expenses	<u>8,204,772</u>
Change in net assets	(497,520)
Net assets at beginning of year	<u>17,153,375</u>
Net assets at end of year	<u>\$ 16,655,855</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$497,520. Total governmental expenses of \$8,204,772 were offset by program revenues of \$1,224,935 and general revenues of \$6,482,317. Program revenues supported 14.93% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 83.49% of total governmental revenue.

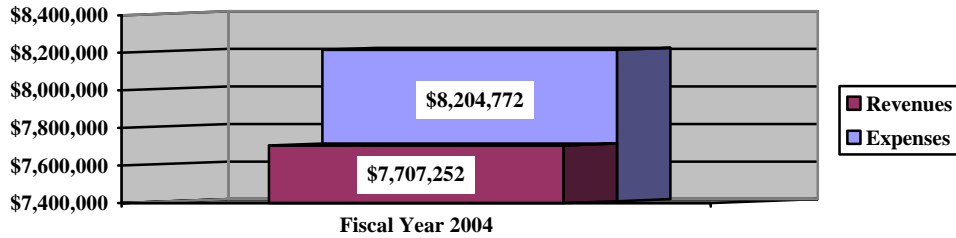
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,592,857 or 55.98% of total governmental expenses for fiscal 2004.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities

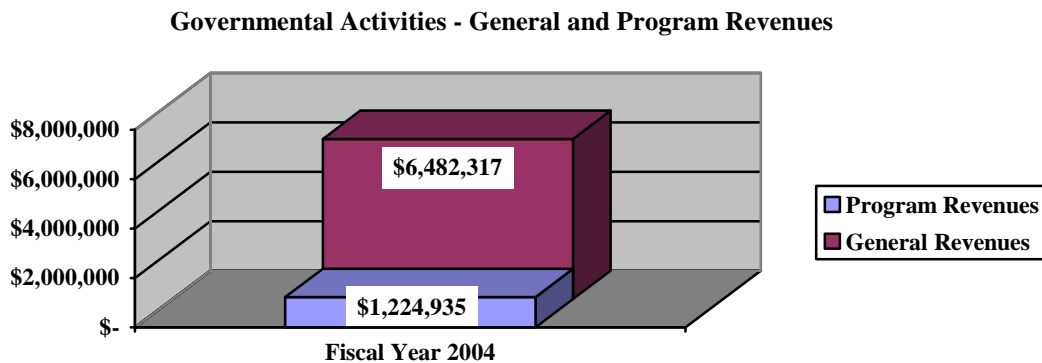
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses		
Instruction:		
Regular	\$ 3,218,586	\$ 3,097,397
Special	1,108,724	581,648
Vocational	265,547	265,547
Support services:		
Pupil	284,369	271,960
Instructional staff	194,632	130,762
Board of education	183,976	132,520
Administration	643,744	638,770
Fiscal	186,615	185,860
Operations and maintenance	911,278	898,697
Pupil transportation	538,640	538,398
Central	198	198
Food service operations	288,299	(78,424)
Extracurricular activities	220,512	156,852
Interest and fiscal charges	159,652	159,652
Total expenses	<u><u>\$ 8,204,772</u></u>	<u><u>\$ 6,979,837</u></u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The dependence upon tax and other general revenues for governmental activities is apparent, 85.89% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.07%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$416,180, which is lower than last year's total of \$2,929,891. The June 30, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Fund Balance <u>June 30, 2003</u>	<u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ (183,176)	\$ 141,592	\$ (324,768)	(229.37) %
Classroom Facilities	212,522	2,311,894	(2,099,372)	(90.81) %
Other Governmental	<u>386,834</u>	<u>476,405</u>	<u>(89,571)</u>	<u>(18.80) %</u>
Total	<u>\$ 416,180</u>	<u>\$2,929,891</u>	<u>\$ (2,513,711)</u>	<u>(85.80) %</u>

General Fund

The District's general fund balance decreased \$324,768 (after a restatement to the June 30, 2003, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund balance can be attributed to transfers out to other funds of \$331,809. Revenues exceed expenditures for fiscal year 2004 by \$331. On March 3, 2004 the Governor of the State of Ohio issued an executive order to reduce funding to school districts to help offset the state's fiscal year deficit. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 1,345,665	\$ 1,326,366	\$ 19,299	1.46 %
Tuition	9,445	10,130	(685)	(6.76) %
Earnings on investments	5,248	18,901	(13,653)	(72.23) %
Intergovernmental	4,796,436	4,311,178	485,258	11.26 %
Other revenues	<u>74,773</u>	<u>103,134</u>	<u>(28,361)</u>	(27.50) %
Total	<u>\$ 6,231,567</u>	<u>\$ 5,769,709</u>	<u>\$ 461,858</u>	8.00 %
<u>Expenditures</u>				
Instruction	\$ 3,454,155	\$ 3,360,619	\$ 93,536	2.78 %
Support services	2,625,959	2,435,084	190,875	7.84 %
Extracurricular activities	151,122	144,994	6,128	4.23 %
Debt service	<u>-</u>	<u>1,233</u>	<u>(1,233)</u>	(100.00) %
Total	<u>\$ 6,231,236</u>	<u>\$ 5,941,930</u>	<u>\$ 289,306</u>	4.87 %

General Fund Budgeting Highlights

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

During the course of fiscal 2004, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$5,961,545 and final budgeted revenues and other financing sources were \$6,045,931. Actual revenues and other financing sources for fiscal 2004 was \$6,251,937. This represents a \$206,006 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) of \$6,761,380 were increased to \$6,845,766 in the final appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$6,526,041, which was \$319,725 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the District had \$15,980,233 (net of depreciation) invested in land, land improvements, buildings and improvements, infrastructure, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

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

	Governmental Activities	
	2004	2003
Land	\$ 84,670	\$ 84,670
Land improvements	648,102	14,025
Building and improvements	14,549,761	529,043
Infrastructure	136,360	-
Furniture and equipment	251,320	89,503
Vehicles	310,020	264,323
Construction in progress	-	12,991,314
Total	<u>\$ 15,980,233</u>	<u>\$ 13,972,878</u>

The overall increase in capital assets of \$2,007,355 is due to capital outlays of \$2,410,170 exceeding depreciation expense of \$402,815 in the fiscal year.

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

Debt Administration

At June 30, 2004, the District had \$2,980,392 in general obligation bonds outstanding. Of this total, \$80,000 is due within one year and \$2,900,392 is due within greater than one year. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
General obligation bonds	<u>\$ 2,980,392</u>	<u>\$ 3,042,977</u>
Total	<u>\$ 2,980,392</u>	<u>\$ 3,042,977</u>

At June 30, 2004, the District's overall legal debt margin was \$3,444,803, and an unvoted debt margin of \$68,827. See Note 9 to the basic financial statements for additional information on the District's debt administration.

Contacting the District's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,165,575
Cash with fiscal agent.	15,277
Cash with escrow agent	2,355
Receivables:	
Taxes	1,716,409
Accounts	3,980
Intergovernmental	3,677,833
Prepayments	12,659
Materials and supplies inventory	7,278
Capital assets:	
Land	84,670
Depreciable capital assets, net	15,895,563
Capital assets, net.	15,980,233
 Total assets.	 22,581,599
Liabilities:	
Accounts payable.	60,089
Accrued wages and benefits	654,825
Pension obligation payable.	145,417
Intergovernmental payable	24,640
Deferred revenue	1,535,840
Accrued interest payable	10,003
Claims payable.	80,910
Long-term liabilities:	
Due within one year.	111,869
Due within more than one year	3,302,151
Total liabilities	5,925,744
Net Assets:	
Invested in capital assets, net of related debt.	12,999,841
Restricted for:	
Capital projects	3,983,571
Debt service.	248,302
Unrestricted (deficit)	(575,859)
Total net assets	\$ 16,655,855

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Instruction:				
Regular	\$ 3,218,586	\$ 12,395	\$ 88,014	\$ 20,780
Special	1,108,724	-	527,076	-
Vocational	265,547	-	-	-
Support services:				
Pupil	284,369	-	12,409	-
Instructional staff	194,632	-	63,870	-
Board of education	183,976	51,456	-	-
Administration	643,744	-	4,974	-
Fiscal	186,615	-	755	-
Operations and maintenance	911,278	-	9,107	3,474
Pupil transportation	538,640	-	242	-
Central	198	-	-	-
Operation of non-instructional services:				
Food service operations	288,299	124,998	241,725	-
Extracurricular activities	220,512	63,660	-	-
Interest and fiscal charges	159,652	-	-	-
Total governmental activities	<u>\$ 8,204,772</u>	<u>\$ 252,509</u>	<u>\$ 948,172</u>	<u>\$ 24,254</u>

General Revenues:

Property taxes levied for:
General purposes
Debt service
Capital projects
Grants and entitlements not restricted to specific programs
Investment earnings
Miscellaneous
Total general revenues
Change in net assets
Net assets at beginning of year (restated) .
Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense)
Revenue and
Changes in
Net Assets**

**Governmental
Activities**

\$	(3,097,397)
	(581,648)
	(265,547)
	(271,960)
	(130,762)
	(132,520)
	(638,770)
	(185,860)
	(898,697)
	(538,398)
	(198)
	78,424
	(156,852)
	<u>(159,652)</u>
	<u>(6,979,837)</u>
	1,360,399
	223,524
	27,685
	4,822,958
	12,914
	<u>34,837</u>
	<u>6,482,317</u>
	(497,520)
	<u>17,153,375</u>
\$	<u><u>16,655,855</u></u>

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 494,705	\$ 210,167	\$ 435,906	\$ 1,140,778
Cash with escrow agent	-	2,355	-	2,355
Receivables:				
Taxes	1,448,545	-	267,864	1,716,409
Accounts	3,980	-	-	3,980
Intergovernmental	341	3,655,362	22,130	3,677,833
Prepayments	12,659	-	-	12,659
Materials and supplies inventory	-	-	7,278	7,278
Restricted assets:				
Equity in pooled cash and cash equivalents	24,797	-	-	24,797
Total assets	<u>\$ 1,985,027</u>	<u>\$ 3,867,884</u>	<u>\$ 733,178</u>	<u>\$ 6,586,089</u>
Liabilities:				
Accounts payable	\$ 59,846	\$ -	\$ 243	\$ 60,089
Accrued wages and benefits	589,688	-	65,137	654,825
Compensated absences payable	14,119	-	-	14,119
Pension obligation payable	79,916	-	9,844	89,760
Intergovernmental payable	21,949	-	2,691	24,640
Deferred revenue	1,402,685	3,655,362	268,429	5,326,476
Total liabilities	<u>2,168,203</u>	<u>3,655,362</u>	<u>346,344</u>	<u>6,169,909</u>
Fund Balances:				
Reserved for encumbrances	11,880	7,900	38,589	58,369
Reserved for materials and supplies inventory	-	-	7,278	7,278
Reserved for prepayments	12,659	-	-	12,659
Reserved for property tax unavailable for appropriation	45,860	-	8,482	54,342
Reserved for BWC refunds	24,797	-	-	24,797
Reserved for debt service	-	-	223,225	223,225
Unreserved, undesignated (deficit), reported in:				
General fund	(278,372)	-	-	(278,372)
Special revenue funds	-	-	18,404	18,404
Capital projects funds	-	204,622	90,856	295,478
Total fund balances	<u>(183,176)</u>	<u>212,522</u>	<u>386,834</u>	<u>416,180</u>
Total liabilities and fund balances	<u>\$ 1,985,027</u>	<u>\$ 3,867,884</u>	<u>\$ 733,178</u>	<u>\$ 6,586,089</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total governmental fund balances		\$	416,180
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			15,980,233
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	125,957	
Intergovernmental revenue		3,664,679	
Total			3,790,636
An internal service fund is used by management to charge the costs of health and dental insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.			(65,633)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		419,509	
Pension obligation payable		55,657	
General obligation bonds payable		2,980,392	
Accrued interest payable		10,003	
Total			(3,465,561)
Net assets of governmental activities		\$	16,655,855

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 1,345,665	\$ -	\$ 248,050	\$ 1,593,715
Tuition.	9,445	-	-	9,445
Charges for services.	-	-	124,998	124,998
Earnings on investments.	5,248	7,539	-	12,787
Extracurricular.	-	-	63,660	63,660
Classroom materials and fees.	2,950	-	-	2,950
Other local revenues.	71,823	175	7,585	79,583
Intergovernmental - State.	4,796,436	146,255	178,613	5,121,304
Intergovernmental - Federal	-	-	808,933	808,933
Total revenue	<u>6,231,567</u>	<u>153,969</u>	<u>1,431,839</u>	<u>7,817,375</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,606,715	-	65,209	2,671,924
Special.	581,937	-	529,373	1,111,310
Vocational.	265,503	-	-	265,503
Support services:				
Pupil.	273,685	-	12,566	286,251
Instructional staff	138,550	-	56,681	195,231
Board of education	183,717	-	-	183,717
Administration.	625,508	-	4,873	630,381
Fiscal	179,533	-	6,170	185,703
Operations and maintenance.	633,486	-	271,432	904,918
Pupil transportation	591,480	-	87	591,567
Central.	-	-	198	198
Food service operations	-	-	353,767	353,767
Extracurricular activities.	151,122	-	65,512	216,634
Facilities acquisition and construction	-	2,516,434	-	2,516,434
Debt service:				
Principal retirement	-	-	75,000	75,000
Interest and fiscal charges	-	-	149,258	149,258
Total expenditures	<u>6,231,236</u>	<u>2,516,434</u>	<u>1,590,126</u>	<u>10,337,796</u>
Excess of revenues over (under) expenditures	<u>331</u>	<u>(2,362,465)</u>	<u>(158,287)</u>	<u>(2,520,421)</u>
Other financing sources (uses):				
Transfers in	-	263,093	68,716	331,809
Transfers (out).	(331,809)	-	-	(331,809)
Proceeds from sale of capital assets.	6,710	-	-	6,710
Total other financing sources (uses)	<u>(325,099)</u>	<u>263,093</u>	<u>68,716</u>	<u>6,710</u>
Net change in fund balances	(324,768)	(2,099,372)	(89,571)	(2,513,711)
Fund balances at beginning of year (restated)	<u>141,592</u>	<u>2,311,894</u>	<u>476,405</u>	<u>2,929,891</u>
Fund balances at end of year.	<u>\$ (183,176)</u>	<u>\$ 212,522</u>	<u>\$ 386,834</u>	<u>\$ 416,180</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$	(2,513,711)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$2,410,170) exceeds depreciation expense (\$402,815) in the current period.		2,007,355
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(116,960)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		75,000
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds.		(10,394)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(14,047)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		<u>75,237</u>
Change in net assets of governmental activities	\$	<u><u>(497,520)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 1,292,959	\$ 1,311,261	\$ 1,355,940	\$ 44,679
Tuition	9,007	9,134	9,445	311
Earnings on investments	5,004	5,075	5,248	173
Classroom materials and fees	2,813	2,853	2,950	97
Other local revenues	71,698	72,713	75,191	2,478
Intergovernmental - State	<u>4,573,666</u>	<u>4,638,406</u>	<u>4,796,453</u>	<u>158,047</u>
Total revenue	<u>5,955,147</u>	<u>6,039,442</u>	<u>6,245,227</u>	<u>205,785</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,708,204	2,742,004	2,613,942	128,062
Special	607,534	615,116	586,388	28,728
Vocational	277,388	280,850	267,733	13,117
Support services:				
Pupil	284,150	287,696	274,259	13,437
Instructional staff	128,616	130,221	124,139	6,082
Board of education	187,951	190,297	181,409	8,888
Administration	647,606	655,688	625,065	30,623
Fiscal	187,953	190,299	181,411	8,888
Operations and maintenance	673,270	681,673	649,836	31,837
Pupil transportation	556,510	563,456	537,140	26,316
Extracurricular activities	<u>158,424</u>	<u>160,401</u>	<u>152,910</u>	<u>7,491</u>
Total expenditures	<u>6,417,606</u>	<u>6,497,701</u>	<u>6,194,232</u>	<u>303,469</u>
Excess of revenues over (under) expenditures	<u>(462,459)</u>	<u>(458,259)</u>	<u>50,995</u>	<u>509,254</u>
Other financing sources (uses):				
Transfers (out)	(343,774)	(348,065)	(331,809)	16,256
Proceeds from sale of capital assets	<u>6,398</u>	<u>6,489</u>	<u>6,710</u>	<u>221</u>
Total other financing sources (uses)	<u>(337,376)</u>	<u>(341,576)</u>	<u>(325,099)</u>	<u>16,477</u>
Net change in fund balance	(799,835)	(799,835)	(274,104)	525,731
Fund balance at beginning of year	534,507	534,507	534,507	-
Prior year encumbrances appropriated	<u>187,373</u>	<u>187,373</u>	<u>187,373</u>	<u>-</u>
Fund balance at end of year	<u>\$ (77,955)</u>	<u>\$ (77,955)</u>	<u>\$ 447,776</u>	<u>\$ 525,731</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Assets:	
Cash with fiscal agent	<u>\$ 15,277</u>
Total assets	<u>15,277</u>
Liabilities:	
Claims payable	<u>80,910</u>
Total liabilities	<u>80,910</u>
Net assets:	
Unrestricted (deficit)	<u>(65,633)</u>
Total net assets (deficit)	<u><u>\$ (65,633)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	<u>\$ 1,219,895</u>
Total operating revenues	<u>1,219,895</u>
Operating expenses:	
Purchased services	41,004
Claims	<u>1,103,781</u>
Total operating expenses	<u>1,144,785</u>
Operating gain	<u>75,110</u>
Nonoperating revenues:	
Interest revenue	<u>127</u>
Total nonoperating revenues	<u>127</u>
Change in net assets.	75,237
Net assets (deficit) at beginning of year. .	<u>(140,870)</u>
Net assets (deficit) at end of year	<u><u>\$ (65,633)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 1,219,895
Cash payments for purchased services	(41,004)
Cash payments for claims.	<u>(1,101,919)</u>
Net cash provided by operating activities	<u>76,972</u>
Cash flows from noncapital financing activities:	
Cash payments to other funds.	<u>(61,822)</u>
Net cash provided by noncapital financing activities	<u>(61,822)</u>
Cash flows from investing activities:	
Interest received.	<u>127</u>
Net cash provided by investing activities	<u>127</u>
Net increase in cash and cash equivalents	15,277
Cash with fiscal agent at beginning of year	<u>-</u>
Cash with fiscal agent at end of year.	<u><u>\$ 15,277</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income.	\$ 75,110
Changes in assets and liabilities:	
Increase in claims payable	<u>1,862</u>
Net cash provided by operating activities	<u><u>\$ 76,972</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 18,270
Total assets.	<u>\$ 18,270</u>
Liabilities:	
Due to students	\$ 18,270
Total liabilities	<u>\$ 18,270</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District ranks as the 521st largest by total enrollment among the 613 public school districts in the state. The District operates under a locally-elected five-member Board form of government. Each member is elected to a four-year term. The District provides educational services as authorized by its charter and further mandated by state and/or federal agencies. The Board of Education controls the District's 4 instructional/support facilities staffed by 41 classified employees and 75 certificated employees who provide services to 900 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, and student related activities of the District.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

JOINTLY GOVERNED ORGANIZATIONS

Ohio Mid-Eastern Regional Education Service Agency (OME-RESA)

OME-RESA was created as a regional council of governments pursuant to state statutes. OME-RESA provides financial accounting services, an educational management information system, cooperative purchases services, and legal services to member districts. OME-RESA has 11 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Noble, and Tuscarawas Counties. Each member district pays an annual fee for services provided by OME-RESA.

OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. The Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency, Karen Blake, Treasurer, 2023 Sunset Boulevard, Steubenville, Ohio, 43952.

Lincoln Way Special Education Regional Resource Center (LWSERRC)

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

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

Columbiana County Career Center

The Columbiana County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the 9 participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Columbiana County Career Center, Kathy Bosco who serves as Treasurer, 9364 State Route 45, Lisbon, Ohio 44432.

PUBLIC ENTITY RISK POOLS

Columbiana County School Employees Insurance Consortium (the "Consortium")

The Consortium is a claims servicing pool comprised of seven Columbiana County School Districts. The Consortium is governed by an assembly, which consists of one representative from each participating school district (usually the superintendent or designee). The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

The District participates in the GRP, an insurance purchasing pool. The GRP was established under section 4123.29 of the Ohio Revised Code. 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 Ohio School Boards Association. The Executive Director of the Ohio School Boards Association, or his/her 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.

A. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Classroom Facilities Fund - The classroom facilities capital projects fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

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

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

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

D. Basis of Accounting

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2004 is as follows:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2004.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary comparison statements at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2004; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

During fiscal year 2004, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$5,248, which includes \$2,435 assigned from other funds.

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

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

G. Inventory

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

On the fund financial statements, reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

H. Capital Assets

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

All capital assets, including infrastructure, are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2004, the District increased its capitalization threshold from \$300 to \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

I. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service and all employees with at least twenty years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

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

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, BWC refunds, debt service and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

M. Net Assets

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

N. Prepayments

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

O. Estimates

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

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve and capital acquisition reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 16.

Q. Interfund Activity

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39 and 41.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2003.

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Classroom Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance June 30, 2003	\$ 158,071	\$ 2,311,894	\$ 491,351	\$ 2,961,316
Fund reclassifications	-	-	(14,946)	(14,946)
Implementation of GASB Interpretation No. 6	<u>(16,479)</u>	<u>-</u>	<u>-</u>	<u>(16,479)</u>
Restated fund balance, June 30, 2003	<u>\$ 141,592</u>	<u>\$ 2,311,894</u>	<u>\$ 476,405</u>	<u>\$ 2,929,891</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

	Total
Restated fund balance, June 30, 2003	\$ 2,929,891
GASB 34 adjustments:	
Long-term (deferred) assets	3,907,596
Capital assets	13,972,878
Accrued interest payable	(12,024)
Pension obligation	(64,509)
Long-term liabilities	(3,439,587)
Internal service fund	(140,870)
Governmental activities net assets, June 30, 2003	\$ 17,153,375

B. Deficit Fund Balances

Fund balances at June 30, 2004 included the following individual fund deficits:

	Deficit
<u>Major Fund</u>	
General	\$183,176
<u>Nonmajor Funds</u>	
Food Service	1,990
Title I	35,866

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances are the result of adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

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

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current two-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
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS (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 accounts, including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

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.

Cash with Fiscal Agent: The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2004, was \$15,277.

Cash in Segregated Accounts: The District receives funds from the State for the renovation and construction of its facilities. These funds are not a part of the District's pooled cash. The amount of funds in segregated accounts at June 30, 2004, was \$2,355. The entire segregated cash balance was covered by federal depository insurance; and as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$62,696 and the bank balance was \$84,730. The entire bank balance of \$84,730 was covered by federal depository insurance.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. Investments in STAR Ohio are not categorized as they are not evidenced by securities that exist in physical or book entry form.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS (Continued)

	Category 3	Reported Amount	Fair Value
Repurchase agreements	\$ 1,018,244	\$1,018,244	\$1,018,244
	\$ 1,018,244		
Investment in STAR Ohio		102,905	102,905
Total investments		\$1,121,149	\$1,121,149

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. Reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$1,199,122	\$ -
Investments of the cash management pool:		
Repurchase agreement	(1,018,244)	1,018,244
Investment in STAR Ohio	(102,905)	102,905
GASB Statement No. 3	\$ 77,973	\$1,121,149

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund financial statements:

Transfers to Major Governmental funds from:		
General Fund		\$ 263,093
Transfers to Nonmajor Governmental funds from:		
General Fund		68,716
Total transfers		\$ 331,809

NOTE 6 - PROPERTY TAXES

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Columbiana, Carroll and Jefferson Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$45,860 in the general fund, \$7,558 in the debt service fund and \$924 in the permanent improvement fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2003 was \$56,135 in the general fund, \$9,070 in the debt service fund and \$1,046 in the permanent improvement fund.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - PROPERTY TAXES (Continued)

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 56,937,780	84.54	\$ 59,061,630	85.82
Public utility personal	7,097,870	10.54	6,541,960	9.51
Tangible personal property	<u>3,312,040</u>	<u>4.92</u>	<u>3,223,210</u>	<u>4.67</u>
Total	<u>\$ 67,347,690</u>	<u>100.00</u>	<u>\$ 68,826,800</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 35.84		\$ 38.64	
Debt Service	3.71		3.71	
Permanent Improvements	0.50		0.50	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Taxes	\$ 1,716,409
Accounts	3,980
Intergovernmental	<u>3,677,833</u>
Total	<u>\$ 5,398,222</u>

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

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to changes in the District's capital asset policy (see Note 2.H), to include land values not reported in the prior year, and to depreciate capital assets in accordance with GASB Statement No. 34.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS (Continued)

	<u>Balance 6/30/03</u>	<u>Adjustments</u>	<u>Restated Balance 6/30/03</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ -	\$ 84,670	\$ 84,670
Construction in progress	<u>12,991,314</u>	<u>-</u>	<u>12,991,314</u>
Total capital assets, not being depreciated	<u>12,991,314</u>	<u>84,670</u>	<u>13,075,984</u>
Capital assets, being depreciated:			
Land improvements	73,128	(9,649)	63,479
Buildings and improvements	1,704,437	(20,584)	1,683,853
Furniture and equipment	2,104,805	(1,911,390)	193,415
Vehicles	<u>834,466</u>	<u>(199,935)</u>	<u>634,531</u>
Total capital assets, being depreciated	<u>4,716,836</u>	<u>(2,141,558)</u>	<u>2,575,278</u>
<i>Less: accumulated depreciation:</i>	<u>-</u>	<u>(1,678,384)</u>	<u>(1,678,384)</u>
Governmental activities capital assets, net	<u>\$ 17,708,150</u>	<u>\$ (3,735,272)</u>	<u>\$ 13,972,878</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 8 - CAPITAL ASSETS (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance 06/30/03	Additions	Deductions	Balance 06/30/04
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 84,670	\$ -	\$ -	\$ 84,670
Construction in progress	12,991,314	1,308,544	(14,299,858)	-
Total capital assets, not being depreciated	<u>13,075,984</u>	<u>1,308,544</u>	<u>(14,299,858)</u>	<u>84,670</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	63,479	651,683	-	715,162
Buildings and improvements	1,683,853	14,299,858	-	15,983,711
Infrastructure	-	139,856	-	139,856
Furniture and equipment	193,415	195,680	-	389,095
Vehicles	634,531	114,407	-	748,938
Total capital assets, being depreciated	<u>2,575,278</u>	<u>15,401,484</u>	<u>-</u>	<u>17,976,762</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(49,454)	(17,606)	-	(67,060)
Buildings and improvements	(1,154,810)	(279,140)	-	(1,433,950)
Infrastructure	-	(3,496)	-	(3,496)
Furniture and equipment	(103,912)	(33,863)	-	(137,775)
Vehicles	(370,208)	(68,710)	-	(438,918)
Total accumulated depreciation	<u>(1,678,384)</u>	<u>(402,815)</u>	<u>-</u>	<u>(2,081,199)</u>
Governmental activities capital assets, net	<u>\$ 13,972,878</u>	<u>\$ 16,307,213</u>	<u>\$ (14,299,858)</u>	<u>\$ 15,980,233</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$295,807
<u>Support Services:</u>	
Instructional staff	7,236
Board of education	259
Administration	16,370
Operations and maintenance	7,055
Pupil transportation	70,520
Extracurricular activities	3,878
Food service operations	<u>1,690</u>
Total depreciation expense	<u>\$402,815</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - LONG-TERM OBLIGATIONS

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

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2004, the total estimated cost of the Construction Project is \$14,756,003, of which OSFC paid approximately \$11,201,458.

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

This issue is comprised of both current interest bonds, par value \$3,057,000, and capital appreciation bonds, par value \$230,000. The interest rates on the current interest bonds range from 4.00% to 5.25%. The capital appreciation bonds mature on December 1, 2009 (effective interest 22.20%) and December 1, 2010 (effective interest 22.20%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported on the statement of net assets at June 30, 2004 was \$35,000. As of June 30, 2004, \$30,392 of accreted interest on the capital appreciation bonds has been included in long-term liabilities on the statement of net assets.

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

The following is a schedule of activity for fiscal 2004 on the 2001 series general obligation bonds:

	Outstanding <u>06/30/03</u>	Additions	Reductions	Outstanding <u>06/30/04</u>	Due in <u>One Year</u>
General obligation bonds:					
Current interest bonds	\$2,990,000	\$ -	\$ (75,000)	\$ 2,915,000	\$ 80,000
Capital appreciation bonds	35,000	-	-	35,000	-
Accreted interest bonds	<u>17,977</u>	<u>12,415</u>	-	<u>30,392</u>	-
Total G.O. bonds	<u>\$3,042,977</u>	<u>\$ 12,415</u>	<u>\$ (75,000)</u>	<u>\$ 2,980,392</u>	<u>\$ 80,000</u>

The following is a summary of the future debt service requirements to maturity for the 2001 series general obligation bonds:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

Fiscal Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 80,000	\$ 146,176	\$ 226,176	\$ -	\$ -	\$ -
2006	85,000	142,857	227,857	-	-	-
2007	90,000	139,356	229,356	-	-	-
2008	95,000	135,609	230,609	-	-	-
2009	100,000	131,536	231,536	230,000	-	230,000
2010 - 2014	390,000	617,394	1,007,394	-	-	-
2015 - 2019	800,000	443,885	1,243,885	-	-	-
2020 - 2024	1,030,000	205,273	1,235,273	-	-	-
2025 - 2029	245,000	6,430	251,430	-	-	-
Total	\$ 2,915,000	\$ 1,968,516	\$ 4,883,516	\$ 230,000	\$ -	\$ 230,000

B. The balance of the District's governmental activities long-term obligations at June 30, 2003 has been restated. The compensated absences liability has been restated by \$2,950 from \$413,935 to \$416,885 due to the implementation of GASB Interpretation No. 6 and the fund reclassifications described in Note 3.A. In addition, the pension obligations of \$52,824 at June 30, 2003 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end and are reported separately on the statement of net assets. The total effect on governmental activities long-term obligations was a decrease of \$49,874 from \$3,509,736 to \$3,459,862. Changes in the long-term obligations of the District during the fiscal year follow:

	Restated Balance Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/04</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences payable	\$ 416,885	\$ 37,018	\$ (20,275)	\$ 433,628	\$ 31,869
General obligation bonds payable	<u>3,042,977</u>	<u>12,415</u>	<u>(75,000)</u>	<u>2,980,392</u>	<u>80,000</u>
Total long-term obligations, governmental activities	<u>\$ 3,459,862</u>	<u>\$ 49,433</u>	<u>\$ (95,275)</u>	<u>\$ 3,414,020</u>	<u>\$ 111,869</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$3,444,803 and an unvoted debt margin of \$68,827.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers and administrators do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to the number of annual work days per contract plus 90 days, not to exceed 272 days for certified employees and 270 for non-certified employees. Upon retirement, certified employees are paid for one-fourth of their total sick leave accumulation, up to their maximum accumulation, and classified employees are paid for one-fourth of the first 120 days of sick leave accumulation and for 20 percent of their sick leave accumulation above 121 days, up to their maximum accumulation.

B. Life Insurance

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

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. For fiscal year 2004, the District contracted with Nationwide Insurance for property, boiler and inland marine insurance. This risk policy has a \$1,000 deductible.

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

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

B. Workers' Compensation Plan

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 11 - RISK MANAGEMENT

C. Employee Health and Dental

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of seven school districts within the County, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. This plan provides a medical/surgical plan with a \$100 family and \$50 single deductible for certificated employees and a \$200 family and \$100 single deductible for classified employees. A third party administrator, Professional Risk Management, reviews all claims, which are then paid by the District. The District purchases stop-loss coverage of \$75,000 per employee. The District pays into the self-insurance internal service fund \$879.55 for family coverage or \$366.96 for individual coverage per month, which represents the entire premium required. The premium is paid by the fund that pays the salary for the employee and is based on historical cost information. Dental coverage is also provided on a self-insured basis. Premiums for this coverage are \$33.35 monthly for family coverage and \$13.52 monthly for single coverage. Vision coverage is also provided on a self-insured basis. Premiums for this coverage are \$5.10 monthly for family coverage and \$2.52 for single coverage. The District is responsible for payment of all claim amounts.

The District also provides prescription drug insurance to its employees through a self-insured program. This plan utilizes a \$5 brand/\$0 generic prescription deductible.

The third party administrator, Professional Risk Management, reviews the claims, which are then paid by the District. The maximum amount any employee will contribute for his/her health care package is \$25 family coverage or \$10 single coverage for classified employees, and \$50 family coverage or \$20 single coverage for certificated employees.

The liability for unpaid claims of \$80,910 reported in the internal service fund at June 30, 2004, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. The claims liability is based on an estimate supplied by the District's third party administrator. Changes in the fund's claims liability for the current and past fiscal year are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2004	\$ 79,048	\$ 1,103,781	\$ (1,101,919)	\$ 80,910
2003	77,611	1,074,956	(1,073,519)	79,048

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$119,551, \$119,264, and \$108,952, respectively; 45.53% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$65,124 represents the unpaid contribution for fiscal year 2004.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Existing members with less than 5 years of service credit as of June 30, 2001, were given the option of making one time decision to transfer their account balances from the existing DB plan unto the DC plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2004 and 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$408,307, \$397,625, and \$377,185, respectively; 83.33% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$68,052 represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal 2004 were \$3,335 made by the District and \$3,247 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$29,165 during fiscal 2004.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 13 - POSTEMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$368.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established as \$25,400. For the School District, the amount to fund health care benefits, including surcharge, during the 2004 fiscal year equaled \$53,677.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides of maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING (Continued)

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

	<u>General Fund</u>
Budget basis	\$ (274,104)
Net adjustment for revenue accruals	(13,660)
Net adjustment for expenditure accruals	(108,730)
Adjustment for encumbrances	<u>71,726</u>
GAAP basis	<u>\$ (324,768)</u>

NOTE 15 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

C. State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..." The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2004, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2003	\$ (323,605)	\$ -	\$ 24,797
Current year set-aside requirement	126,571	126,571	-
Qualifying disbursements	<u>(155,035)</u>	<u>(316,620)</u>	<u>-</u>
 Total	 <u>\$ (352,069)</u>	 <u>\$ (190,049)</u>	 <u>\$ 24,797</u>
 Cash balance carried forward to FY 2005	 <u>\$ (352,069)</u>	 <u>\$ -</u>	 <u>\$ 24,797</u>

A schedule of the restricted assets at June 30, 2004 follows:

Amounts restricted for BWC refund	\$ <u>24,797</u>
Total restricted assets	\$ <u>24,797</u>

The District had qualifying disbursements during the year that reduced the set-aside amount below zero for the textbooks reserve. This amount may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to the next fiscal year.

Even though the capital acquisition set-aside has a negative balance, this negative amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

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SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster:						
Food Distribution Program	03-PU	10.550		\$40,232		\$40,232
National School Breakfast Program	05-PU	10.553	\$43,462		\$43,462	
National School Lunch Program	LL-P4	10.555	146,154		146,154	
Summer Food Service Program for Children	N/A	10.559	1,292		1,292	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>190,908</u>	<u>40,232</u>	<u>190,908</u>	<u>40,232</u>
U.S. Department of Education						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-2003 C1-S1-2004	84.010			4,392	
Total ESEA Title I			<u>308,744</u>		<u>303,701</u>	
Drug Free School Grant	DR-S1-2001 DR-S1-2003 DR-S1-2004	84.186			294	
Total Drug Free School Grant			<u>6,428</u>		<u>5,837</u>	
			<u>6,428</u>		<u>9,393</u>	
Funds for the Improvement of Education (FIE) Grant	R216K-03 R216K-04	84.216K	20,000		21,599	
Total FIE Grant			<u>3,000</u>		<u>4,944</u>	
			<u>23,000</u>		<u>26,543</u>	
Innovative Educational Program Strategies	C2-S1-2003 C2-S1-2004	84.298			2,417	
Total Innovative Educational Program Strategies			<u>4,496</u>		<u>4,066</u>	
			<u>4,496</u>		<u>6,483</u>	
Raising the Bar Challenge Grant	TJ-S1-2004 TJ-S1-2003	84.318	8,357		7,136	
Total Raising the Bar Challenge Grant			<u>2,323</u>		<u>2,323</u>	
			<u>8,357</u>		<u>9,459</u>	
Rural Education Grant	RU-S1-2004	84.358	19,630		19,702	
Title II A Improving Teacher Quality Program	TR-S1-2003 TR-S1-2004	84.367	36,001		19,358	
			<u>36,001</u>		<u>43,067</u>	
			<u>36,001</u>		<u>62,425</u>	
Total Department of Education			<u>406,656</u>		<u>442,098</u>	
Total Federal Awards			<u>\$597,564</u>	<u>\$40,232</u>	<u>\$633,006</u>	<u>\$40,232</u>

The notes to the federal awards expenditures schedule are an integral part of this schedule.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

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

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



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Local School District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and which includes a reference to the implementation of a new reporting model, as required by the provisions of Governmental Accounting Standards Board, Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and have issued our report thereon dated April 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated April 26, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the District's management dated April 26, 2005, we reported other matters related to noncompliance we deemed immaterial.

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Southern Local School District
Columbiana County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

April 26, 2005



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Southern Local School District, Columbiana County, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to its major federal programs for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to its major federal programs. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Southern Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

Southern Local School District
Columbiana County
Independent Accountants' Report on Compliance
With Requirements Applicable to Its Major Federal
Program and on Internal Control Over Compliance
In Accordance With OMB Circular A-133
Page 2

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

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

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

Betty Montgomery
Auditor of State

April 26, 2005

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Was there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Was there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster CFDA # 10.550, 10.553, 10.555, 10.559
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

Finding 2004-001

Noncompliance Citation

Ohio Revised Code § 5705.39 prohibits a political subdivision from making a fund appropriation in excess of the total estimated revenue available for expenditure from that fund as certified by the budget commission on the Amended Official Certificates of Estimated Resources.

Appropriations exceeded the amount certified as available by the budget commission in the following funds:

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004
(Continued)**

Fund Name	Estimated Resources	Appropriations	Variance
Management Information Fund	\$2,475	\$4,000	(\$1,525)
Disadvantaged Pupil Impact Aid Fund	48,936	84,864	(35,928)
Title I Fund	218,392	310,494	(92,102)
Title V Fund	4,550	4,971	(421)
Improving Teacher Quality Fund	24,358	75,713	(51,355)
Food Service Fund	270,991	339,691	(68,700)
Employee Benefit Self Insurance Fund	931,602	1,142,924	(211,322)

Failure to limit appropriations to the amount certified by the budget commission could result in overspending and negative cash balances. The District should compare appropriations to estimated resources and if adequate resources are available for additional appropriations, the District should request an amended certificate of estimated resources from the budget commission. If the resources are not available to cover the appropriations, an amendment to the appropriation resolution should be passed by the Board of Education to reduce the appropriations. The District did not incur any deficit balances in these funds.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	ORC § 5705.39 Fund appropriations exceeded total estimated revenue available.	No	Cited as Finding 2004-001



**Auditor of State
Betty Montgomery**

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**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 16, 2005**