



Mary Taylor, CPA
Auditor of State

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets	13
Statement of Activities.....	14
Balance Sheet – Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non GAAP Budgetary Basis) – General Fund`	19
Statement of Net Assets – Proprietary Fund	20
Statement of Revenues, Expenditures and Changes in Net Assets – Proprietary Fund	21
Statement of Cash Flows – Proprietary Fund.....	22
Statement of Fiduciary Net Assets – Fiduciary Funds.....	23
Notes to the Basic Financial Statements	25
Federal Awards Expenditures Schedule.....	55
Notes to the Federal Awards Expenditures Schedule	56
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Governmental Auditing Standards</i>	57
Independent Accounts' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	59
Schedule of Findings.....	61

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Columbiana County, Ohio, as of June 30, 2007, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2008, 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.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 31, 2008

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(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, 2007. 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 2007 are as follows:

- In total, net assets of governmental activities decreased \$573,017, which represents a 4.49% decrease from 2006.
- General revenues accounted for \$7,505,286 in revenue or 77.02% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,238,949 or 22.98% of total revenues of \$9,744,235.
- The District had \$10,317,252 in expenses related to governmental activities; \$2,238,949 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$7,505,286 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and bond retirement fund. The general fund had \$8,280,083 in revenues and other financing sources and \$8,073,369 in expenditures and other financing uses. During fiscal year 2007 the general fund's fund balance increased \$206,714 from \$360,816 to \$567,530.
- The District's bond retirement fund had \$257,846 in revenues and \$234,772 in expenditures. During fiscal year 2007, the bond retirement fund's fund balance increased \$23,074 from \$333,814 to \$356,888.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(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 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(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 24-52 of this report.

The District as a Whole

The table below provides a summary of the District's net assets for 2007 and 2006.

	Net Assets	
	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Assets</u>		
Current and other assets	\$ 3,843,473	\$ 3,674,517
Capital assets	<u>14,285,329</u>	<u>14,982,779</u>
Total assets	<u>18,128,802</u>	<u>18,657,296</u>
<u>Liabilities</u>		
Current liabilities	2,452,106	2,326,520
Long-term liabilities	<u>3,494,073</u>	<u>3,575,136</u>
Total liabilities	<u>5,946,179</u>	<u>5,901,656</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	11,319,553	11,890,046
Restricted	991,678	854,273
Unrestricted (deficit)	<u>(128,608)</u>	<u>11,321</u>
Total net assets	<u>\$ 12,182,623</u>	<u>\$ 12,755,640</u>

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

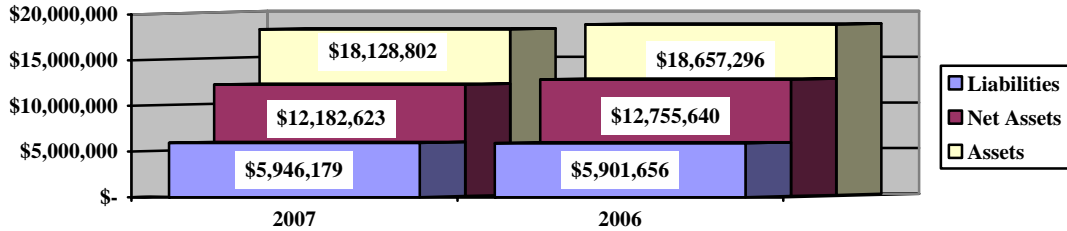
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Unaudited)

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$12,182,623. Of this total, \$991,678 is restricted in use.

At year-end, capital assets represented 78.80% of total assets. Capital assets include land, land improvements, buildings and improvements, infrastructure, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$11,319,553. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

The graph below presents the District's governmental activities assets, liabilities and net assets for fiscal year 2007 and 2006.

Governmental Activities



The table below shows the change in net assets for fiscal year 2007 and 2006.

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 696,943	\$ 471,401
Operating grants and contributions	1,532,270	996,790
Capital grants and contributions	9,736	9,600
General revenues:		
Property taxes	1,708,929	2,061,009
Grants and entitlements	5,679,604	6,031,445
Investment earnings	48,974	34,506
Other	<u>67,779</u>	<u>60,447</u>
Total revenues	<u>9,744,235</u>	<u>9,665,198</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Unaudited)

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,701,846	\$ 3,357,388
Special	1,138,462	981,600
Vocational	233,987	228,192
Other	14	6,572
Support services:		
Pupil	332,931	297,661
Instructional staff	221,627	267,935
Board of education	1,291,282	1,239,469
Administration	682,537	603,652
Fiscal	208,282	222,763
Business	86,706	44,377
Operations and maintenance	860,867	792,665
Pupil transportation	773,115	738,693
Food service operations	394,121	392,188
Operations of non-instructional services	9,184	9,378
Extracurricular activities	202,615	201,459
Interest and fiscal charges	<u>179,676</u>	<u>165,560</u>
Total expenses	10,317,252	9,549,552
Special item: Gain on sale of capital asset	<u>-</u>	<u>38,048</u>
Change in net assets	(573,017)	153,694
Net assets at beginning of year	<u>12,755,640</u>	<u>12,601,946</u>
Net assets at end of year	<u>\$ 12,182,623</u>	<u>\$ 12,755,640</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$573,017. Total governmental expenses of \$10,317,252 were offset by program revenues of \$2,238,949 and general revenues of \$7,505,286. Program revenues supported 21.70% 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 75.82% of total governmental revenue.

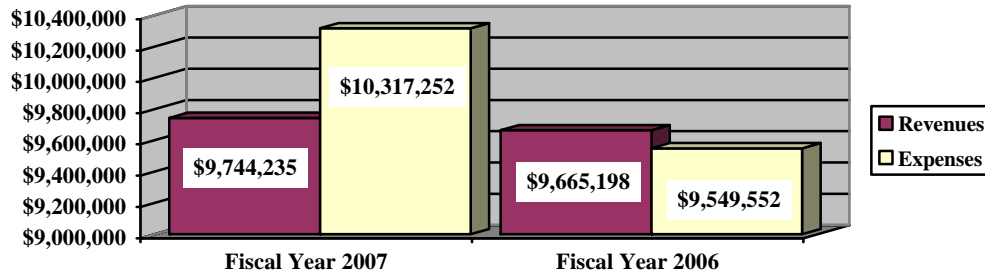
The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,074,309 or 49.18% of total governmental expenses for fiscal 2007.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Unaudited)

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2007 and 2006.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Program expenses				
Instruction:				
Regular	\$ 3,701,846	\$ 3,370,549	\$ 3,357,388	\$ 3,209,790
Special	1,138,462	70,101	981,600	497,318
Vocational	233,987	203,092	228,192	228,192
Other	14	14	6,572	1,033
Support services:				
Pupil	332,931	331,331	297,661	278,923
Instructional staff	221,627	165,410	267,935	185,548
Board of education	1,291,282	1,038,484	1,239,469	1,014,593
Administration	682,537	679,156	603,652	598,147
Fiscal	208,282	208,282	222,763	222,763
Business	86,706	60,122	44,377	44,377
Operations and maintenance	860,867	854,867	792,665	786,665
Pupil transportation	773,115	760,907	738,693	738,693
Food service operations	394,121	1,543	392,188	(26,845)
Operations of non-instructional services	9,184	4,184	9,378	(2,444)
Extracurricular activities	202,615	150,585	201,459	129,448
Interest and fiscal charges	179,676	179,676	165,560	165,560
Total expenses	\$ 10,317,252	\$ 8,078,303	\$ 9,549,552	\$ 8,071,761

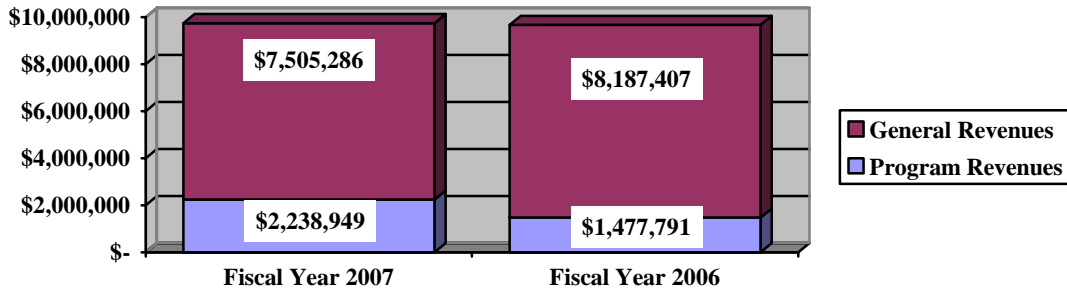
**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Unaudited)

The dependence upon tax and other general revenues for governmental activities is apparent, 71.81% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 78.30%. The District's taxpayers and unrestricted grants and entitlements from the State are by far the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2007 and 2006.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,266,886, which is greater than last year's total of \$1,047,816. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance June 30, 2007	Fund Balance June 30, 2006	Increase (Decrease)	Percentage Change
General	\$ 567,530	\$ 360,816	\$ 206,714	57.29 %
Bond Retirement	356,888	333,814	23,074	6.91 %
Other Governmental	<u>342,468</u>	<u>353,186</u>	<u>(10,718)</u>	(3.03) %
Total	<u>\$ 1,266,886</u>	<u>\$ 1,047,816</u>	<u>\$ 219,070</u>	20.91 %

General Fund

The District's general fund balance increased \$206,714. The increase in fund balance can be attributed to revenues of \$8,269,883 being greater than expenditures of \$7,968,369. Revenues exceed expenditures for fiscal year 2007 by \$301,514. 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, 2007
(Unaudited)

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 1,460,763	\$ 1,663,592	\$ (202,829)	(12.19) %
Tuition	266,825	231,782	35,043	15.12 %
Earnings on investments	46,982	27,396	19,586	71.49 %
Intergovernmental	6,213,093	5,997,157	215,936	3.60 %
Other revenues	<u>282,220</u>	<u>100,103</u>	<u>182,117</u>	181.93 %
Total	<u>\$ 8,269,883</u>	<u>\$ 8,020,030</u>	<u>\$ 249,853</u>	3.12 %
<u>Expenditures</u>				
Instruction	\$ 3,661,901	\$ 3,511,514	\$ 150,387	4.28 %
Support services	4,166,342	3,939,127	227,215	5.77 %
Extracurricular activities	129,420	124,746	4,674	3.75 %
Debt service	<u>10,706</u>	<u>10,705</u>	<u>1</u>	0.01 %
Total	<u>\$ 7,968,369</u>	<u>\$ 7,586,092</u>	<u>\$ 382,277</u>	5.04 %

The decrease in tax revenue of \$202,829 can be attributed to House Bill 66, which eliminates the tax on tangible personal property. The District receives a reimbursement for this lost revenue from the State. This reimbursement is the reason for the increase in intergovernmental revenue. The increase in tuition revenue of \$35,043 is due to an increase in open enrollment revenue received during the fiscal year. Earnings on investments increased \$19,586 due to the District having more funds available to invest and increased interest rates during the fiscal year. Other revenues increased \$182,117, which is primarily due to services provided to other entities during the fiscal year. The increase in instruction and support service expenditures is primarily due to increased wage and benefit costs during the fiscal year. Another reason for the increase in support services is the increase in maintenance expenditures and increasing fuel costs for pupil transportation.

Bond Retirement Fund

The District's bond retirement fund balance increased \$23,074 from \$333,814 to \$356,888 at June 30, 2007. The increase in fund balance can be attributed to revenues of \$257,846 being greater than expenditures of \$234,772.

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 2007, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$8,290,131 and final budgeted revenues and other financing sources were unchanged from the original. Actual revenues and other financing sources for fiscal 2007 were \$8,363,027, which represents an increase \$72,896 over final budgeted revenues and other financing sources.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Unaudited)

General fund original appropriations (appropriated expenditures including other financing uses) were \$8,332,787. General fund final appropriations (appropriated expenditures including other financing uses) were \$8,375,821. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$8,171,270, which was \$204,551 less than the final budgeted appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$14,285,329 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 2007 balances compared to 2006:

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

	Governmental Activities	
	2007	2006
Land	\$ 84,670	\$ 84,670
Construction in progress	-	330,500
Land improvements	532,153	573,313
Building and improvements	13,184,979	13,492,347
Furniture and equipment	175,149	192,939
Infrastructure	125,872	129,368
Vehicles	182,506	179,642
Total	\$ 14,285,329	\$ 14,982,779

The overall decrease in capital assets of \$697,450 is due to depreciation expense of \$667,727 exceeding capital outlay of \$66,679 and disposals (net of accumulated depreciation) of \$96,402 during the fiscal year.

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

Debt Administration

At June 30, 2007, the District had \$2,782,977 in general obligation bonds outstanding. Of this total, \$95,000 is due within one year and \$2,687,977 is due within greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2007	2006
General obligation bonds	\$ 2,782,977	\$ 2,849,630
Total	\$ 2,782,977	\$ 2,849,630

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Unaudited)

At June 30, 2007, the District's overall legal debt margin was \$4,284,549, and an unvoted debt margin of \$73,585.

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

Current Financial Related Activities

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

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

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

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

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

Contacting the District's Financial Management

This financial report is designed to provide our 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, 2007

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 1,751,249
Cash with escrow agent	374
Receivables:	
Taxes	1,870,235
Accounts	7,539
Intergovernmental	201,494
Prepayments	203
Materials and supplies inventory	12,379
Capital assets:	
Land	84,670
Depreciable capital assets, net	14,200,659
Capital assets, net.	14,285,329
 Total assets.	 18,128,802
 Liabilities:	
Accounts payable.	22,944
Accrued wages and benefits	567,810
Pension obligation payable.	156,009
Intergovernmental payable	46,713
Accrued interest payable	12,023
Claims payable.	80,541
Unearned revenue.	1,566,066
Long-term liabilities:	
Due within one year.	186,433
Due in more than one year	3,307,640
Total liabilities	5,946,179
 Net Assets:	
Invested in capital assets, net of related debt.	11,319,553
Restricted for:	
Capital projects.	243,783
Debt service.	373,188
State funded programs.	44,824
Federally funded programs.	28,045
Student activities.	12,323
Other purposes	289,515
Unrestricted (deficit)	(128,608)
Total net assets	\$ 12,182,623

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, 2007

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities
Governmental activities:						
Instruction:						
Regular	\$ 3,701,846	\$ 245,315	\$ 85,982	\$ -		\$ (3,370,549)
Special	1,138,462	-	1,068,361	-		(70,101)
Vocational	233,987	-	30,895	-		(203,092)
Other	14	-	-	-		(14)
Support services:						
Pupil	332,931	-	1,600	-		(331,331)
Instructional staff	221,627	-	56,217	-		(165,410)
Board of education	1,291,282	252,798	-	-		(1,038,484)
Administration	682,537	-	3,381	-		(679,156)
Fiscal	208,282	-	-	-		(208,282)
Business	86,706	26,584	-	-		(60,122)
Operations and maintenance	860,867	-	6,000	-		(854,867)
Pupil transportation	773,115	-	2,472	9,736		(760,907)
Operation of non-instructional services:						
Food service operations	394,121	120,216	272,362	-		(1,543)
Other non-instructional services	9,184	-	5,000	-		(4,184)
Extracurricular activities	202,615	52,030	-	-		(150,585)
Interest and fiscal charges	179,676	-	-	-		(179,676)
Total governmental activities	\$ 10,317,252	\$ 696,943	\$ 1,532,270	\$ 9,736		(8,078,303)
 General Revenues:						
Property taxes levied for:						
General purposes						1,453,854
Debt service						227,556
Capital projects						27,519
Grants and entitlements not restricted						
to specific programs						5,679,604
Investment earnings						48,974
Miscellaneous						67,779
Total general revenues						7,505,286
Change in net assets						(573,017)
Net assets at beginning of year						12,755,640
Net assets at end of year						\$ 12,182,623

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 771,236	\$ 345,027	\$ 345,471	\$ 1,461,734
Cash with escrow agent	-	-	374	374
Receivables:				
Taxes.	1,590,763	249,499	29,973	1,870,235
Accounts	7,539	-	-	7,539
Intergovernmental	-	-	201,494	201,494
Interfund loans	99,660	-	-	99,660
Due from other funds.	85,436	-	-	85,436
Prepayments	203	-	-	203
Materials and supplies inventory	522	-	11,857	12,379
Restricted assets:				
Equity in pooled cash and cash equivalents	289,515	-	-	289,515
Total assets	<u>\$ 2,844,874</u>	<u>\$ 594,526</u>	<u>\$ 589,169</u>	<u>\$ 4,028,569</u>
Liabilities:				
Accounts payable	\$ 15,154	\$ -	\$ 7,790	\$ 22,944
Accrued wages and benefits	514,055	-	53,755	567,810
Compensated absences payable	35,922	-	-	35,922
Pension obligation payable.	148,772	-	7,237	156,009
Intergovernmental payable.	42,539	-	4,174	46,713
Interfund loans payable.	-	-	99,660	99,660
Deferred revenue.	190,424	27,224	48,911	266,559
Unearned revenue.	1,330,478	210,414	25,174	1,566,066
Total liabilities	<u>2,277,344</u>	<u>237,638</u>	<u>246,701</u>	<u>2,761,683</u>
Fund Balances:				
Reserved for encumbrances	90,851	-	47,181	138,032
Reserved for materials and supplies inventory.	522	-	11,857	12,379
Reserved for prepayments	203	-	-	203
Reserved for property tax unavailable for appropriation	69,861	11,861	1,396	83,118
Reserved for BWC refunds.	24,797	-	-	24,797
Reserved for capital acquisition.	264,718	-	-	264,718
Reserved for debt service.	-	345,027	-	345,027
Unreserved, undesignated, reported in:				
General fund	116,578	-	-	116,578
Special revenue funds.	-	-	64,406	64,406
Capital projects funds.	-	-	217,628	217,628
Total fund balances.	<u>567,530</u>	<u>356,888</u>	<u>342,468</u>	<u>1,266,886</u>
Total liabilities and fund balances	<u>\$ 2,844,874</u>	<u>\$ 594,526</u>	<u>\$ 589,169</u>	<u>\$ 4,028,569</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, 2007

Total governmental fund balances		\$	1,266,886
<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.			14,285,329
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	221,051	
Intergovernmental revenue		45,508	
Total			266,559
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.			(165,977)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(12,023)
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		404,398	
Capital lease obligations		270,776	
General obligation bonds payable		2,782,977	
Total			(3,458,151)
Net assets of governmental activities		\$	12,182,623

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, 2007

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 1,460,763	\$ 227,220	\$ 27,611	\$ 1,715,594
Tuition.	266,825	-	-	266,825
Charges for services.	-	-	120,216	120,216
Earnings on investments.	46,982	-	2,858	49,840
Extracurricular.	-	-	78,614	78,614
Other local revenues.	282,220	-	6,647	288,867
Intergovernmental - State.	6,213,093	30,626	111,996	6,355,715
Intergovernmental - Federal	-	-	833,588	833,588
Total revenue	<u>8,269,883</u>	<u>257,846</u>	<u>1,181,530</u>	<u>9,709,259</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,858,168	-	74,688	2,932,856
Special.	577,050	-	557,322	1,134,372
Vocational.	226,683	-	-	226,683
Other.	-	-	14	14
Support services:				
Pupil.	322,025	-	1,600	323,625
Instructional staff	185,108	-	15,896	201,004
Board of education	1,291,023	-	-	1,291,023
Administration.	652,692	-	3,486	656,178
Fiscal	207,732	5,414	657	213,803
Business	59,804	-	26,902	86,706
Operations and maintenance.	710,103	-	68,818	778,921
Pupil transportation	737,855	-	-	737,855
Operation of non-instructional services:				
Food service operations	-	-	372,855	372,855
Other non-instructional services.	-	-	9,184	9,184
Extracurricular activities.	129,420	-	66,351	195,771
Facilities acquisition and construction	-	-	55,825	55,825
Debt service:				
Principal retirement	8,515	90,000	28,442	126,957
Interest and fiscal charges	2,191	139,358	15,208	156,757
Total expenditures	<u>7,968,369</u>	<u>234,772</u>	<u>1,297,248</u>	<u>9,500,389</u>
Excess of revenues over (under) expenditures	<u>301,514</u>	<u>23,074</u>	<u>(115,718)</u>	<u>208,870</u>
Other financing sources (uses):				
Transfers in	-	-	105,000	105,000
Transfers (out).	(105,000)	-	-	(105,000)
Sale of assets.	10,200	-	-	10,200
Total other financing sources (uses)	<u>(94,800)</u>	<u>-</u>	<u>105,000</u>	<u>10,200</u>
Net change in fund balances	206,714	23,074	(10,718)	219,070
Fund balance at beginning of year	<u>360,816</u>	<u>333,814</u>	<u>353,186</u>	<u>1,047,816</u>
Fund balance at end of year	<u>\$ 567,530</u>	<u>\$ 356,888</u>	<u>\$ 342,468</u>	<u>\$ 1,266,886</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, 2007

Net change in fund balances - total governmental funds	\$	219,070
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Additions	\$ 66,679	
Depreciation expense	(667,727)	
Total		(601,048)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(96,402)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	(6,665)	
Intergovernmental	31,026	
Total		24,361
Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		126,957
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.		
Accrued interest	428	
Accreted interest	(23,347)	
Total		(22,919)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		1,917
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.		
		(224,953)
Change in net assets of governmental activities	\$	(573,017)

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, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 1,526,786	\$ 1,526,786	\$ 1,540,211	\$ 13,425
Tuition.	264,499	264,499	266,825	2,326
Earnings on investments.	46,572	46,572	46,982	410
Other local revenues	279,760	279,760	282,220	2,460
Intergovernmental - State	6,158,937	6,158,937	6,213,093	54,156
Total revenue	<u>8,276,554</u>	<u>8,276,554</u>	<u>8,349,331</u>	<u>72,777</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,884,493	2,899,390	2,828,582	70,808
Special.	599,301	602,396	587,685	14,711
Vocational.	239,598	240,836	234,954	5,882
Support services:				
Pupil.	323,265	324,934	316,999	7,935
Instructional staff	186,291	187,253	182,680	4,573
Board of education	1,308,706	1,315,465	1,283,339	32,126
Administration.	659,564	662,970	646,779	16,191
Fiscal	215,650	216,763	211,469	5,294
Business	60,986	61,301	59,804	1,497
Operations and maintenance.	713,231	716,914	699,406	17,508
Pupil transportation	800,596	804,731	785,078	19,653
Extracurricular activities.	132,401	133,085	129,835	3,250
Total expenditures	<u>8,124,082</u>	<u>8,166,038</u>	<u>7,966,610</u>	<u>199,428</u>
Excess of revenues over (under) expenditures.	<u>152,472</u>	<u>110,516</u>	<u>382,721</u>	<u>272,205</u>
Other financing sources (uses):				
Refund of prior year expenditure.	1,610	1,610	1,624	14
Transfers (out)	(107,075)	(107,628)	(105,000)	2,628
Advances in.	1,856	1,856	1,872	16
Advances (out)	(101,630)	(102,155)	(99,660)	2,495
Sale of assets.	10,111	10,111	10,200	89
Total other financing sources (uses)	<u>(195,128)</u>	<u>(196,206)</u>	<u>(190,964)</u>	<u>5,242</u>
Net change in fund balance	(42,656)	(85,690)	191,757	277,447
Fund balance at beginning of year.	764,882	764,882	764,882	-
Prior year encumbrances appropriated	90,391	90,391	90,391	-
Fund balance at end of year	<u>\$ 812,617</u>	<u>\$ 769,583</u>	<u>\$ 1,047,030</u>	<u>\$ 277,447</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	Governmental Activities - Internal Service Fund
Liabilities:	
Due to other funds	\$ 85,436
Claims payable	<u>80,541</u>
 Total liabilities	 <u>165,977</u>
 Net assets:	
Unrestricted (deficit)	<u>(165,977)</u>
 Total net assets (deficit)	 <u><u>\$ (165,977)</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, 2007

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 1,172,790
Total operating revenues	<u>1,172,790</u>
Operating expenses:	
Purchased services	159,263
Claims	<u>1,238,895</u>
Total operating expenses	<u>1,398,158</u>
Operating loss	<u>(225,368)</u>
Nonoperating revenues:	
Interest revenue	<u>415</u>
Total nonoperating revenues	<u>415</u>
Change in net assets.	(224,953)
Net assets at beginning of year.	<u>58,976</u>
Net assets (deficit) at end of year	<u><u>\$ (165,977)</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, 2007

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 1,172,790
Cash payments for purchased services	(159,263)
Cash payments for claims.	<u>(1,224,774)</u>
Net cash used in operating activities	<u>(211,247)</u>
Cash flows from noncapital financing activities:	
Cash received from interfund loans	<u>85,436</u>
Net cash provided by noncapital financing activities	<u>85,436</u>
Cash flows from investing activities:	
Interest received.	<u>415</u>
Net cash provided by investing activities	<u>415</u>
Net decrease in cash and cash equivalents	(125,396)
Cash with fiscal agent at beginning of year	<u>125,396</u>
Cash with fiscal agent at end of year.	<u><u>\$ -</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (225,368)
Changes in assets and liabilities: Increase in claims payable	<u>14,121</u>
Net cash used in operating activities	<u><u>\$ (211,247)</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, 2007

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 30,463
Total assets.	<u>\$ 30,463</u>
Liabilities:	
Due to students	\$ 30,463
Total liabilities	<u>\$ 30,463</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 518th largest by total enrollment among the 876 public school districts and community schools in the State. The District operates under a locally-elected five-member Board form of government. Each member is elected to a four-year term. The District provides educational services as authorized by its charter and further mandated by State and/or Federal agencies. The Board of Education controls the District's 4 instructional/support facilities staffed by 40 classified employees and 67 certificated employees who provide services to 899 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, 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, food service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; (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, 2007

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

JOINTLY GOVERNED ORGANIZATIONS

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

OME-RESA is a computer service organization whose primary function is to provide information technology services to its member districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records, and test scoring.

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

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

OME-RESA is owned and operated by 49 member districts in 10 different Ohio counties. The member districts are comprised of public districts and county Boards of Education. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a Board of Directors, which is selected by the member districts. Each member district has one vote in all matters and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the Board of Directors.

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

Lincoln Way Special Education Regional Resource Center (LWSERRC)

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

PUBLIC ENTITY RISK POOL

Ohio Association of School Business Officials

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

INSURANCE PURCHASING POOL

Ohio Mid-Eastern Regional Education Services Agency

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (b) 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:

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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).

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have 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. Allocations of costs, such as depreciation and amortization, are not recognized in governmental funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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 2007 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The 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.
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 original and final Certificates of Estimated Resources issued for fiscal year 2007.
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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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, 2007, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds, 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.

During fiscal year 2007, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and a repurchase agreement. 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 2007. 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, 2007.

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 2007 amounted to \$46,982, which includes \$17,992 assigned from other funds.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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 consumption method.

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2007, the District maintained its capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

I. Interfund Balances

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

J. 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, 2007, 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, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

L. Fund Balance Reserves

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

M. 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.

N. Net Assets

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

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

O. 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.

P. Estimates

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Q. Restricted Assets

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

R. 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.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2007, the District had no extraordinary or special items.

NOTE 3 - ACCOUNTABILITY & COMPLIANCE

Deficit Fund Balances/Net Assets

Fund balances/net assets at June 30, 2007 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Governmental Funds</u>	
Poverty Aid	\$ 542
Title I	8,549
Title VI	377
<u>Proprietary Fund</u>	
Internal Service Fund	165,977

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash with Escrow Agent

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 an escrow account at June 30, 2007, was \$374. Of the escrow cash balance; \$374 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.

B. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$(114,210), exclusive of the \$1,780,746 repurchase agreement included in investments below. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft due to the "zero-balance" nature of the District's bank accounts. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, the entire amount of the District's bank balance of \$87,478 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

C. Investments

As of June 30, 2007, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase Agreement	\$ 1,780,746	\$ 1,780,746
STAR Ohio	115,176	115,176
	<u>\$ 1,895,922</u>	<u>\$ 1,895,922</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. For the District's \$1,780,746 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the District. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 1,780,746	93.93%
STAR Ohio	115,176	6.07%
	<u>\$ 1,895,922</u>	<u>100.00%</u>

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ (114,210)
Investments	1,895,922
Cash with escrow agent	374
Total	<u>\$ 1,782,086</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,751,623
Agency fund	30,463
Total	<u>\$ 1,782,086</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2007 as reported on the fund statements consist of the following individual interfund loans receivable and payable.

<u>Receivable fund</u>	<u>Payable funds</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 99,660</u>

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore no internal balances at June 30, 2007 are reported on the statement of net assets.

- B.** Due to/from other funds at June 30, 2007 as reported on the fund statements, consist of the following amounts receivable/payable:

<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Amount</u>
General	Internal service fund	<u>\$ 85,436</u>

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

Interfund balances between governmental funds and the internal service fund are eliminated on the government-wide financial statements; therefore no internal balances at June 30, 2007 are reported on the statement of net assets.

- C.** Interfund transfers for the year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

Transfers to Nonmajor Governmental funds from:	
General Fund	\$ 105,000

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, 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 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 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 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. For 2006, tangible personal property is assessed at 18.75% for property including inventory. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009. 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.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Columbiana, Carroll and Jefferson Counties. The County Auditors periodically advance to the District their portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available as an advance at June 30, 2007 was \$69,861 in the general fund, \$11,861 in the bond retirement fund and \$1,396 in the permanent improvement fund, a nonmajor governmental fund. These amounts have been recorded as revenue. The amount that was available as an advance at June 30, 2006 was \$149,309 in the general fund, \$25,231 in the bond retirement fund and \$2,955 in the permanent improvement fund, a nonmajor governmental fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 6 - PROPERTY TAXES – (Continued)

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

On 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.

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 66,338,910	88.48	\$ 68,212,390	89.13
Public utility personal	6,562,900	8.76	7,103,460	9.28
Tangible personal property	<u>2,074,950</u>	<u>2.76</u>	<u>1,218,900</u>	<u>1.59</u>
Total	<u>\$ 74,976,760</u>	<u>100.00</u>	<u>\$ 76,534,750</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 38.64		\$ 38.64	
Debt Service	3.71		3.50	
Permanent Improvements	0.50		0.50	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:	
Taxes	\$ 1,870,235
Accounts	7,539
Intergovernmental	<u>201,494</u>
Total	<u>\$ 2,079,268</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Balance 06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/07</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 84,670	\$ -	\$ -	\$ 84,670
Construction in progress	<u>330,500</u>	<u>-</u>	<u>(330,500)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>415,170</u>	<u>-</u>	<u>(330,500)</u>	<u>84,670</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	715,162	-	(16,736)	698,426
Buildings and improvements	15,983,711	330,500	(215,405)	16,098,806
Furniture and equipment	382,936	5,500	-	388,436
Infrastructure	139,856	-	-	139,856
Vehicles	<u>748,938</u>	<u>61,179</u>	<u>(104,889)</u>	<u>705,228</u>
Total capital assets, being depreciated	<u>17,970,603</u>	<u>397,179</u>	<u>(337,030)</u>	<u>18,030,752</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(141,849)	(37,394)	12,970	(166,273)
Buildings and improvements	(2,491,364)	(545,232)	122,769	(2,913,827)
Furniture and equipment	(189,997)	(23,290)	-	(213,287)
Infrastructure	(10,488)	(3,496)	-	(13,984)
Vehicles	<u>(569,296)</u>	<u>(58,315)</u>	<u>104,889</u>	<u>(522,722)</u>
Total accumulated depreciation	<u>(3,402,994)</u>	<u>(667,727)</u>	<u>240,628</u>	<u>(3,830,093)</u>
Governmental activities capital assets, net	<u>\$ 14,982,779</u>	<u>\$ (270,548)</u>	<u>\$ (426,902)</u>	<u>\$ 14,285,329</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>			
Regular	\$	560,003	
<u>Support Services:</u>			
Instructional staff		8,812	
Board of education		259	
Administration		881	
Operations and maintenance		27,423	
Pupil transportation		60,125	
Food service operations		3,380	
Extracurricular activities		6,844	
		6,844	
Total depreciation expense	\$	667,727	

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

A. In a prior year, the District entered into a capital lease for the acquisition of copiers. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term. At inception, the lease was accounted for as an other financing source and a capital outlay expenditure in the general fund. Capital lease payments have been reclassified and shown as debt service expenditures in the general fund. These expenditures will be reflected as function expenditures on a budgetary basis. The general capital assets acquired by this capital lease have been capitalized in the governmental activities on the statement of net assets in the amount of \$44,022, which is equal to the present value of the future minimum lease payments as of the date of their inception. Accumulated depreciation as of June 30, 2007 was \$16,508, leaving a current book value of \$27,514. A corresponding liability has been recorded in the governmental activities on the statement of net assets. Principal payments made during fiscal year 2007 totaled \$8,515.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2007.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2008	\$ 10,705
2009	10,706
2010	3,569
Total minimum lease payments	24,980
Less: amount representing interest	(2,262)
Present value of minimum lease payments	\$ 22,718

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE (Continued)

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

Capital assets consisting of building improvements have been capitalized in the amount of \$330,500. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2007 was \$16,525, leaving a current book value of \$313,975. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2007 totaled \$28,442 paid by the building fund, a nonmajor governmental fund.

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

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2007.

Fiscal Year Ending June 30	Amount
2008	\$ 43,649
2009	43,650
2010	43,650
2011	43,650
2012	43,649
2013-2014	87,298
Total	305,546
Less: amount representing interest	(57,488)
Present value of minimum lease payments	\$ 248,058

NOTE 10 - 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 expenditures in the bond retirement fund. The source of payment is derived from a current 3.71 mills bonded debt tax levy.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS (Continued)

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

In conjunction with the 3.71 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 nonmajor governmental funds.

This issue is comprised of both current interest bonds, par value \$3,057,000, and capital appreciation bonds, par value \$35,000. The interest rates on the current interest bonds range from 4.00% to 5.25%. The capital appreciation bonds mature on December 1, 2009 (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 accreted value at maturity for the capital appreciation bonds is \$230,000. As of June 30, 2007, \$87,977 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 2007 on the 2001 series general obligation bonds:

	Balance Outstanding <u>06/30/06</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/07</u>	Amounts Due in <u>One Year</u>
General obligation bonds:					
Current interest bonds	\$ 2,750,000	\$ -	\$ (90,000)	\$ 2,660,000	\$ 95,000
Capital appreciation bonds	35,000	-	-	35,000	-
Accreted interest bonds	<u>64,630</u>	<u>23,347</u>	<u>-</u>	<u>87,977</u>	<u>-</u>
Total G.O. bonds	<u>\$ 2,849,630</u>	<u>\$ 23,347</u>	<u>\$ (90,000)</u>	<u>\$ 2,782,977</u>	<u>\$ 95,000</u>

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

Fiscal Year <u>Ending June 30</u>	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 95,000	\$ 135,609	\$ 230,609	\$ -	\$ -	\$ -
2009	100,000	131,536	231,536	-	-	-
2010	-	129,411	129,411	19,335	95,665	115,000
2011	-	129,411	129,411	15,665	99,335	115,000
2012	120,000	126,261	246,261	-	-	-
2013-2017	725,000	524,078	1,249,078	-	-	-
2018-2022	930,000	307,911	1,237,911	-	-	-
2023-2025	<u>690,000</u>	<u>55,910</u>	<u>745,910</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,660,000</u>	<u>\$ 1,540,127</u>	<u>\$ 4,200,127</u>	<u>\$ 35,000</u>	<u>\$ 195,000</u>	<u>\$ 230,000</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LONG-TERM OBLIGATIONS (Continued)

- B. During the fiscal year 2007, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding 06/30/06	Additions	Reductions	Balance Outstanding 06/30/07	Amounts Due in One Year
Governmental Activities:					
Compensated absences payable	\$ 417,773	\$ 83,657	\$ (61,110)	\$ 440,320	\$ 52,206
Capital lease obligations	307,733	-	(36,957)	270,776	39,227
General obligation bonds payable	<u>2,849,630</u>	<u>23,347</u>	<u>(90,000)</u>	<u>2,782,977</u>	<u>95,000</u>
Total long-term obligations, governmental activities	<u>\$3,575,136</u>	<u>\$ 107,004</u>	<u>\$ (188,067)</u>	<u>\$ 3,494,073</u>	<u>\$ 186,433</u>

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

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a voted debt margin of \$4,284,549 (including available funds of \$356,888) and an unvoted debt margin of \$73,585.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - OTHER EMPLOYEE BENEFITS (Continued)

B. Life Insurance

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

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. For fiscal year 2007, 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.

C. Medical, Vision, Dental and Prescription Insurance

Medical, vision, dental and prescription insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of several Districts within the Eastern Region, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. The claims liability of \$80,541 reported in the internal service fund at June 30, 2007, is based on an estimate provided by Professional Risk Management (the third party administrator) and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - RISK MANAGEMENT (Continued)

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2007	\$ 66,420	\$ 1,238,895	\$ (1,224,774)	\$ 80,541
2006	77,393	1,160,445	(1,171,418)	66,420

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended June 30, 2007, 2006, and 2005 were \$95,016, \$90,104, and \$116,874; 46.19 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$51,127 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System of Ohio

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090 or by visiting the STRS Ohio website at www.strsoh.org.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 13 - PENSION PLANS - (Continued)

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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into 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.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$382,180, \$390,942 and \$400,704; 81.58 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. \$70,389 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$5,580 made by the District and \$7,979 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$29,398 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007, the balance in the Health Care Stabilization Fund was \$4.1 billion. For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were \$265.558 million and STRS Ohio had 122,934 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, the District paid \$46,132 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of 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).
- (d) Advance-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 191,757
Net adjustment for revenue accruals	(79,448)
Net adjustment for expenditure accruals	(100,429)
Net adjustment for other financing sources and uses	96,164
Adjustment for encumbrances	<u>98,670</u>
GAAP basis	<u>\$ 206,714</u>

NOTE 16 - CONTINGENCIES

A. Grants

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 16 – CONTINGENCIES – (Continued)

B. Litigation

The District is party to other legal proceedings seeking damages generally incidental to its operations. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

NOTE 17 - STATUTORY RESERVES

The District is required by State law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2007, 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, 2006	\$ (351,603)	\$ 172,429	\$ 24,797
Current year set-aside requirement	144,741	144,741	-
Qualifying disbursements	<u>(197,962)</u>	<u>(52,452)</u>	<u>-</u>
 Total	 <u>\$ (404,824)</u>	 <u>\$ 264,718</u>	 <u>\$ 24,797</u>

Cash balance carried forward to FY 2008

A schedule of the restricted assets at June 30, 2007 follows:

Amounts restricted for BWC refund	\$ 24,797
Amounts restricted for capital acquisition	<u>264,718</u>
Total restricted assets	<u>\$ 289,515</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.

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SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	03-PU	10.550		\$43,301		\$43,301
Child Nutrition Cluster:						
National School Breakfast Program	05-PU	10.553	\$53,588		\$53,588	
National School Lunch Program	LLP-4	10.555	157,806		157,806	
Summer Food Service Program for Children	24-PU	10.559	1,045		1,045	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>212,439</u>		<u>212,439</u>	
U.S. Department of Education						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies (ESEA Title I)	C1-SN-2007	84.010	2,715		6,272	
	C1-S1-2007		162,856		240,540	
	C1-S1-2006		-		3,085	
	C1-SD-2006		7,404		6,439	
Total ESEA Title I	Fund 572		<u>172,975</u>		<u>256,336</u>	
Drug Free School Grant	DR-S1-2006	84.186	1,828		2,446	
	DR-S1-2007		2,921		3,106	
Total Drug Free School Grant	Fund 584		<u>4,749</u>		<u>5,552</u>	
Innovative Educational Program Strategies	C2-S1-2006	84.298	1,409		1,759	
	C2-S1-2007		830		1,072	
Total Innovative Educational Program Strategies	Fund 573		<u>2,239</u>		<u>2,831</u>	
Education Technology Grant	TJ-S1-2006	84.318	3,923		2,954	
	TJ-S1-2007		526		1,812	
Total Education Technology Grant	Fund 599		<u>4,449</u>		<u>4,766</u>	
Title II A Improving Teacher Quality Program	TR-S1-2006	84.367	7,322		7,408	
	TR-S1-2007		35,445		49,459	
Total Title II A Program	Fund 590		<u>42,767</u>		<u>56,867</u>	
Total Department of Education			<u>227,179</u>		<u>326,352</u>	
Total Federal Awards			<u>\$439,618</u>	<u>\$43,301</u>	<u>\$538,791</u>	<u>\$43,301</u>

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

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (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

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

NOTE C – FOOD DONATION PROGRAM

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



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Columbiana County, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. We noted certain matters that we reported to the District's management in a separate letter dated January 31, 2008.

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 no instances of noncompliance or other matters that we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated January 31, 2008.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 31, 2008



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Southern Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the Southern Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2007.

In a separate letter to the District's management dated January 1, 2008, we reported other matters related to federal non-compliance not requiring inclusion in this report.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with 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.

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www.auditor.state.oh.us

Southern Local School District
Independent Accountants' Report on Compliance
With Requirements Applicable To Each Major Federal
Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133
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, 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

January 31, 2008

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

SOUTHERN LOCAL SCHOOL DISTRICT

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 20, 2008