



Dave Yost • Auditor of State

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Southern Local School District
Meigs County
920 Elm Street
Racine, Ohio 45771

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Local School District, Meigs County, Ohio (the School District), as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Local School District, Meigs County, Ohio, as of June 30, 2010, and the respective changes in financial position, 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 February 16, 2011, on our consideration of the School 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditure Schedule provides additional information required by the 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. The Federal Awards Receipts and Expenditure Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This Schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

February 16, 2011

Southern Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited*

The discussion and analysis of the Southern Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the School 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 School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2010 are as follows:

- Net assets of governmental activities increased \$403,845.
- General revenues accounted for \$6,520,916 in revenue or 70% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$2,748,468 or 30% of total revenues of \$9,269,384.
- The School District had \$8,865,539 in expenses related to governmental activities; only \$2,748,468 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$6,520,916 were adequate to provide for these programs.
- The School District's major funds were the General Fund and the Bond Retirement Debt Service Fund. The General Fund had \$6,103,687 in operating revenues and \$6,039,089 in operating expenditures. The General Fund's balance decreased \$1,080. The Bond Retirement Fund had \$452,499 in operating revenues and \$312,677 in operating expenditures. The Bond Retirement Fund's balance increased \$170,250.

Using this Annual Financial Report

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 Southern Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School 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 as the School District's most significant funds with all other non-major funds presented in total in one column.

Southern Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2010?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School 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 School 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, all of the School District's programs and services are reported as governmental activities including instruction, support services, operation of non instructional services, bond service operations, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Bond Retirement Debt Service Fund.

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general governmental 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 financial statements.

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. The School District's only fund of this type is the Self-Insurance Internal Service Fund. However, the activity of this fund is combined with the Governmental Activities on the entity-wide financial statements.

Southern Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2010

Unaudited

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. They are not reflected on the government-wide financial statements because the resources from those funds are not available to support the School District's programs. The School District uses the accrual basis of accounting to report its fiduciary fund.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2010 compared to 2009.

Table 1
Net Assets

	Governmental Activities		
	2010	2009	Change
Assets			
Current and Other Assets	\$5,341,011	\$4,899,151	\$441,860
Capital Assets	9,453,634	9,549,359	(95,725)
Total Assets	<u>14,794,645</u>	<u>14,448,510</u>	<u>346,135</u>
Liabilities			
Long-term Liabilities	2,996,916	3,195,539	(198,623)
Other Liabilities	2,887,794	2,746,881	140,913
Total Liabilities	<u>5,884,710</u>	<u>5,942,420</u>	<u>(57,710)</u>
Net Assets			
Invested in Capital Assets, Net of Debt	6,795,080	6,692,885	102,195
Restricted	926,518	770,995	155,523
Unrestricted	1,188,337	1,042,210	146,127
Total Net Assets	<u>\$8,909,935</u>	<u>\$8,506,090</u>	<u>\$403,845</u>

Total assets increased \$403,845. This increase was mainly due to an increase in cash and cash equivalents of \$410,085 and an increase in property taxes receivable of \$55,282. These increases were offset by a decrease in capital assets of \$95,725 and a decrease in intergovernmental receivable of \$64,810. As the assets increased, the total governmental activities liabilities decreased \$57,710.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2010, and comparisons to fiscal year 2009.

Southern Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2010

Unaudited

Table 2
Changes in Net Assets

	Governmental Activities		
	2010	2009	Change
Revenues			
Program Revenues			
Charges for Services	\$395,998	\$368,000	\$27,998
Operating Grants, Contributions and Interest	2,342,470	2,466,716	(124,246)
Capital Grants and Contributions	10,000	55,574	(45,574)
Total Program Revenues	2,748,468	2,890,290	(141,822)
General Revenues			
Property Taxes	1,854,434	1,894,212	(39,778)
Grants and Entitlements	4,593,476	4,137,076	456,400
Investment Earnings	44,727	40,648	4,079
Gain on Sale of Capital Assets	1,200	0	1,200
Miscellaneous	27,079	6,926	20,153
Total General Revenues	6,520,916	6,078,862	442,054
Total Revenues	9,269,384	8,969,152	300,232
Program Expenses			
Instruction:			
Regular	2,764,601	3,074,227	(309,626)
Special	894,416	985,650	(91,234)
Vocational	200,470	135,855	64,615
Adult/Continuing	0	109	(109)
Student Intervention	209,877	53,024	156,853
Support Services:			
Pupils	544,929	270,437	274,492
Instructional Staff	452,666	306,110	146,556
Board of Education	61,447	14,686	46,761
Administration	1,147,173	1,154,161	(6,988)
Fiscal	308,520	331,066	(22,546)
Operation and Maintenance of Plant	635,164	669,742	(34,578)
Pupil Transportation	919,145	565,698	353,447
Central	64,780	81,364	(16,584)
Operation of Non-Instructional Services:			
Food Service Operations	420,735	412,938	7,797
Other	7,307	73,148	(65,841)
Extracurricular Activities	152,365	129,521	22,844
Interest and Fiscal Charges	81,944	141,442	(59,498)
Total Expenses	8,865,539	8,399,178	466,361
Increase in Net Assets	403,845	569,974	(166,129)
Net Assets Beginning of Year	8,506,090	7,936,116	569,974
Net Assets End of Year	\$8,909,935	\$8,506,090	\$403,845

Southern Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2010

Unaudited

During fiscal year 2010, the School District saw an increase in grants and entitlements. The School District receives nearly 74% of its funds from the State due to area demographics.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3
Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	2010	2010	2009	2009
Program Expenses				
Instruction:				
Regular	\$2,764,601	\$2,374,283	\$3,074,227	\$2,522,610
Special	894,416	517,894	985,650	389,637
Vocational	200,470	158,819	135,855	94,515
Adult/Continuing	0	0	109	(491)
Student Intervention	209,877	(34,912)	53,024	9,391
Support Services:				
Pupil	544,929	301,545	270,437	96,074
Instructional Staff	452,666	309,437	306,110	107,542
Board of Education	61,447	61,447	14,686	14,686
Administration	1,147,173	549,905	1,154,161	561,713
Fiscal	308,520	292,439	331,066	317,912
Operation and Maintenance of Plant	635,164	605,060	669,742	634,912
Pupil Transportation	919,145	735,605	565,698	514,603
Central	64,780	8,904	81,364	23,584
Operation of Non-Instructional Services:				
Food Service Operations	420,735	58,191	412,938	64,204
Other	7,307	(235)	73,148	(24,913)
Extracurricular Activities	152,365	96,745	129,521	41,467
Interest and Fiscal Charges	81,944	81,944	141,442	141,442
Total	<u>\$8,865,539</u>	<u>\$6,117,071</u>	<u>\$8,399,178</u>	<u>\$5,508,888</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2010, 63% of instructional activities were supported through taxes and other general revenues.

Southern Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited*

The School District Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total operating revenues of \$9,361,060 and operating expenditures of \$9,162,615. The School District is focusing its efforts to reduce expenditures, first through strict monitoring of its discretionary budgets, such as supplies and capital outlay, and also through the retirement of several staff members. Also, the School District joined OME-RESA health consortium, effective July 1, 2008, therefore pooling the risk with 10,000 consortium members. The School District passed its renewal levy in November 2008 for five years. Additionally, the School District recently passed a \$3,950,000 bond levy in August, 2010, for the construction of a new high school facility.

General Fund Budgeting Highlights

The School 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 2010, the School District amended its General Fund budget, but not significantly. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis revenue was \$6,102,546, above final estimates of \$6,073,419. The \$29,127 difference was mainly due to more grants received than anticipated. Original estimated revenues were decreased \$105,022 mainly in the taxes and intergovernmental revenue areas due to less than expected state foundation and tax monies. Actual expenditures were \$14,201 under final appropriations. Original appropriations were increased \$301,279 due in part a one-time payment to medical insurance and increased contributions to the State retirement systems.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the School District had \$9,453,634 invested in land and land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2010 balances compared to 2009.

Southern Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
 Unaudited

Table 4
 Capital Assets
 (Net of Depreciation)

	Governmental Activities	
	2010	2009
Land	\$173,855	\$173,855
Land Improvements	174,535	191,880
Buildings and Improvements	8,227,416	8,486,392
Furniture and Equipment	688,429	528,561
Vehicles	189,399	168,671
Totals	\$9,453,634	\$9,549,359

See Note 11 to the basic financial statements for more information on capital assets.

Debt

At June 30, 2010, the School District had the following debt outstanding.

Table 5
 Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2010	2009
1995 Asbestos Loan	\$29,531	\$41,343
1998 School Facilities Construction Bonds	0	2,835,000
2009 Classroom Facilities Refunding Bonds	2,685,587	0
Capital Leases	10,709	21,474
	\$2,725,827	\$2,897,817

See Notes 14 and 15 to the basic financial statements for more information on debt.

Current Issues

The Southern Local School District continues to strengthen financially and expects to continue this trend under its leadership. Progress in economic development has helped the School District with increased enrollment. The School District was the only school in the County to obtain an “excellent” report card from the State Department of Education.

Southern Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2010

Unaudited

Contacting the School 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 School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Roy Johnson, Treasurer, at Southern Local School District, PO Box 176, Racine, Ohio 45771. Or E-Mail at sm_rjohnson@seovec.org.

Southern Local School District, Ohio

Statement of Net Assets

June 30, 2010

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,564,035
Cash and Cash Equivalents in Segregated Accounts	219
Accrued Interest Receivable	1,134
Accounts Receivable	1,532
Intergovernmental Receivable	272,825
Materials and Supplies Inventory	13,825
Prepaid Items	23,169
Property Taxes Receivable	2,439,015
Deferred Charges	25,257
Nondepreciable Capital Assets	173,855
Depreciable Capital Assets, Net	<u>9,279,779</u>
<i>Total Assets</i>	<u>14,794,645</u>
Liabilities	
Accounts Payable	66,515
Accrued Wages and Benefits Payable	605,258
Accrued Interest Payable	6,865
Intergovernmental Payable	236,707
Vacation Benefits Payable	21,542
Claims Payable	142,980
Deferred Revenue	1,807,927
Long-Term Liabilities:	
Due Within One Year	227,521
Due In More Than One Year	<u>2,769,395</u>
<i>Total Liabilities</i>	<u>5,884,710</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	6,795,080
Restricted for:	
Debt Service	556,928
Capital Projects	12,131
Capital Improvements Set-aside	67,024
Unclaimed Monies	441
Other Purposes	296,478
Unrestricted	<u>1,181,853</u>
<i>Total Net Assets</i>	<u><u>\$8,909,935</u></u>

See accompanying notes to the financial statements

Southern Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2010

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants, Contributions and Interest		
Governmental Activities					
Instruction:					
Regular	\$2,764,601	\$258,332	\$131,986	\$0	(\$2,374,283)
Special	894,416	0	376,522	0	(517,894)
Vocational	200,470	0	41,651	0	(158,819)
Student Intervention	209,877	0	244,789	0	34,912
Support Services:					
Pupils	544,929	61	243,323	0	(301,545)
Instructional Staff	452,666	0	143,229	0	(309,437)
Board of Education	61,447	0	0	0	(61,447)
Administration	1,147,173	0	597,268	0	(549,905)
Fiscal	308,520	0	16,081	0	(292,439)
Operation and Maintenance of Plant	635,164	1,789	28,315	0	(605,060)
Pupil Transportation	919,145	0	183,540	0	(735,605)
Central	64,780	0	55,876	0	(8,904)
Operation of Non-Instructional Services:					
Food Service Operations	420,735	90,196	272,348	0	(58,191)
Other	7,307	0	7,542	0	235
Extracurricular Activities	152,365	45,620	0	10,000	(96,745)
Interest and Fiscal Charges	81,944	0	0	0	(81,944)
Totals	\$8,865,539	\$395,998	\$2,342,470	\$10,000	(6,117,071)
General Revenues					
Property Taxes Levied for:					
					1,457,139
					361,617
					35,678
					4,593,476
					44,727
					1,200
					27,079
					<u>6,520,916</u>
					Change in Net Assets 403,845
					<u>Net Assets Beginning of Year 8,506,090</u>
					<u>Net Assets End of Year \$8,909,935</u>

See accompanying notes to the basic financial statements

Southern Local School District, Ohio

Balance Sheet

Governmental Funds

June 30, 2010

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,735,581	\$417,029	\$194,219	\$2,346,829
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	67,465	0	0	67,465
Cash and Cash Equivalents in Segregated Accounts	0	0	219	219
Receivables:				
Property Taxes	1,996,025	404,106	38,884	2,439,015
Accrued Interest	1,134	0	0	1,134
Accounts	716	0	816	1,532
Intergovernmental	4,264	0	268,561	272,825
Interfund	17,956	0	0	17,956
Prepaid Items	22,853	0	316	23,169
Materials and Supplies Inventory	2,541	0	11,284	13,825
<i>Total Assets</i>	<u>\$3,848,535</u>	<u>\$821,135</u>	<u>\$514,299</u>	<u>\$5,183,969</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$20,466	\$0	\$46,049	\$66,515
Accrued Wages and Benefits Payable	461,138	0	144,120	605,258
Interfund Payable	0	0	17,956	17,956
Intergovernmental Payable	176,951	0	59,756	236,707
Deferred Revenue	1,884,447	294,964	253,472	2,432,883
<i>Total Liabilities</i>	<u>2,543,002</u>	<u>294,964</u>	<u>521,353</u>	<u>3,359,319</u>
Fund Balances				
Reserved for Encumbrances	9,175	0	21,671	30,846
Reserved for Unclaimed Monies	441	0	0	441
Reserved for Capital Improvements	67,024	0	0	67,024
Reserved for Property Taxes	111,911	109,142	10,807	231,860
Unreserved, Undesignated, Reported in:				
General Fund	1,116,982	0	0	1,116,982
Special Revenue Funds (Deficits)	0	0	(51,663)	(51,663)
Debt Service Fund	0	417,029	0	417,029
Capital Projects Funds	0	0	12,131	12,131
<i>Total Fund Balances (Deficit)</i>	<u>1,305,533</u>	<u>526,171</u>	<u>(7,054)</u>	<u>1,824,650</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,848,535</u>	<u>\$821,135</u>	<u>\$514,299</u>	<u>\$5,183,969</u>

See accompanying notes to the financial statements

Southern Local School District, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2010*

Total Governmental Fund Balances		\$1,824,650
 <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.		9,453,634
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	399,228	
Grants and Intergovernmental Revenues	225,395	
Student Fees	333	624,956
Unamortized issuance costs represent deferred charges which do not provide current financial resources and therefore are not reported in the funds.		25,257
Accrued Interest Payable is recognized for outstanding long-term liabilities with interest accruals that are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		(6,865)
Vacation Benefits Payable is recognized for earned vacation benefits that are to be used within one year but is not recognized on the balance sheet until due.		(21,542)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		6,761
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
School Construction Refunding Bonds	(2,685,587)	
Asbestos Abatement Loan	(29,531)	
Capital Leases Payable	(10,709)	
Sick Leave Benefits Payable	(271,089)	(2,996,916)
Net Assets of Governmental Activities		\$8,909,935

See accompanying notes to the financial statements

Southern Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$1,475,539	\$365,512	\$35,997	\$1,877,048
Intergovernmental	4,299,965	86,987	2,553,905	6,940,857
Investment Earnings	43,019	0	175	43,194
Charges for Services	0	0	91,985	91,985
Tuition and Fees	258,150	0	182	258,332
Extracurricular Activities	0	0	45,681	45,681
Gifts and Donations	0	0	76,424	76,424
Miscellaneous	27,014	0	525	27,539
<i>Total Revenues</i>	<u>6,103,687</u>	<u>452,499</u>	<u>2,804,874</u>	<u>9,361,060</u>
Expenditures				
Current:				
Instruction:				
Regular	2,629,089	0	200,373	2,829,462
Special	548,326	0	354,735	903,061
Vocational	189,268	0	0	189,268
Student Intervention	0	0	226,069	226,069
Support Services:				
Pupils	234,353	0	300,645	534,998
Instructional Staff	272,862	0	156,362	429,224
Board of Education	23,837	0	37,610	61,447
Administration	338,049	0	782,753	1,120,802
Fiscal	278,076	11,701	13,578	303,355
Operation and Maintenance of Plant	539,449	0	69,301	608,750
Pupil Transportation	827,875	0	146,770	974,645
Central	53,279	0	60,831	114,110
Operation of Non-Instructional Services	0	0	404,345	404,345
Extracurricular Activities	92,437	0	57,477	149,914
Debt Service:				
Principal	10,765	201,812	0	212,577
Interest and Fiscal Charges	1,424	71,817	0	73,241
Bond Issuance Costs	0	27,347	0	27,347
<i>Total Expenditures</i>	<u>6,039,089</u>	<u>312,677</u>	<u>2,810,849</u>	<u>9,162,615</u>
Excess of Revenues Over (Under) Expenditures	<u>64,598</u>	<u>139,822</u>	<u>(5,975)</u>	<u>198,445</u>
Other Financing Sources (Uses)				
Transfers In	0	0	66,878	66,878
Proceeds from Sale of Capital Assets	1,200	0	0	1,200
Refunding Bonds Issued	0	2,670,000	0	2,670,000
Premium on Refunding Bonds Issued	0	139,066	0	139,066
Discount on Refunding Bonds Issued	0	(26,700)	0	(26,700)
Payment to Refunded Bond Escrow Agent	0	(2,751,938)	0	(2,751,938)
Transfers Out	(66,878)	0	0	(66,878)
<i>Total Other Financing Sources (Uses)</i>	<u>(65,678)</u>	<u>30,428</u>	<u>66,878</u>	<u>31,628</u>
<i>Net Change in Fund Balance</i>	<u>(1,080)</u>	<u>170,250</u>	<u>60,903</u>	<u>230,073</u>
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>1,306,613</u>	<u>355,921</u>	<u>(67,957)</u>	<u>1,594,577</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$1,305,533</u>	<u>\$526,171</u>	<u>(\$7,054)</u>	<u>\$1,824,650</u>

See accompanying notes to the financial statements

Southern Local School District, 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, 2010*

Net Change in Fund Balances - Total Governmental Funds \$230,073

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

Capital Asset Additions	660,446	
Depreciation Expense	<u>(756,171)</u>	(95,725)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Property Taxes	(22,614)	
Grants	(71,510)	
Miscellaneous	<u>(460)</u>	(94,584)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 212,577

Refunding of debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 2,670,000

Bond proceeds are other financing sources in the governmental funds, but the issuance increases the long-term liabilities on the statement of activities. Governmental funds report the effect of premiums and discounts when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities:

General Obligation Refunding Bonds	(2,670,000)	
Premium on Term Bonds	(139,066)	
Discount on Term Bonds	26,700	
Deferred Amount on Refunding	<u>81,938</u>	(2,700,428)

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. Premiums and discounts are reported as revenues and expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities:

Annual Accretion	(12,485)	
Accrued Interest Payable	3,546	
Amortization of Deferred Amount on Refunding	(6,262)	
Amortization of Issuance Costs	(2,090)	
Amortization of Premium on Term Bonds	10,628	
Amortization of Discount on Term Bonds	<u>(2,040)</u>	(8,703)

Issuance costs are reported as an expenditure when paid in the governmental funds, but are allocated as an expense over the life of the outstanding debt on the statement of activities. 27,347

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. 136,322

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Vacation Benefits Payable	333	
Sick Leave Benefits Payable	<u>26,633</u>	<u>26,966</u>

Change in Net Assets of Governmental Activities \$403,845

See accompanying notes to the financial statements

Southern Local School District, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$1,476,581	\$1,451,482	\$1,457,669	\$6,187
Intergovernmental	4,372,553	4,298,228	4,318,656	20,428
Investment Earnings	44,104	43,354	42,678	(676)
Tuition and Fees	262,204	257,747	258,062	315
Miscellaneous	22,999	22,608	25,481	2,873
<i>Total Revenues</i>	<u>6,178,441</u>	<u>6,073,419</u>	<u>6,102,546</u>	<u>29,127</u>
Expenditures				
Current:				
Instruction:				
Regular	2,533,881	2,538,859	2,538,859	0
Special	580,858	551,230	551,230	0
Vocational	164,513	186,451	186,442	9
Support Services:				
Pupils	295,217	231,499	231,322	177
Instructional Staff	177,199	257,947	246,809	11,138
Board of Education	21,050	23,119	23,119	0
Administration	484,937	355,521	355,521	0
Fiscal	248,393	277,037	274,459	2,578
Operation and Maintenance of Plant	555,249	562,783	562,783	0
Pupil Transportation	449,124	812,109	811,810	299
Central	61,189	67,493	67,493	0
Extracurricular Activities	83,959	92,800	92,800	0
<i>Total Expenditures</i>	<u>5,655,569</u>	<u>5,956,848</u>	<u>5,942,647</u>	<u>14,201</u>
<i>Excess of Revenues Over Expenditures</i>	<u>522,872</u>	<u>116,571</u>	<u>159,899</u>	<u>43,328</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	1,221	1,200	1,200	0
Refund of Prior Year Expenditures	0	0	1,326	1,326
Transfers Out	0	(66,878)	(66,878)	0
<i>Total Other Financing Sources (Uses)</i>	<u>1,221</u>	<u>(65,678)</u>	<u>(64,352)</u>	<u>1,326</u>
<i>Net Change in Fund Balance</i>	524,093	50,893	95,547	44,654
<i>Fund Balance Beginning of Year</i>	1,693,085	1,693,085	1,693,085	0
Prior Year Encumbrances Appropriated	715	715	715	0
<i>Fund Balance End of Year</i>	<u>\$2,217,893</u>	<u>\$1,744,693</u>	<u>\$1,789,347</u>	<u>\$44,654</u>

See accompanying notes to the basic financial statements

Southern Local School District, Ohio
Statement of Fund Net Assets
Medical and Prescription Internal Service Fund
June 30, 2010

Current Liabilities

Cash and Cash Equivalents with Fiscal Agents	\$149,741
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Current Liabilities

Claims Payable	<u>142,980</u>
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Net Assets

Unrestricted	<u><u>\$6,761</u></u>
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See accompanying notes to the basic financial statements

Southern Local School District, Ohio
*Statement of Revenues,
 Expenses and Changes in Fund Net Assets
 Medical and Prescription Internal Service Fund
 For the Fiscal Year Ended June 30, 2010*

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Operating Revenues	
Charges for Services	<u>\$1,659,719</u>
Operating Expenses	
Purchased Services	339,412
Claims	<u>1,185,693</u>
<i>Total Operating Expenses</i>	<u>1,525,105</u>
<i>Operating Income</i>	134,614
Non-Operating Revenues:	
Interest	<u>1,708</u>
<i>Change in Net Assets</i>	136,322
<i>Net Assets (Deficit) Beginning of Year</i>	<u>(129,561)</u>
<i>Net Assets End of Year</i>	<u><u>\$6,761</u></u>

See accompanying notes to the basic financial statements.

Southern Local School District, Ohio
Statement of Cash Flows
Medical and Prescription Internal Service Fund
For the Fiscal Year Ended June 30, 2010

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Transactions with Other Funds	\$1,659,719
Cash Payments to Suppliers for Services	(339,412)
Cash Payments for Claims	(1,141,190)
	<u>179,117</u>

<i>Net Cash Provided by Operating Activities</i>	<u>179,117</u>
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Cash Flows from Non-Capital and Related Financing Activities:

Advances Out	(31,084)
	<u>(31,084)</u>

Cash Flows from Investing Activities:

Interest	1,708
	<u>1,708</u>

Net Increase in Cash and Cash Equivalents	149,741
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<i>Cash and Cash Equivalents Beginning of Year</i>	<u>0</u>
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<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$149,741</u></u>
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Reconciliation of Operating Income to Net

Cash Provided by Operating Activities

Operating Income	\$134,614
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Changes in Liabilities

Increase in Claims Payable	44,503
	<u>44,503</u>

<i>Net Cash Provided by Operating Activities</i>	<u><u>\$179,117</u></u>
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See accompanying notes to the basic financial statements.

Southern Local School District, Ohio

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2010

	Private-Purpose Trusts	Agency
	<u> </u>	<u> </u>
Assets		
Equity in Pooled Cash and Cash Equivalents	\$0	\$3,526
Investments	<u>136,300</u>	<u>0</u>
<i>Total Assets</i>	136,300	<u><u>\$3,526</u></u>
Liabilities		
Due to Students	<u>0</u>	<u><u>\$3,526</u></u>
Net Assets		
Held in Trust for Scholarships	<u><u>\$136,300</u></u>	

See accompanying notes to the basic financial statements.

Southern Local School District, Ohio
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Funds
For the Fiscal Year Ended June 30, 2010

Additions	
Interest	\$5,101
Donations	1,050
	<hr/>
<i>Total Additions</i>	<i>6,151</i>
	<hr/>
Deductions	
Scholarships	4,400
Other Expenses in accordance with Trust Agreements	198
	<hr/>
<i>Total Deductions</i>	<i>4,598</i>
	<hr/>
<i>Change in Net Assets</i>	<i>1,553</i>
	<hr/>
<i>Net Assets Beginning of Year</i>	<i>134,747</i>
	<hr/>
<i>Net Assets End of Year</i>	<i>\$136,300</i>
	<hr/> <hr/>

See accompanying notes to the basic financial statements.

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 1 - Description of the School District and Reporting Entity

Southern Local School District, Meigs County (the School District), is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The School District provides educational services as authorized by State and/or local guidelines. The School District is staffed by 71 certificated employees and 48 classified employees who provide services to 769 students. The School District currently operates one elementary school (grades kindergarten to eighth) and one high school (grades ninth to twelfth).

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations included to ensure that the basic financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Southern Local School District, this includes general operations, food service, and student-related activities.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District participates in the Southeastern Ohio Voluntary Education Cooperative and the Coalition of Rural and Appalachian Schools, which are defined as jointly governed organizations; the Ohio School Plan and Ohio School Boards Association Workers' Compensation Group Rating Program, which are defined as insurance purchasing pools; and the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) Self-Insurance Plan, which is defined as a claims servicing pool. These organizations are presented in Notes 17, 18, and 19 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and internal service fund unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for the fiduciary fund. The activity of the internal service fund is eliminated to avoid “doubling up” revenues and expenses. These statements usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The School District, however, has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District’s governmental activities. 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 charges paid by the recipient of the goods or services offered by the program; grants and contributions that are restricted to meeting the operational or capital requirements of a particular program; and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain functions or activities. A fund is a fiscal and accounting entity with a self balancing set of accounts. The School District classifies each fund as either governmental, proprietary, or fiduciary.

Governmental: The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The following are the School District’s major governmental funds:

General Fund The General Fund accounts for all financial resources except for restricted resources requiring a separate accounting. The general fund balance is available for any purpose provided it is disbursed or transferred according to Ohio law.

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

Bond Retirement Fund The Bond Retirement Fund provides for the retirement of bonds and long-term loans. All revenue derived from general or special levies, either within or exceeding the ten-mill limitation, which is levied for debt charges on bonds or loans, is paid into this fund.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

Medical and Prescription Self-Insurance Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for employee medical and prescription drug coverage.

Fiduciary Fund Type 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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's private purpose trust funds account for programs that provide college scholarships to students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only agency fund accounts for student activities.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities accounts for increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

Fund Financial Statements 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.

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Measurement Focus (Continued)

Like the government-wide statements, the proprietary 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 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 School District finances and meets the cash flow needs of its proprietary activity.

The private purpose trust funds are reported using the economic resources measurement focus.

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. Proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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 School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the 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 year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School 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 yearend: property taxes available as an advance, investment earnings, tuition, grants, fees, and rentals.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

D. Basis of Accounting (Continued)

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds except the private purpose trust funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2010, investments were limited to certificates of deposit, which are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2010 amounted to \$43,019, which includes \$8,786 assigned from other School District funds.

The School District utilizes OME-RESA to account for the self-insurance internal service fund. This interest bearing depository account is presented in the financial statements as "cash and cash equivalents with fiscal agents" and represents deposits.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2010, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of materials and supplies held for consumption and donated and purchased food and held for resale.

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

H. Capital Assets

The School District's only capital assets are general assets. General capital assets are those assets specifically related to governmental activities. These 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 fiscal year. The School District was able to estimate the historical cost for the initial reporting of certain assets by back trending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$1,000. The School District does not possess any infrastructure. 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	Estimated Lives
Land Improvements	50 years
Buildings and Improvements	8 - 75 years
Furniture and Equipment	5 - 50 years
Vehicles	15 - 20 years

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other government or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent unclaimed monies and include amounts required by statute to be set-aside for the acquisition or construction of capital assets. See Note 16 for additional information regarding set-asides.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for classified and certified employees after seven years of current service with the School District.

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

K. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

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

L. Internal Activity

Transfers between governmental activities are eliminated. Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments of interfund services provided and used are not eliminated.

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

M. Fund Balance Reserves

The School District reserves those portions of fund balance 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, unclaimed monies, capital improvements, and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. Under Ohio law, unclaimed monies must be held for five years before it becomes available for appropriation. Monies not yet held for the five year period are presented as reserved.

N. Interfund Assets and Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

O. Unamortized Issuance Costs and Note/Bond Premiums and Discounts

On government-wide financial statements, issuance costs and bond discounts and premiums are deferred and amortized over the term of the bonds. Issuance costs are recorded as deferred charges. Bond premiums are presented as an addition of the face amount of bonds payable.

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

Bond discounts on the capital appreciation bonds are deferred and accreted over the term of the bonds. Bond discounts are presented as a reduction to the face amount of the bonds.

On the governmental fund financial statements, issuance costs, bond premiums, and bond discounts are recognized in the current period.

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations and athletic and music activities, and federal and state grants restricted to expenditure for specified purposes.

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

Q. 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 2010, the School District had none.

R. Estimates

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

S. Budgetary Process

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

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 2 - Summary of Significant Accounting Policies (Continued)

S. Budgetary Process (Continued)

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

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

Note 3 - Fund Deficits

At June 30, 2010, the following funds had deficit fund balances:

	<u>Deficit</u>
Special Revenue Funds:	
Food Service	\$32,177
Uniform School Supplies	3,401
State Grants	16,653
Title VI-B	1,834
Title I	9,634
State Fiscal Stabilization	42,507
21st Century Grant	1,122
Grant to Reduce Alcohol Addiction	1,357

The deficits are the result of charges for services not covering expenditures, accrued liabilities, and over-expended grant resources. The General Fund provides transfers to cover deficit fund balances in special revenue funds; however, this is done when cash is needed rather than when accruals occur.

Note 4 - Budgetary Basis of Accounting

While the School District is 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, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget 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 GAAP (modified accrual) basis are as follows:

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 4 - Budgetary Basis of Accounting (Continued)

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Unreported and prepaid items represent amounts received but not included as revenues on the budget basis operating statements. These amounts are included as revenues on the GAAP basis operating statement.

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance	
GAAP Basis	(\$1,080)
Revenue Accruals	189
Expenditure Accruals	116,375
Unreported Items:	
Beginning of Fiscal Year	34
End of Fiscal Year	(38)
Prepaid Items:	
Beginning of Fiscal Year	5,816
End of Fiscal Year	(22,853)
Principal Retirement	10,765
Encumbrances	<u>(13,661)</u>
Budget Basis	<u><u>\$95,547</u></u>

Note 5 - Deposits and Investments

Monies held by the School District are classified by State statute into three categories.

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

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

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 5 - Deposits and Investments (Continued)

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the School District's bank balance was \$2,593,466. \$649,960 was covered by Federal depository insurance; \$1,943,506 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 6 - Property Taxes

Property taxes are levied and assessed on a calendar year basis while the school district fiscal year runs from July through June. First half tax collections are received by the school 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 school district. Real property tax revenue received in calendar 2010 represents collections of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed value listed as of January 1, 2009, 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 2010 represents collections of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien December 31, 2008, were levied after April 1, 2009 and are collected 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 2010 (other than public utility property tax) represents the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid 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 School District prior to June 30.

The School District receives property taxes from Meigs County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents the real property, public utility property, and tangible personal property taxes which are measurable as of June 30, 2010, 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 were levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue. The amount available as an advance at June 30, 2010, was \$231,860 and is recognized as revenue: \$111,911 in the General Fund, \$10,807 in the Classroom Facilities Maintenance Special Revenue Fund, and \$109,142 in the Bond Retirement Fund. The amount available as an advance at June 30, 2009, was \$115,280 and is recognized as revenue: \$94,041 in the General Fund, \$1,652 in the Classroom Facilities Maintenance Special Revenue Fund, and \$19,587 in the Bond Retirement Fund.

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 6 - Property Taxes (Continued)

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 2010 taxes were collected are:

	2009 Second- Half Collections		2010 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$60,337,840	83%	\$61,203,220	83%
Public Utility Personal	11,818,070	16%	12,349,340	17%
Tangible Personal Property	635,140	1%	126,540	0%
	\$72,791,050	100%	\$73,679,100	100%

Tax Rate per \$1,000 of Assessed Valuation	\$31.70	\$31.70
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Note 7 - Receivables

Receivables at June 30, 2010, consisted of taxes, accrued interest, accounts, interfund, and intergovernmental grants. 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. Except for property taxes, all receivables are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. A summary of principal items of intergovernmental receivables follows:

	Amounts
Governmental Activities	
TANF	\$3,815
Medicaid	449
Early Childhood Education	3,727
School Counseling Demonstration	260,421
Title IV-A	1,621
Title VI-B Rural and Low Income	1,997
Title II-D	795
Total	\$272,825

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 8 - Interfund Transfers and Balance

Transfers made during fiscal year 2010 were as follows:

	Transfer In	Transfer Out
General Fund	\$0	\$66,878
Nonmajor Special Revenue Funds:		
Food Service	32,097	0
Other Local Grants	73	0
Severance	31,623	0
Title I	3,085	0
Total Special Revenue Funds	66,878	0
Total All Funds	\$66,878	\$66,878

Unpaid interfund cash advances at June 30, 2010, were as follows:

	Receivables	Payables
General Fund	\$17,956	\$0
Nonmajor Special Revenue Funds:		
Uniform School Supplies	0	6,200
State Grant Funds	0	10,757
Title VI-B	0	370
Federal Grants	0	629
Total Special Revenue Funds	0	17,956
Total All Funds	\$17,956	\$17,956

The interfund balances result from the provision of cash flow resources from the General Fund until the receipt of grant monies by the grant funds and to subsidize programs not covered by school fees by the Uniform School Supplies Special Revenue Fund.

Note 9 - Risk Management

A. Property and Liability

The School 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. The School District participates in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premiums based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (See Note 18). The types and amounts of coverage provided by the Ohio School Plan are as follows:

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 9 - Risk Management (Continued)

A. Property and Liability (Continued)

Property (\$1,000 deductible):	
Building and Contents-replacement cost	\$25,198,616
Boiler and Machinery Breakdown	25,198,616
Crime(\$1,000 deductible):	
Employee Theft	25,000
Forgery of Alteration	25,000
Automobile Liability (no deductible):	
Bodily Injury and Property Damage – combined single limit	2,000,000
Medical Payments – each person	5,000
Uninsured/Underinsured Motorist	1,000,000
Violence Coverage(no deductible):	
Violence Limit	1,000,000
Aggregate Limit	1,000,000
General Liability (no deductible):	
Bodily Injury and Property Damage Limit – each occurrence	2,000,000
Aggregate Limit	4,000,000
Employers’ – Stop Gap – Bodily Injury: (no deductible)	2,000,000
Legal Liability (\$2,500 deductible):	
Errors and Omissions Injury Limit	2,000,000
Aggregate Limit	4,000,000
Employment Practices Injury Limit	2,000,000
Aggregate Limit	4,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2009.

B. Workers’ Compensation

For fiscal year 2010, the School District participated in the Ohio School Boards Association Workers’ Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers’ compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers’ compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP’s selection criteria. The firm of CompManagement, Inc. provides administrative, cost control, and actuarial services to the GRP.

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 9 - Risk Management (Continued)

C. Medical/Surgical and Prescription Drug Insurances

Medical/surgical and prescription drug insurance is offered through a self-insurance internal service fund. The School District pays 98% of the monthly insurance premium for either family or single coverage. The employee shall pay 2% of the monthly insurance premium. The School District is a member of a claims servicing pool in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The School District's stop loss amount per person is \$35,000 for fiscal year 2010. The claims liability of \$142,980 reported in the internal service fund at June 30, 2010, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by the incremental claims adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount in 2010 were:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2009	\$0	\$859,650	\$761,173	\$98,477
2010	98,477	1,185,693	1,141,190	142,980

Note 10 – 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 ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. The liability for vacation benefits is recorded as vacation benefits payable, rather than long-term liabilities, as the balances earned by employees on their anniversary hire date must be used within one year.

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 a maximum of 260 days for all personnel. Upon retirement, personnel receive twenty-five percent of the number of days of sick leave accumulated not to exceed 40 days for employees with 10 years or less of service; 50 and 55 days for classified and certified, respectively, for employees with more than 10 years but less than 20 years of services; and 60 and 65 days for classified and certified, respectively, for employees with more than 20 years of service.

B. Insurance

The School District provides dental and life insurance and accidental death and dismemberment insurance to most employees through Coresource and vision insurance through Vision Plus. The cost of premiums for the coverage is \$50.17 for dental, and \$13.93 family and \$5.27 single for vision.

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 11 - Capital Assets

During the fiscal year, the School District performed a reappraisal and inventory of capital assets which resulted in adjustments to the amounts reported in the prior fiscal year. Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance 6/30/2009	Prior Year Adjustments	Additions	Deductions	Balance 6/30/2010
Capital Assets:					
Capital Assets not being depreciated:					
Land	\$173,855	\$0	\$0	\$0	\$173,855
Total Capital Assets not being Depreciated	<u>173,855</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>173,855</u>
Depreciable Capital Assets:					
Land Improvements	521,438	1,407	0	0	522,845
Buildings and Improvements	13,115,874	(14,750)	0	0	13,101,124
Furniture and Equipment	938,341	485,302	110,304	(31,480)	1,502,467
Vehicles	627,989	0	78,183	0	706,172
Total Capital Assets being Depreciated	<u>15,203,642</u>	<u>471,959</u>	<u>188,487</u>	<u>(31,480)</u>	<u>15,832,608</u>
Less Accumulated Depreciation					
Land Improvements	(329,558)	(1,770)	(16,982)	0	(348,310)
Buildings and Improvements	(4,629,482)	155,188	(399,414)	0	(4,873,708)
Furniture and Equipment	(409,780)	(329,017)	(106,719)	31,480	(814,036)
Vehicles	(459,318)	(21,509)	(35,946)	0	(516,773)
Total Accumulated Depreciation	<u>(5,828,138)</u>	<u>(197,108)</u>	<u>(559,061) *</u>	<u>31,480</u>	<u>(6,552,827)</u>
Total Capital Assets being Depreciated, Net	<u>9,375,504</u>	<u>274,851</u>	<u>(370,574)</u>	<u>0</u>	<u>9,279,781</u>
Capital Assets, Net	<u>\$9,549,359</u>	<u>\$274,851</u>	<u>(\$370,574)</u>	<u>\$0</u>	<u>\$9,453,636</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$283,697
Special	36,254
Vocational	14,011
Student Intervention	1,799
Support Services:	
Pupils	17,785
Instructional Staff	41,133
Administration	41,513
Fiscal	8,722
Operation and Maintenance of Plant	31,146
Pupil Transportation	37,638
Central	2,192
Food Service Operations	40,720
Extracurricular Activities	2,451
Total Depreciation Expense	<u>\$559,061</u>

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008, were \$178,340, \$80,730 and \$105,557, respectively; 46.56 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System

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

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

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 12 - Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

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

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008, were \$351,401, \$315,402, and \$305,550, respectively; 79.97 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$2,400 made by the plan members and no amounts from the School District.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2010, no members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

A. School Employees Retirement System

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, .46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, this amount was \$35,800.

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 13 - Postemployment Benefits (Continued)

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

The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008, were \$24,951, \$51,001, and \$66,749, respectively; 100 percent has been contributed for all three fiscal years.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008, were \$9,335, \$7,274, and \$7,774, respectively; 39.28 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008, were \$27,031, \$24,262, and \$23,504, respectively; 79.97 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

Note 14 – Capital Leases

In prior fiscal years, the School District entered into a lease agreement with Cannon for seven photo-copying pieces of equipment. This lease obligation meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital leases payable have been recorded on the government-wide statements. Principal payments in fiscal year 2010 totaled \$10,765 in the governmental funds. The equipment was capitalized in the amount of \$31,904, the present value of the minimum lease payments at the inception of the lease. There was accumulated depreciation as of \$9,571 as of June 30, 2010, therefore, leaving a remaining book value of \$22,333. The agreements provide for minimum annual rental payments as follows:

Fiscal Year	Amount
2011	\$11,173
Less: Amount Representing Interest	(464)
Present Value of Minumim Lease Payments	\$10,709

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 15 - Long-Term Debt

The changes in the School District's long-term obligations during the fiscal year consist of the following:

Governmental Activities:	Principal Outstanding 6/30/09	Additions	Deductions	Principal Outstanding 6/30/10	Amounts Due Within One Year
1995 Asbestos Abatement Loan - 0%	\$41,343	\$0	\$11,812	\$29,531	\$11,812
1998 Classroom Facilities Construction and Improvement Serial and Term Bonds - 3.2%-4.625%	2,835,000	0	2,835,000	0	0
2009 Classroom Facilities Refunding Bonds - 2.0%-4.0%	0	2,595,000	25,000	2,570,000	205,000
Original Issue of Capital Appreciation Bonds	0	75,000	0	75,000	0
Accretion on Capital Appreciation Bonds	0	12,485	0	12,485	0
Deferred Amount on Refunding	0	(81,938)	(6,262)	(75,676)	0
Discount on Term Bonds	0	(26,700)	(2,040)	(24,660)	0
Premium on Term Bonds	0	139,066	10,628	128,438	0
Capital Leases	21,474	0	10,765	10,709	10,709
Sick Leave Benefits	297,722	4,376	31,009	271,089	0
Total Long Term Obligations	\$3,195,539	\$2,717,289	\$2,915,912	\$2,996,916	\$227,521

Sick leave benefits will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund and Food Service, Title VIB, and Title I Special Revenue Funds.

The School District's overall debt margin was \$4,403,148, with an unnoted debt margin of \$73,679 at June 30, 2010.

Asbestos Abatement Loan - On May 25, 1995, the School District obtained a loan, in the amount of \$212,618, for removing asbestos. The loan was obtained under the authority of Ohio Rev. Code Section 3317.22 for a twenty-year period, with maturity in fiscal year 2013. The loan is being retired through the Bond Retirement Debt Service Fund.

Principal requirements to retire the loan are as follows:

Fiscal Year Ending June 30	Principal
2011	\$11,812
2012	11,812
2013	5,907
Total	\$29,531

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 15 - Long-Term Debt (Continued)

Classroom Facilities Construction and Improvement Bonds - On December 1, 1998, the School District issued \$4,042,000 in voted general obligation bonds for building a new elementary and an addition to the high school. The bond issue included serial and term bonds, in the amount of \$1,432,000 and \$2,610,000, respectively. The bonds were issued for a twenty-three year period, with the final maturity date during fiscal year 2022. During fiscal year 2010, the School District made the schedule repayment of the bonds in the amount of \$165,000 and advance refunded the remaining bonds of \$2,670,000. The refunded bonds were removed from the financial statements of School District.

On July 20, 2009, the School District issued \$2,670,000 of general obligation refunding bonds to refund \$2,670,000 of outstanding 1998 Classroom Facilities Construction and Improvements Bonds. The bonds were issued for over a 12 year period with final maturity at December 1, 2021. The bond issue included term and capital appreciation bonds in the amounts of \$2,595,000 and \$75,000, respectively. At the date of refunding, \$2,751,938 (including premium and after underwriting fees, and other issuance costs) was deposited in an irrevocable trust to provide for all future debt service payments on the refunded bonds. The bond holders were paid on August 25, 2009; therefore, no amounts remain in the trust.

These refunding bonds were issued with a discount of \$26,700 which is reported as a decrease to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method, the amortization of the discount for fiscal year 2010 was \$2,040. These refunding bonds were also issued with a premium of \$139,066 which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method, the amortization of the premium for fiscal year 2010 was \$10,628. The issuance costs of \$27,347 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The amortization of the issuance costs for fiscal year 2010 was \$2,090. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$81,938. This difference, reported in the accompanying financial statements as a decrease to bonds payable is being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of this difference for fiscal year 2010 was \$6,262. The issuance resulted in a difference (savings) between the cash flows required to service the old debt and the cash flows required to service the new debt of \$105,126. The issuance resulted in an economic gain of \$89,572.

The 2009 bond issue consists of term and capital appreciation bonds. These bonds are not subject to early redemption.

The capital appreciation bonds for the issue mature December 1, 2015. These bonds were purchased as a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as principal liability. The maturity amount of the bonds is \$230,000. For fiscal year 2010, \$12,485 was accreted, leaving a total bond liability of \$87,485.

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 15 - Long-Term Debt (Continued)

Principal and interest requirements to retire the refunding bonds are as follows:

Fiscal Year Ending June 30	Term Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Accretion	Principal	Accretion/ Interest
2011	\$205,000	\$80,325	\$0	\$0	\$205,000	\$80,325
2012	210,000	76,175	0	0	210,000	76,175
2013	215,000	71,657	0	0	215,000	71,657
2014	215,000	66,550	0	0	215,000	66,550
2015	220,000	60,562	0	0	220,000	60,562
2016-2020	965,000	218,693	75,000	155,000	1,040,000	373,693
2021-2022	540,000	21,800	0	0	540,000	21,800
Totals	<u>\$2,570,000</u>	<u>\$595,762</u>	<u>\$75,000</u>	<u>\$155,000</u>	<u>\$2,645,000</u>	<u>\$750,762</u>

Note 16 - Set-Aside Calculations

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the fiscal year end set aside amounts for textbooks and capital improvements. Disclosure of this information is required by State statute.

	Capital Improvements Reserve	Textbooks/ Instructional Materials Reserve
Set-aside Reserve Balance as of June 30, 2009	\$0	\$0
Current Year Set-aside Requirement	122,264	122,264
Qualifying Disbursements	(55,240)	(140,560)
Total	<u>\$67,024</u>	<u>(\$18,296)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$67,024</u>	<u>(\$18,296)</u>

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement in future fiscal years.

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 17- Jointly Governed Organizations

A. Southeastern Ohio Voluntary Education Cooperative (SEOVEC)

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 28 participants consisting of school districts in nine southeastern Ohio counties. SEOVEC is governed by a governing board which is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. During fiscal year 2010, the School District paid \$19,834 to SEOVEC. To obtain financial information, write to the Southeastern Ohio Voluntary Education Cooperative at 221 North Columbus Road, Athens, Ohio 45701.

B. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of 134 school districts and other educational institutions in the 32-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 32 Appalachian counties are divided; and three from Ohio University College of Education. The Coalition provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Coalition. The School District's membership fee was \$300 for fiscal year 2010. The financial information for the Coalition of Rural and Appalachian Schools can be obtained from the Executive Director at McCracken Hall, Ohio University, Athens, Ohio 45701.

Note 18 - Insurance Purchasing Pool

A. Ohio School Plan

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a thirteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

Southern Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 18 - Insurance Purchasing Pool (Continued)

B. Ohio School Boards Association Workers' Compensation Group Rating Program

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

Note 19 - Claims Servicing Pool

The School District participates in the Ohio Mid-Eastern Regional Educational Service Agency Self-Insurance Plan, a claims servicing pool composed of fifty members. The Plan's business and affairs are conducted by a nine member Board of Directors elected by the OME-RESA's assembly. The member pays a monthly premium based on their claims history and a monthly administration fee. All participating members retain their risk. The Plan acts solely as the claims servicing agent.

Note 20 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2010.

B. Litigation

The School District is currently not a party to any material legal proceedings.

Note 21 – Subsequent Event Note

On August 3, 2010, voters of the School District approved a 2.7 mill bond levy that will be repaid annually over a period of 37 years. The bond levy will repay \$3,950,000 in bonds to be used by the School District for the construction of a new high school.

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**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	2010	10.555	\$ 17,493	\$ 17,493
Cash Assistance:				
School Breakfast Program	2010	10.553	79,279	79,279
National School Lunch Program	2010	84.358	156,970	156,970
Cash Assistance Subtotal			<u>236,249</u>	<u>236,249</u>
ARRA Child Nutrition Discretionary Grant	2010	10.579	<u>12,636</u>	<u>12,636</u>
Total Child Nutrition Cluster			<u>266,378</u>	<u>266,378</u>
Total U.S. Department of Agriculture			266,378	266,378
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Direct from the Federal Government:</i>				
Safe and Drug-Free Schools and Communities - National Programs	2009	84.184A		2,767
	2010		<u>365,655</u>	<u>362,888</u>
Total Safe and Drug-Free Schools and Commodities- National Programs			365,655	365,655
Elementary and Secondary School Counseling Program	2009	84.215E	244,730	245,406
	2010	84.215E	106,007	106,007
Total Elementary and Secondary School Counseling Program			<u>350,737</u>	<u>351,413</u>
<i>Passed Through Ohio Department of Education:</i>				
Title I Cluster:				
Title I Grants to Local Educational Agencies	2010	84.010	303,703	291,968
School Improvement , Subgrant A	2010	84.010	56,266	59,995
School Improvement , Subgrant G	2010	84.377	3,206	2,136
Total Title I Grants to Local Educational Agencies			<u>363,175</u>	<u>354,099</u>
ARRA - Title I Grants to Local Educational Agencies	2010	84.389	<u>131,829</u>	<u>114,260</u>
Total Title I Grants to Local Educational Agencies Cluster			495,004	468,359
Special Education Cluster:				
Special Education Grants to States	2009	84.027	4,708	570
	2010	84.027	<u>169,218</u>	<u>168,614</u>
Total Special Education - Grants to States			173,926	169,184
ARRA - Special Education - Grants to States	2010	84.391	<u>158,071</u>	<u>146,177</u>
Total Special Education Cluster			331,997	315,361
Safe and Drug-Free Schools and Communities State Grants	2009	84.186	1,021	
	2010	84.186	<u>4,626</u>	<u>4,239</u>
Total Safe and Drug-Free Schools and Communities State Grants			5,647	4,239
Twenty-First Century Community Learning Centers	2010	84.287	200,000	189,904
State Grants for Innovative Programs	2009	84.298	111	0

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
Education Technology State Grants	2010	84.318	2,249	2,274
Rural Education	2009	84.358	5,190	
	2010	84.358	17,814	23,443
Total Rural Education			<u>23,004</u>	<u>23,443</u>
Improving Teacher Quality State Grants	2010	84.367	70,507	91,661
ARRA - State Fiscal Stabilization Fund - Education State Grants	2010	84.394	269,933	265,299
Total U.S. Department of Education			<u>2,114,844</u>	<u>2,077,608</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 2,381,222</u>	<u>\$ 2,343,986</u>

The Notes to the Federal Awards Receipts and Expenditures Schedule is an integral part of the Schedule.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C - FOOD DONATION PROGRAM

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

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Dave Yost • 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
Meigs County
920 Elm Street
Racine, Ohio 45771

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southern Local School District, Meigs County, Ohio (the School District), as of and for the year ended June 30, 2010, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 16, 2011. 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 School District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Compliance and Other Matters

As part of reasonably assuring whether the School 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 we must report under *Government Auditing Standards*.

We did note a certain matter not requiring inclusion in this report that we reported to the School District's management in a separate letter dated February 16, 2011.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

February 16, 2011



Dave Yost • 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
Meigs County
920 Elm Street
Racine, Ohio 45771

To the Board of Education:

Compliance

We have audited the compliance of the Southern Local School District, Meigs County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Southern Local School District's major federal programs for the year ended June 30, 2010. The Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs identifies the School District's major federal programs. The School 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 School 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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 School 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 School 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 could directly and materially affect each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying Schedule of Findings and Questioned Costs lists this instance as Finding 2010-001.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with the 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, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency, described in the accompanying Schedule of Findings and Questioned Costs as item 2010-01. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The School District's response to the finding we identified is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the School District's response and, accordingly, we express no opinion on it.

We also noted certain matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated February 16, 2011.

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



Dave Yost
Auditor of State

February 16, 2011

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Special Education Grants to States: CFDA's # 84.027 and 84.391 Title I Grants to Local Educational Agencies: CFDA # 84.010, 84.377 and 84.389. Grants to Reduce Alcohol Abuse (Safe And Drug-Free Schools And Communities-National Programs): CFDA# 84.184A Elementary and Secondary School Counseling Program (Under the authority of Safe and Drug-Free Schools and Communities – National Programs): CFDA# 84.215E
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010
(Continued)**

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2010-01
CFDA Title and Number	Title I Grants to Local Educational Agencies – CFDA #'s 84.010 and 84.377 ARRA – Title I Grants to Local Educational Agencies – CDFA # 84.389
Federal Award Number / Year	2009 – 2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education*

*Not applicable to the Elementary and Secondary School Counseling Program which is direct funding

Noncompliance Citation/ Significant Deficiency/ Questioned Costs – Federal Supplanting

20 U.S.C. Sections 6321(a) and (b) (1) state that a local educational agency may receive funds for any fiscal year only if the State educational agency involved finds that the local educational agency has maintained the agency's fiscal effort in accordance with section 7901 of this title. Federal funds are to supplement, not supplant, non-Federal funds. In general, a State educational agency or local educational agency shall use Federal funds received under this part only to supplement the funds that would, in the absence of such Federal funds, be made available from non-Federal sources for the education of pupils participating in programs assisted under this part, and not to supplant such funds.

2 C.F.R. Section 225, Appendix B, paragraph (8)(d)(5) (i.e., formerly known as OMB Circular A-87) further explains that the cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance (except as indicated in section 22, Insurance and indemnification); pension plan costs (see subsection e.); and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, whether treated as indirect costs or as direct costs, shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities.

The School District did not pay the employer portion of retirement contributions from the same funds that paid the related gross payroll. This resulted in employer retirement contributions paid from federal funds being at a higher percentage than the correspondence payroll compensation. While staffing levels and salaries remained consistent during the fiscal year, the cost of benefits posted to federal funds increased disproportionately.

SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010
(Continued)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

FINDING 2010-01 (Continued)

Noncompliance Citation/ Significant Deficiency/ Questioned Costs – Federal Supplanting (Continued)

As a result, the School District supplanted \$14,316 in non-federal funds (General Fund) with federal funds for the employer portion of retirement contributions from the Title I Grant Funds 536, 537, and 572.

We recommend the School District monitor employee payroll benefits to ensure that they follow the fund paying gross payroll for employees. We further recommend the School District monitor Federal Funding and expenditures to ensure that federal funds are not used to provide services previously paid from state and/or local funds unless specifically allowed per the grant agreement.

Official's Response: The School District will monitor and allocate proper percentages for retirement to wages earned.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
JUNE 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2009-001	2 C.F.R. Part 225, Appendix B Section 8h(3)and (4) for failure to follow time and effort requirements resulting in questioned costs of \$10,439 in the Grant to Reduce Alcohol Abuse (GRAA).	No	Partially corrected. This matter was reported in a separate letter to management dated February 16, 2011.
2009-002	34 C.F.R. Section 80.23(a) and (b) Period of availability issue for Failure to obtain approval to carry over and expend federal funds outside of the period of availability resulting in questioned costs of \$18,141 in the FY 2009 Special Education Grant.	No	Partially corrected. This matter was reported in a separate letter to management dated February 16, 2011.
2009-003	34 C.F.R. Section 80.23(a) and (b) Period of availability issue for Failure to obtain approval to carry over and expend federal funds outside of the period of availability resulting in questioned costs of \$24,619 in the FY 2009 Title I Grant.	No	Partially corrected. This matter was reported in a separate letter to management dated February 16, 2011.

**SOUTHERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
FISCAL YEAR ENDED JUNE 30, 2010**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2010-01	The School District will monitor and allocate proper percentages for retirement to wages earned.	March 1, 2011	Roy Johnson, Treasurer



Dave Yost • Auditor of State

SOUTHERN LOCAL SCHOOL DISTRICT

MEIGS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 8, 2011**