



Dave Yost • Auditor of State

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Southern Local School District
Columbiana County
38095 State Road 39 East
Salineville, Ohio 43952

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As further described in Note 3 to the basic financial statements, the District restated July 1, 2010 governmental fund balances due to changes in fund structure as a result of implementing Governmental Accounting Standards Board (GASB) Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Columbiana County, Ohio, as of June 30, 2011, 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 January 27, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed on 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 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 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 District's basic financial statements. The federal awards 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 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. The schedule was subject to 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 records used to prepare the basic financial statements or 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

January 27, 2012

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

The management discussion and analysis of the Southern Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2011 are as follows:

- In total, net assets of governmental activities increased \$217,381, which represents a 1.98% increase from 2010.
- General revenues accounted for \$7,779,760 in revenue or 69.77% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,370,296 or 30.23% of total revenues of \$11,150,056.
- The District had \$10,932,675 in expenses related to governmental activities; \$3,370,296 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$7,779,760 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and bond retirement fund. The general fund had \$8,611,255 in revenues and \$8,717,632 in expenditures and other financing uses. During fiscal year 2011 the general fund's fund balance decreased \$106,377 from a restated deficit balance of \$12,804 to a deficit of \$119,181.
- The District's bond retirement fund had \$271,220 in revenues and \$241,589 in expenditures. During fiscal year 2011, the bond retirement fund's fund balance increased \$29,631 from \$425,470 to \$455,101.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net assets and statement of activities can be found on pages 14-15 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and bond retirement fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical and dental self-insurance. The basic proprietary fund financial statements can be found on pages 21-23 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate statement of fiduciary net assets on page 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-55 of this report.

The District as a Whole

The table below provides a summary of the District's net assets at June 30, 2011 and June 30, 2010.

	Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
<u>Assets</u>		
Current and other assets	\$ 4,697,319	\$ 3,918,503
Capital assets, net	<u>12,327,111</u>	<u>13,013,770</u>
Total assets	<u>17,024,430</u>	<u>16,932,273</u>
<u>Liabilities</u>		
Current liabilities	2,791,002	2,748,369
Long-term liabilities	<u>3,024,209</u>	<u>3,192,066</u>
Total liabilities	<u>5,815,211</u>	<u>5,940,435</u>
<u>Net assets</u>		
Invested in capital assets, net of related debt	9,764,745	10,363,494
Restricted	1,236,882	896,193
Unrestricted (deficit)	<u>207,592</u>	<u>(267,849)</u>
Total net assets	<u>\$ 11,209,219</u>	<u>\$ 10,991,838</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the District's assets exceeded liabilities by \$11,209,219. Of this total, \$1,236,882 is restricted in use.

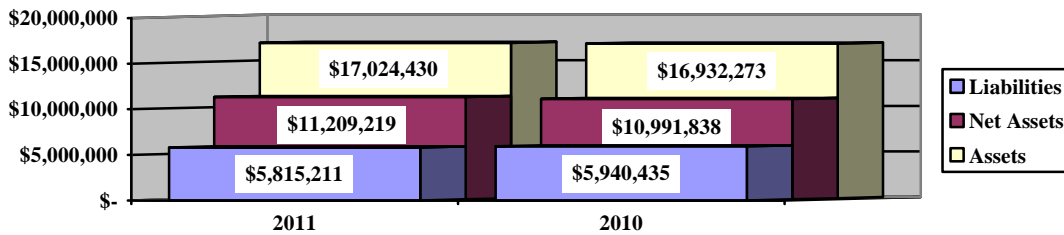
**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

At year-end, capital assets represented 72.41% of total assets. Capital assets include land, land improvements, buildings and improvements, infrastructure, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2011, were \$9,764,745. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

The graph below presents the District's governmental activities assets, liabilities and net assets at June 30, 2011 and June 30, 2010.

Governmental Activities



The table below shows the change in net assets for fiscal year 2011 and 2010.

Change in Net Assets

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 669,621	\$ 634,248
Operating grants and contributions	2,700,675	1,281,653
General revenues:		
Property taxes	1,899,954	1,884,287
Grants and entitlements	5,829,711	6,355,757
Investment earnings	12,360	3,746
Other	<u>37,735</u>	<u>46,532</u>
Total revenues	<u>11,150,056</u>	<u>10,206,223</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

Change in Net Assets

	<u>Governmental Activities 2011</u>	<u>Governmental Activities 2010</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,075,962	\$ 3,789,838
Special	1,058,992	955,068
Vocational	221,446	263,727
Other	15,260	4,880
Support services:		
Pupil	328,112	382,966
Instructional staff	323,267	343,693
Board of education	1,155,983	1,276,588
Administration	692,937	660,235
Fiscal	230,732	236,080
Business	57,148	55,845
Operations and maintenance	1,025,413	957,276
Pupil transportation	946,285	653,713
Central	25,693	-
Operation of non-instructional services:		
Food service operations	384,124	384,860
Operations of other non-instructional services	6,642	27,784
Extracurricular activities	244,511	245,230
Interest and fiscal charges	<u>140,168</u>	<u>155,347</u>
Total expenses	<u>10,932,675</u>	<u>10,393,130</u>
Change in net assets	<u>217,381</u>	<u>(186,907)</u>
Net assets at beginning of year	<u>10,991,838</u>	<u>11,178,745</u>
Net assets at end of year	<u>\$ 11,209,219</u>	<u>\$ 10,991,838</u>

Governmental Activities

Net assets of the District's governmental activities increased \$217,381. Total governmental expenses of \$10,932,675 were offset by program revenues of \$3,370,296 and general revenues of \$7,779,760. Program revenues supported 30.83% of the total governmental expenses.

In the area of program revenues, the significant increase was in operating grants and contributions which increased \$1,419,022. This increase is attributable primarily to \$626,970 in funding through the State of Ohio for Pathway for Student Success (PASS) funding which offsets special education costs and \$174,014 in Ed Jobs grant funding from the federal government. PASS funding has been reported as program revenue in fiscal year 2011 versus general revenue in fiscal year 2010.

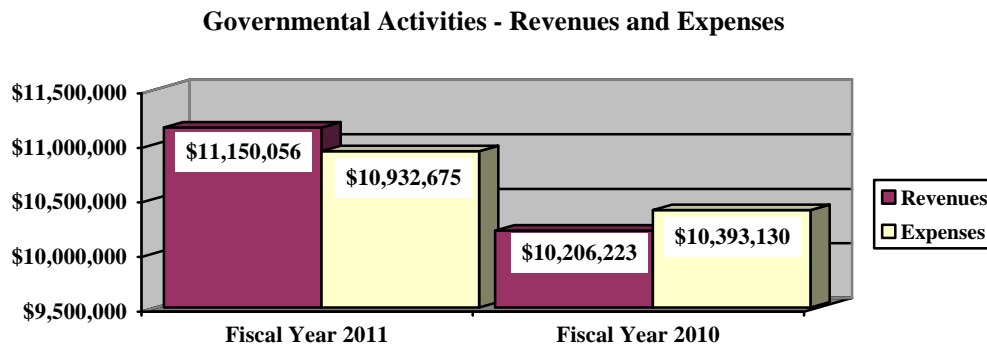
**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 69.32% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,371,660 or 49.13% of total governmental expenses for fiscal year 2011.

The graph below presents the District's governmental activities revenues and expenses for fiscal year 2011 and 2010.



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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

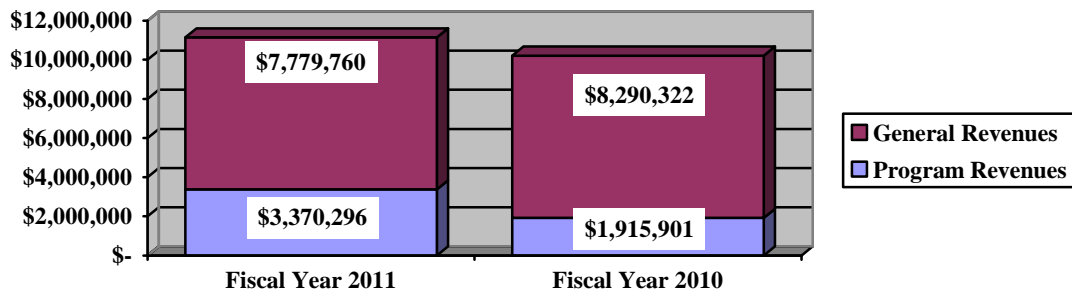
Governmental Activities

	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>
Program expenses				
Instruction:				
Regular	\$ 4,075,962	\$ 3,256,821	\$ 3,789,838	\$ 3,367,638
Special	1,058,992	(273,060)	955,068	486,458
Vocational	221,446	188,813	263,727	231,337
Other	15,260	15,260	4,880	4,880
Support services:				
Pupil	328,112	328,112	382,966	382,966
Instructional staff	323,267	181,923	343,693	245,530
Board of education	1,155,983	796,711	1,276,588	938,086
Administration	692,937	578,478	660,235	651,968
Fiscal	230,732	230,732	236,080	236,080
Business	57,148	57,148	55,845	55,845
Operations and maintenance	1,025,413	993,195	957,276	949,823
Pupil transportation	946,285	946,285	653,713	652,823
Central	25,693	25,693	-	-
Food service operations	384,124	(37,462)	384,860	(38,290)
Operations of non-instructional services	6,642	(118)	27,784	(1,878)
Extracurricular activities	244,511	133,680	245,230	158,616
Interest and fiscal charges	140,168	140,168	155,347	155,347
Total expenses	\$ 10,932,675	\$ 7,562,379	\$ 10,393,130	\$ 8,477,229

The dependence upon tax and other general revenues for governmental activities is apparent, 59.35% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 69.17%. The District's taxpayers and unrestricted grants and entitlements from the State are by far the primary support for the District's students.

The graph below presents the District's governmental activities revenues for fiscal year 2011 and 2010.

Governmental Activities - General and Program Revenues



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

The District's Funds

The District's governmental funds reported a combined fund balance of \$886,478, which is more than last year's total of \$737,072. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010. The District restated June 30, 2010 fund balances as described in Note 3.B.

	Fund Balance (Deficit) <u>June 30, 2011</u>	Restated Fund Balance (Deficit) <u>June 30, 2010</u>	Increase (Decrease)	Percentage Change
General	\$ (119,181)	\$ (12,804)	\$ (106,377)	(830.81) %
Bond Retirement	455,101	425,470	29,631	6.96 %
Other Governmental	<u>550,558</u>	<u>324,406</u>	<u>226,152</u>	69.71 %
Total	<u>\$ 886,478</u>	<u>\$ 737,072</u>	<u>\$ 149,406</u>	20.27 %

General Fund

The District's general fund balance decreased \$106,377. The decrease in fund balance can be attributed to revenues of \$8,611,255 being less than expenditures and other financing uses of \$8,717,632. Expenditures and other financing uses exceed revenues for fiscal year 2011 by \$106,377. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 1,637,296	\$ 1,569,984	\$ 67,312	4.29 %
Tuition	373,941	359,620	14,321	3.98 %
Earnings on investments	881	1,091	(210)	(19.25) %
Intergovernmental	6,445,394	6,394,829	50,565	0.79 %
Other revenues	<u>153,743</u>	<u>154,348</u>	<u>(605)</u>	(0.39) %
Total	<u>\$ 8,611,255</u>	<u>\$ 8,479,872</u>	<u>\$ 131,383</u>	1.55 %
<u>Expenditures</u>				
Instruction	\$ 3,949,815	\$ 4,011,694	\$ (61,879)	(1.54) %
Support services	4,420,149	4,471,032	(50,883)	(1.14) %
Capital outlay	-	43,707	(43,707)	- %
Extracurricular activities	183,059	180,523	2,536	1.40 %
Debt service	<u>10,635</u>	<u>12,431</u>	<u>(1,796)</u>	(14.45) %
Total	<u>\$ 8,563,658</u>	<u>\$ 8,719,387</u>	<u>\$ (155,729)</u>	(1.79) %

The increase in tuition revenue of \$14,321 is due to an increase in open enrollment revenue received during the fiscal year. Earnings on investments decreased 19.25 percent due to decreased interest rates during the fiscal year. The decrease in instruction expenditures is primarily due to the District's implementation of cost saving measures.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

Bond Retirement Fund

The District's bond retirement fund balance increased \$29,631 from \$425,470 to \$455,101 at June 30, 2011. The increase in fund balance can be attributed to revenues of \$271,220 being greater than expenditures of \$241,589.

General Fund Budgeting Highlights

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

During the course of fiscal 2011, the District amended its general fund budget. For the general fund, original and final budgeted revenues and other financing sources were \$8,527,756. Actual revenues and other financing sources for fiscal 2011 were \$8,527,141, which represents a decrease of \$615 over final budgeted revenues and other financing sources.

General fund original appropriations (appropriated expenditures including other financing uses) were \$8,720,104. General fund final appropriations (appropriated expenditures including other financing uses) were \$8,620,578. The actual budget basis expenditures and other financing uses for fiscal year 2011 totaled \$8,619,883, which represents a decrease of \$695 over final budgeted appropriations and other financing uses.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the District had \$12,327,111 invested in land, land improvements, buildings and improvements, furniture and equipment, infrastructure and vehicles. This entire amount is reported in governmental activities. The 2010 balances of land improvements and buildings and improvements have been restated as described in Note 8. The following table shows June 30, 2011 balances compared to June 30, 2010:

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

	Governmental Activities	
	2011	Restated 2010
Land	\$ 84,670	\$ 84,670
Land improvements	424,249	457,465
Building and improvements	11,300,427	11,846,416
Furniture and equipment	177,739	199,650
Infrastructure	86,716	94,403
Vehicles	253,310	331,166
Total	\$ 12,327,111	\$ 13,013,770

The overall decrease in capital assets of \$686,659 is due to depreciation expense of \$686,659 during the fiscal year.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

Debt Administration

At June 30, 2011, the District had \$2,570,990 in general obligation bonds, capital lease obligations, and lease purchase obligations outstanding. Of this total, \$195,744 is due within one year and \$2,375,246 is due in greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
General obligation bonds	\$ 2,423,566	\$ 2,531,017
Capital lease obligations	29,662	37,577
Lease purchase obligations	<u>117,762</u>	<u>152,997</u>
Total	<u>\$ 2,570,990</u>	<u>\$ 2,721,591</u>

At June 30, 2011, the District's overall legal debt margin was \$5,516,767, and an unvoted debt margin of \$82,463.

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

Current Financial Related Activities

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

The District completed a 14 million dollar project that closed two schools and housed all their students at one site. The OSFC does not allow for administrative offices, so the current offices are located behind the new school building in a modular unit.

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

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

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Contacting the District's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,876,640
Cash with fiscal agent	557,059
Receivables:	
Taxes	1,970,585
Intergovernmental	218,109
Prepayments	201
Materials and supplies inventory.	14,372
Unamortized bond issue costs	60,353
Capital assets:	
Land.	84,670
Depreciable capital assets, net.	12,242,441
Capital assets, net	12,327,111
 Total assets.	 17,024,430
Liabilities:	
Accounts payable.	32,081
Accrued wages and benefits	821,564
Pension obligation payable.	161,054
Intergovernmental payable	24,288
Accrued interest payable	4,379
Claims payable.	115,558
Unearned revenue	1,632,078
Long-term liabilities:	
Due within one year.	243,316
Due in more than one year.	2,780,893
 Total liabilities	 5,815,211
Net Assets:	
Invested in capital assets, net of related debt.	9,764,745
Restricted for:	
Capital projects	216,919
Debt service.	484,303
Federally funded programs	475,435
Public school support	8,779
Student activities	12,796
Other purposes	38,650
Unrestricted	207,592
 Total net assets	 \$ 11,209,219

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 4,075,962	\$ 82,952	\$ 736,189	\$ (3,256,821)
Special	1,058,992	-	1,332,052	273,060
Vocational	221,446	-	32,633	(188,813)
Other	15,260	-	-	(15,260)
Support services:				
Pupil.	328,112	-	-	(328,112)
Instructional staff	323,267	-	141,344	(181,923)
Board of education	1,155,983	359,272	-	(796,711)
Administration.	692,937	-	114,459	(578,478)
Fiscal.	230,732	-	-	(230,732)
Business.	57,148	-	-	(57,148)
Operations and maintenance	1,025,413	-	32,218	(993,195)
Pupil transportation.	946,285	-	-	(946,285)
Central	25,693	-	-	(25,693)
Operation of non-instructional services:				
Food service operations	384,124	116,566	305,020	37,462
Other non-instructional services	6,642	-	6,760	118
Extracurricular activities.	244,511	110,831	-	(133,680)
Interest and fiscal charges	140,168	-	-	(140,168)
Total governmental activities	\$ 10,932,675	\$ 669,621	\$ 2,700,675	(7,562,379)
 General Revenues:				
Property taxes levied for:				
General purposes				1,638,754
Debt service.				232,179
Capital projects				29,021
Grants and entitlements not restricted to specific programs				5,829,711
Investment earnings				12,360
Miscellaneous				37,735
Total general revenues				7,779,760
Change in net assets				217,381
Net assets at beginning of year.				10,991,838
Net assets at end of year				\$ 11,209,219

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 684,637	\$ 446,025	\$ 745,978	\$ 1,876,640
Receivables:				
Taxes.	1,697,458	241,262	31,865	1,970,585
Intergovernmental	-	-	218,109	218,109
Prepayments.	201	-	-	201
Materials and supplies inventory.	-	-	14,372	14,372
Total assets	<u>\$ 2,382,296</u>	<u>\$ 687,287</u>	<u>\$ 1,010,324</u>	<u>\$ 4,079,907</u>
Liabilities:				
Accounts payable	\$ 32,081	\$ -	\$ -	\$ 32,081
Accrued wages and benefits.	640,302	-	181,262	821,564
Compensated absences payable	38,174	-	-	38,174
Pension obligation payable	136,194	-	24,860	161,054
Intergovernmental payable	19,481	-	4,807	24,288
Deferred revenue	228,321	33,581	222,288	484,190
Unearned revenue.	1,406,924	198,605	26,549	1,632,078
Total liabilities.	<u>2,501,477</u>	<u>232,186</u>	<u>459,766</u>	<u>3,193,429</u>
Fund Balances:				
Nonspendable:				
Materials and supplies inventory.	-	-	14,372	14,372
Prepays.	201	-	-	201
Restricted:				
Debt service	-	455,101	-	455,101
Capital improvements	-	-	212,740	212,740
Food service operations	-	-	34,276	34,276
Special education	-	-	1,453	1,453
Targeted academic assistance	-	-	4,509	4,509
Other purposes.	-	-	271,969	271,969
Extracurricular.	-	-	12,796	12,796
Assigned:				
Student instruction	10,929	-	-	10,929
Student and staff support.	742	-	-	742
Public school support	8,779	-	-	8,779
Unassigned (deficit)	(139,832)	-	(1,557)	(141,389)
Total fund balances (deficit)	<u>(119,181)</u>	<u>455,101</u>	<u>550,558</u>	<u>886,478</u>
Total liabilities and fund balances	<u>\$ 2,382,296</u>	<u>\$ 687,287</u>	<u>\$ 1,010,324</u>	<u>\$ 4,079,907</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

Total governmental fund balances		\$	886,478
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			12,327,111
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	266,081	
Intergovernmental receivable		<u>218,109</u>	
Total			484,190
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 on the statement of net assets.			441,501
Unamortized bond issuance costs are not recognized in the funds.			60,353
Unamortized premiums on bond issuance costs are not recognized in the funds.			(145,164)
Unamortized amounts on refundings are not recognized in the funds.			90,220
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(4,379)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences payable		360,101	
Capital lease obligation payable		29,662	
Lease purchase obligation payable		117,762	
General obligation bonds payable		<u>2,423,566</u>	
Total			<u>(2,931,091)</u>
Net assets of governmental activities		<u>\$</u>	<u>11,209,219</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 1,637,296	\$ 231,901	\$ 29,021	\$ 1,898,218
Tuition.	373,941	-	-	373,941
Charges for services	-	-	116,566	116,566
Earnings on investments	881	-	-	881
Extracurricular.	52,564	-	58,267	110,831
Contract services.	68,283	-	-	68,283
Other local revenues	32,896	-	4,839	37,735
Intergovernmental - State	6,445,394	39,319	20,923	6,505,636
Intergovernmental - Federal	-	-	1,839,952	1,839,952
Total revenues	<u>8,611,255</u>	<u>271,220</u>	<u>2,069,568</u>	<u>10,952,043</u>
Expenditures:				
Current:				
Instruction:				
Regular.	3,269,285	-	473,612	3,742,897
Special	457,331	-	645,331	1,102,662
Vocational	207,939	-	-	207,939
Other	15,260	-	-	15,260
Support services:				
Pupil	342,343	-	-	342,343
Instructional staff.	228,940	-	122,298	351,238
Board of education	1,154,637	-	-	1,154,637
Administration	614,208	-	95,391	709,599
Fiscal	224,986	5,311	642	230,939
Business.	57,148	-	-	57,148
Operations and maintenance	848,729	-	155,608	1,004,337
Pupil transportation	923,556	-	-	923,556
Central	25,602	-	-	25,602
Operation of non-instructional services:				
Food service operations.	-	-	399,791	399,791
Operation of non-instructional	-	-	6,642	6,642
Extracurricular activities	183,059	-	54,426	237,485
Debt service:				
Principal retirement.	7,915	140,000	35,235	183,150
Interest and fiscal charges	2,720	96,278	8,414	107,412
Total expenditures	<u>8,563,658</u>	<u>241,589</u>	<u>1,997,390</u>	<u>10,802,637</u>
Excess of revenues over expenditures.	<u>47,597</u>	<u>29,631</u>	<u>72,178</u>	<u>149,406</u>
Other financing sources (uses):				
Transfers in.	-	-	153,974	153,974
Transfers (out)	(153,974)	-	-	(153,974)
Total other financing sources (uses)	<u>(153,974)</u>	<u>-</u>	<u>153,974</u>	<u>-</u>
Net change in fund balances	(106,377)	29,631	226,152	149,406
Fund balances (deficit) at beginning of year (restated)				
	(12,804)	425,470	324,406	737,072
Fund balances (deficit) at end of year.	<u>\$ (119,181)</u>	<u>\$ 455,101</u>	<u>\$ 550,558</u>	<u>\$ 886,478</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds	\$		149,406
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.			(686,659)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
Taxes	\$	1,758	
Intergovernmental		184,777	
Total		184,777	186,535
Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.			183,150
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due. The following items resulted in additional interest being recorded in the statement of activities:			
Accrued interest payable		197	
Accreted interest		(32,549)	
Amortization of deferred charges		(6,725)	
Amortization of bond premium		10,820	
Amortization of bond issuance costs		(4,499)	
Total		(32,756)	(32,756)
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			10,696
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.			407,009
Change in net assets of governmental activities	\$		217,381

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 1,702,103	\$ 1,603,496	\$ 1,603,496	\$ -
Tuition.	372,093	373,941	373,941	-
Earnings on investments	1,054	801	881	80
Contract services.	72,082	68,283	68,283	-
Other local revenues	28,583	31,044	31,044	-
Intergovernmental - State	6,329,519	6,445,394	6,445,394	-
Total revenues	<u>8,505,434</u>	<u>8,522,959</u>	<u>8,523,039</u>	<u>80</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,219,447	3,222,228	3,221,533	695
Special.	536,046	473,411	473,411	-
Vocational.	134,997	211,155	211,155	-
Other.	5,089	15,261	15,261	-
Support services:				
Pupil.	411,630	426,585	426,585	-
Instructional staff	272,555	239,582	239,582	-
Board of education	1,292,730	1,156,810	1,156,810	-
Administration.	746,394	618,710	618,710	-
Fiscal	244,611	225,184	225,184	-
Business	65,393	67,783	67,783	-
Operations and maintenance.	857,563	826,288	826,288	-
Pupil transportation	737,856	828,542	828,542	-
Central.	148	25,495	25,495	-
Extracurricular activities.	109,752	129,570	129,570	-
Total expenditures	<u>8,634,211</u>	<u>8,466,604</u>	<u>8,465,909</u>	<u>695</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(128,777)</u>	<u>56,355</u>	<u>57,130</u>	<u>775</u>
Other financing sources (uses):				
Refund of prior year's expenditures	87	1,295	1,295	-
Transfers in	47	695	-	(695)
Transfers (out).	(60,893)	(153,974)	(153,974)	-
Advances in.	20,178	2,657	2,657	-
Advances (out)	(25,000)	-	-	-
Sale of capital assets	2,010	150	150	-
Total other financing uses	<u>(63,571)</u>	<u>(149,177)</u>	<u>(149,872)</u>	<u>(695)</u>
Net change in fund balance	(192,348)	(92,822)	(92,742)	80
Fund balance at beginning of year	752,467	752,467	752,467	-
Prior year encumbrances appropriated	4,462	4,462	4,462	-
Fund balance at end of year	<u>\$ 564,581</u>	<u>\$ 664,107</u>	<u>\$ 664,187</u>	<u>\$ 80</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011

	Governmental Activities - Internal Service Fund
Assets:	
Cash with fiscal agent	\$ 557,059
Total assets.	<u>557,059</u>
Liabilities:	
Claims payable	<u>115,558</u>
Total liabilities	<u>115,558</u>
Net assets:	
Unrestricted.	<u>441,501</u>
Total net assets	<u><u>\$ 441,501</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	\$ 2,126,997
Total operating revenues	<u>2,126,997</u>
Operating expenses:	
Purchased services.	364,402
Claims	<u>1,367,065</u>
Total operating expenses.	<u>1,731,467</u>
Operating income	<u>395,530</u>
Nonoperating revenues:	
Interest revenue	<u>11,479</u>
Total nonoperating revenues.	<u>11,479</u>
Change in net assets.	407,009
Net assets at beginning of year	<u>34,492</u>
Net assets at end of year.	<u><u>\$ 441,501</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 2,126,997
Cash payments for purchased services	(364,402)
Cash payments for claims	<u>(1,425,497)</u>
Net cash provided by operating activities	<u>337,098</u>
Cash flows from investing activities:	
Interest received	<u>11,479</u>
Net cash provided by investing activities	<u>11,479</u>
Net increase in cash with fiscal agent	348,577
Cash with fiscal agent at beginning of year	<u>208,482</u>
Cash with fiscal agent at end of year	<u><u>\$ 557,059</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 395,530
Changes in assets and liabilities: Decrease in claims payable	<u>(58,432)</u>
Net cash provided by operating activities	<u><u>\$ 337,098</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2011

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 34,282
Total assets.	<u>\$ 34,282</u>
Liabilities:	
Due to students	\$ 34,282
Total liabilities	<u>\$ 34,282</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District ranks as the 504th largest by total enrollment among the 918 public school districts and community schools in the State. The District operates under a locally-elected five-member Board form of government. Each member is elected to a four-year term. The District provides educational services as authorized by its charter and further mandated by State and/or Federal agencies. The Board of Education controls the District's 4 instructional/support facilities staffed by 43 classified employees and 73 certified employees who provide services to 910 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

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

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

JOINTLY GOVERNED ORGANIZATIONS

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

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

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

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

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

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

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

PUBLIC ENTITY RISK POOL

Ohio Association of School Business Officials

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

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

INSURANCE PURCHASING POOLS

Ohio Mid-Eastern Regional Education Services Agency

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

Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority Board (SORSA), an insurance purchasing pool. SORSA's business affairs are conducted by a nine member Board of directors consisting of a President, Vice President, Secretary, Treasurer and five delegates. SORSA was created to provide joint self-insurance coverage and to assist members to prevent and reduce losses and injuries to the District's property and person. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a nonprofit corporation under provisions of Ohio Revised Code 2744.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

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

PROPRIETARY FUNDS

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

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

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

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

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

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

D. Basis of Accounting

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period, including delinquent property taxes due at June 30, 2011, are recorded as deferred revenue.

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

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2011 is as follows:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificates of estimated resources issued for fiscal year 2011.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary comparison statements at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2011; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

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

The District has invested funds in the State Treasury Asset Reserve of Ohio during fiscal year 2011. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2011.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$881, which includes \$527 assigned from other funds.

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

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

G. Inventory

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2011, the District maintained its capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

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

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

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

I. Compensated Absences

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

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

The total liability for vacation and sick leave has been calculated using pay rates in effect at June 30, 2011 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

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

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

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

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

L. Net Assets

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

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

M. Prepayments

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

N. Estimates

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

O. Interfund Activity

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

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

P. 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 2011, the District had no extraordinary or special items.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.

B. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	General	Bond Retirement	Nonmajor Governmental	Total Governmental
Fund balance as previously reported	\$ (20,972)	\$ 425,470	\$ 332,574	\$ 737,072
Fund reclassifications:				
Public school support fund	8,168	-	(8,168)	-
Total fund reclassifications	8,168	-	(8,168)	-
Restated fund balance (deficit) at July 1, 2010	\$ (12,804)	\$ 425,470	\$ 324,406	\$ 737,072

The fund reclassifications did not have an effect on net assets as previously reported.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Major fund</u>	<u>Deficit</u>
General	\$ 119,181
<u>Nonmajor funds</u>	
Improving teacher quality	1,557

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

A. Cash with Fiscal Agent

The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposits, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2011, was \$557,059.

B. Deposits with Financial Institutions

At June 30, 2011, the carrying amount of all District deposits was \$1,789,317. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", \$1,568,426 of the District's bank balance of \$1,818,426 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

C. Investments

As of June 30, 2011, the District had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	Investment Maturity 6 months or less
STAR Ohio	<u>\$ 121,605</u>	<u>\$ 121,605</u>

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

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 121,605</u>	<u>100.00</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,789,317
Investments	121,605
Cash with fiscal agent	<u>557,059</u>
Total	<u>\$ 2,467,981</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 2,433,699
Agency fund	<u>34,282</u>
Total	<u>\$ 2,467,981</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2011, consisted of the following, as reported on the fund financial statements:

<u>Transfers to nonmajor governmental funds from:</u>	<u>Amount</u>
General	\$ 153,974

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in the District's fiscal year ended June 30, 2011 (other than public utility property) generally represent 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 were due September 20, 2010. Single county taxpayers could pay annually or semiannually. If paid semiannually, the first payment was due April 30, 2010, with the remainder payable by September 20, 2010.

The District receives property taxes from Columbiana, Jefferson and Carroll Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$62,213 in the general fund, \$9,076 in the bond retirement debt service fund and \$1,137 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2010 was \$28,413 in the general fund, \$4,279 in the bond retirement debt service fund and \$523 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2011 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2011 taxes were collected are:

	Restated 2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 75,877,290	93.54	\$ 76,807,110	92.83
Public utility personal	4,829,630	5.95	5,655,820	6.84
Tangible personal property	<u>409,674</u>	<u>0.51</u>	<u>273,663</u>	<u>0.33</u>
Total	<u>\$ 81,116,594</u>	<u>100.00</u>	<u>\$ 82,736,593</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$39.44		\$39.44	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2011 consisted of taxes, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Taxes	\$ 1,970,585
Intergovernmental	<u>218,109</u>
Total	<u>\$ 2,188,694</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 8 - CAPITAL ASSETS

The beginning accumulated depreciation balance of the asset categories land improvements and buildings and improvements were restated by \$74,363. The overall balance of capital assets remained unchanged. Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance <u>06/30/10</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/11</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 84,670	\$ -	\$ -	\$ 84,670
Total capital assets, not being depreciated	<u>84,670</u>	<u>-</u>	<u>-</u>	<u>84,670</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	715,401	-	-	715,401
Buildings and improvements	16,394,899	-	-	16,394,899
Furniture and equipment	423,195	-	-	423,195
Infrastructure	139,856	-	-	139,856
Vehicles	<u>1,014,656</u>	<u>-</u>	<u>-</u>	<u>1,014,656</u>
Total capital assets, being depreciated	<u>18,688,007</u>	<u>-</u>	<u>-</u>	<u>18,688,007</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(257,936)	(33,216)	-	(291,152)
Buildings and improvements	(4,548,483)	(545,989)	-	(5,094,472)
Furniture and equipment	(223,545)	(21,911)	-	(245,456)
Infrastructure	(45,453)	(7,687)	-	(53,140)
Vehicles	<u>(683,490)</u>	<u>(77,856)</u>	<u>-</u>	<u>(761,346)</u>
Total accumulated depreciation	<u>(5,758,907)</u>	<u>(686,659)</u>	<u>-</u>	<u>(6,445,566)</u>
Governmental activities capital assets, net	<u>\$ 13,013,770</u>	<u>\$ (686,659)</u>	<u>\$ -</u>	<u>\$ 12,327,111</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 567,171
<u>Support services:</u>	
Board of education	1,346
Administration	6,047
Operations and maintenance	20,841
Pupil transportation	79,687
Food service operations	4,691
Extracurricular activities	<u>6,876</u>
Total depreciation expense	<u>\$ 686,659</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

- A. In a prior year, the District entered into a capital lease for the acquisition of copiers. These leases met the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term. At inception, the lease was accounted for as an other financing source and a capital outlay expenditure in the general fund. Capital lease payments have been reclassified and shown as debt service expenditures in the general fund. These expenditures will be reflected as function expenditures on a budgetary basis. The general capital assets acquired by this capital lease have been capitalized in the governmental activities on the statement of net assets in the amount of \$43,707, which is equal to the present value of the future minimum lease payments as of the date of their inception. Accumulated depreciation as of June 30, 2011 was \$13,112, leaving a current book value of \$30,595. A corresponding liability has been recorded in the governmental activities on the statement of net assets. Principal payments made during fiscal year 2011 totaled \$7,915.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2011.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 10,635
2013	10,635
2014	10,634
2015	<u>1,772</u>
Total minimum lease payments	<u>33,676</u>
Less: amount representing interest	<u>(4,014)</u>
Present value of minimum lease payments	<u>\$ 29,662</u>

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

Capital assets consisting of building improvements have been capitalized in the amount of \$330,500. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2011 was \$90,888, leaving a current book value of \$239,612. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2011 totaled \$35,235 paid by the building fund, a nonmajor governmental fund.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

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

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2011.

Fiscal Year Ending June 30	Amount
2012	\$ 43,649
2013	43,649
2014	43,649
Total	130,947
Less: amount representing interest	(13,185)
Present value of minimum lease payments	\$ 117,762

NOTE 10 - LONG-TERM OBLIGATIONS

A. During fiscal year 2011, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding 06/30/10	Additions	Reductions	Balance Outstanding 06/30/11	Amounts Due in One Year
Governmental activities:					
General obligation bonds - Series 2001					
Capital appreciation	\$ 15,665	\$ -	\$ (15,665)	\$ -	\$ -
Accreted interest	87,844	11,491	(99,335)	-	-
Refunding bonds - Series 2007					
Current interest	2,320,000	-	(25,000)	2,295,000	150,000
Capital appreciation	64,998	-	-	64,998	-
Accreted interest	42,510	21,058	-	63,568	-
Total general obligation bonds	2,531,017	32,549	(140,000)	2,423,566	150,000
Compensated absences	411,436	27,478	(40,639)	398,275	47,572
Capital lease obligation	37,577	-	(7,915)	29,662	8,572
Lease purchase obligation	152,997	-	(35,235)	117,762	37,172
Total	\$ 3,133,027	\$ 60,027	\$ (223,789)	\$ 2,969,265	\$ 243,316
Add: Unamortized premium on refunding				145,164	
Less: Unamortized deferred charge on refunding				(90,220)	
Total on statement of net assets				\$ 3,024,209	

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

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

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

This issue is comprised of both current interest bonds, par value \$3,057,000, and capital appreciation bonds, par value \$15,665. The interest rates on the current interest bonds range from 4.00% to 5.25%. The capital appreciation bonds mature on December 1, 2010 (stated interest 22.20%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$115,000.

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

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

The refunding issue is comprised of both current interest bonds, par value \$2,400,000 and capital appreciation bonds par value \$64,998. The interest rates on the current interest bonds range from 3.75% - 4.35%. The capital appreciation bonds mature on December 1, 2016 and December 1, 2017 (stated interest rates 18.783%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds maturing December 1, 2016 and December 1, 2017 is \$375,000. Total accreted interest of \$63,568 has been included in the statement of net assets at June 30, 2011.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Fiscal Year Ending June 30	Current Interest Bonds - Series 2007			Capital Appreciation Bonds - Series 2007		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 150,000	\$ 92,777	\$ 242,777	\$ -	\$ -	\$ -
2013	160,000	86,378	246,378	-	-	-
2014	165,000	79,471	244,471	-	-	-
2015	170,000	72,352	242,352	-	-	-
2016	175,000	65,021	240,021	-	-	-
2017 - 2021	580,000	271,245	851,245	64,998	310,002	375,000
2022 - 2025	895,000	77,171	972,171	-	-	-
Total	<u>\$ 2,295,000</u>	<u>\$ 744,415</u>	<u>\$ 3,039,415</u>	<u>\$ 64,998</u>	<u>\$ 310,002</u>	<u>\$ 375,000</u>

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2011, are a voted debt margin of \$5,516,767, (including available funds of \$455,101) and an unvoted debt margin of \$82,463.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Principals, teachers, aides, secretaries, bus drivers and cafeteria workers do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to the number of annual work days per contract plus 90 days, not to exceed 300 days for certified employees and 280 for non-certified employees. Upon retirement, certified employees are paid for one-fourth of their total sick leave accumulation, up to their maximum accumulation, and classified employees are paid for one-fourth of their total sick leave accumulation, up to their maximum accumulation.

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 11 - OTHER EMPLOYEE BENEFITS - (Continued)

B. Life Insurance

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

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. For fiscal year 2011, the District contracted with Schools of Risk Sharing Authority (SORSA) for property, boiler and inland marine insurance. This risk policy has a \$1,000 deductible.

General liability is protected by Schools of Risk Sharing Authority (SORSA) with a \$1,000,000 single occurrence limit and \$5,000,000 aggregate and no deductible. Vehicles, including school buses, are covered by Schools of Risk Sharing Authority (SORSA) and hold a \$1,000 deductible for comprehensive and collision. There is a \$1,000,000 combined single limit of liability.

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

B. Workers' Compensation Plan

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

C. Medical, Vision, Dental and Prescription Insurance

Medical, vision, dental and prescription insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of several Districts within the Eastern Region, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. The claims liability of \$115,558 reported in the internal service fund at June 30, 2011, is based on an estimate provided by Professional Risk Management (the third party administrator) and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling claims.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 12 - RISK MANAGEMENT - (Continued)

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2011	\$ 173,990	\$ 1,367,065	\$ (1,425,497)	\$ 115,558
2010	148,491	1,303,551	(1,278,052)	173,990

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, 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 the SERS' Ohio website, www.ohsers.org, under "Media/Financial Reports".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$112,848, \$122,512 and \$82,777, respectively; 56.63 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

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

**SOUTHERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 13 - PENSION PLANS - (Continued)

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

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

Funding Policy - For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$433,696, \$439,066 and \$416,403, respectively; 82.71 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$4,268 made by the District and \$3,048 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Media/Financial Reports*".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010 and 2009 were \$31,967, \$17,781 and \$55,528, respectively; 56.63 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$7,262, \$7,286 and \$6,830, respectively; 56.63 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" 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 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$33,361, \$33,774 and \$32,031, respectively; 82.71 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (92,742)
Net adjustment for revenue accruals	33,800
Net adjustment for expenditure accruals	(55,615)
Net adjustment for other sources/uses	(4,102)
Funds budgeted elsewhere	611
Adjustment for encumbrances	11,671
GAAP basis	<u>\$ (106,377)</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the public school support fund.

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 17 - SET-ASIDES

The 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 the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. These amounts must be 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.

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance June 30, 2010	\$ -	\$ -
Current year set-aside requirement	128,839	128,839
Contributions in excess of the current fiscal year set-aside requirement	-	-
Current year qualifying expenditures	(176,878)	(151,184)
Excess qualified expenditures from prior years	(318,286)	-
Current year offsets	-	(32,987)
Waiver granted by ODE	-	-
Prior year offset from bond proceeds	-	-
Total	<u>\$ (366,325)</u>	<u>\$ (55,332)</u>
Balance carried forward to fiscal year 2012	<u>\$ -</u>	<u>\$ -</u>
Set-aside balance June 30, 2011	<u>\$ -</u>	<u>\$ -</u>

The District had qualifying disbursements and offsets during the fiscal year that reduced the textbook set-aside amount to below zero. Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This negative balance is therefore not being presented as being carried forward to the future fiscal year. Although the District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount to below zero for the capital improvements set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. The negative balance is therefore not presented as being carried forward to future fiscal years.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(CONTINUED)

NOTE 18 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 11,671
Other governmental	<u>94,605</u>
Total	<u>\$ 106,276</u>

SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
Commodity Supplemental Food Program (Non-Cash)	03-PU-11	10.555	\$27,758	\$27,758
Child Nutrition Cluster:				
School Breakfast Program	05-PU-11	10.553	\$64,381	\$64,381
National School Lunch Program	04-PU-11	10.555	206,156	206,156
Total Child Nutrition Cluster			<u>270,537</u>	<u>270,537</u>
Total U.S. Department of Agriculture			<u>298,295</u>	<u>298,295</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies (Title 1, Part A of the ESEA)	C1-S1-10	84.010	26,513	57,555
	C1-S1-11		269,928	238,966
Title I Grants to Local Educational Agencies, Recovery Act	2010	84.389	26,180	18,680
	2011		67,246	64,607
Total Title I, Part A Cluster			<u>389,867</u>	<u>379,808</u>
Special Education Cluster:				
Special Education - Grants to States (IDEA Part B)	6B-SF-11	84.027	164,030	161,742
Special Education - Grants to States (IDEA Part B), Recovery Act	2010	84.391	26,180	24,928
	2011		85,168	82,968
Total Special Education Cluster			<u>275,378</u>	<u>269,638</u>
Educational Technology State Grants Cluster:				
Title II Part D Education Technology State Grant	TJ-S1-10	84.318		909
	TJ-S1-11		45,973	41,160
Total Educational Technology State Grants Cluster			<u>45,973</u>	<u>42,069</u>
Title VI B Rural and Low Income Program				
Title VI B Rural and Low Income		84.358	21,592	11,486
Total VI B Program			<u>21,592</u>	<u>11,486</u>
Title II-A Improving Teacher Quality State Grant	TR-S1-10	84.367	6,820	11,330
	TR-S1-11		54,451	49,227
Total Title II-A Improving Teacher Quality State Grant			<u>61,271</u>	<u>60,557</u>
State Fiscal Stabilization Fund Cluster				
State Fiscal Stabilization Fund (SFSF) – Education State Grants,	2010	84.394	36,718	48,616
Recovery Act (Education Stabilization Fund)	2011		470,581	356,800
Total State Fiscal Stabilization Fund Cluster			<u>507,299</u>	<u>405,416</u>
Education Jobs Fund				
Total Education Jobs Fund	2011	84.410	152,008	117,318
			<u>152,008</u>	<u>117,318</u>
Title IV-A Safe and Drug-Free Schools and Communities State Grant	2010	84.186		196
Total Title IV-A Grant				<u>196</u>
Total U.S. Department of Education			<u>1,453,388</u>	<u>1,286,488</u>
Total Federal Financial Assistance			<u>\$1,751,683</u>	<u>\$1,584,783</u>

The accompanying notes are an integral part of this schedule.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO FEDERAL AWARDS EXPENDITURES SCHEDULE
JUNE 30, 2011**

A. SIGNIFICANT ACCOUNTING POLICIES

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

B. CHILD NUTRITION CLUSTER

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

C. FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective programs that benefitted from the use of those donated food commodities. At June 30, 2011, the District had no significant food commodities in inventory.

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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
Columbiana County
38095 State Road 39 East
Salineville, Ohio 43952

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Southern Local School District, Columbiana County, (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 27, 2012, in which we noted the District implemented Government Accounting Standards Board Statement 54, "Fund Balance and Governmental Fund Type Definitions". We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *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 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 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 certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 27, 2012.

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

A handwritten signature in 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

January 27, 2012



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
Columbiana County
P.O. Box 189
Salineville, Ohio 43952

To the Board of Education:

Compliance

We have audited the compliance of Southern Local School District, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Southern Local School District's major federal programs for the year ended June 30, 2011. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

Our compliance audit followed 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*. These 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 District's compliance with these 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 Government's compliance with these requirements.

As described in findings 2011-01 and 2011-02 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable costs/costs principals applicable to its Title I grants and cash management applicable to its State Fiscal Stabilization grant major federal programs. Compliance with these requirements is necessary, in our opinion, for the District to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Southern Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with 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 District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-01 and 2011-02 to be material weaknesses.

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

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 27, 2012.

We intend this report solely for the information and use of management, 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

January 27, 2012

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

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?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified - Title I and State Fiscal Stabilization Fund Unqualified – Nutrition Cluster
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Title I 84.010,84.389 Nutrition Cluster 10.555 and 10.553 State Fiscal Stabilization Fund Grant 84.394
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None

3.FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FINDING NUMBER 2011-01

Allowable Costs/Costs Principals

Finding Number	2011-01
CFDA Title and Number	Title I 84.010 and 84.389
Federal Award Number / Year	2011
Federal Agency	U. S. Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost/Non-Compliance/Material Weakness

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

Four employees whose salaries were paid solely from the Title I federal program did not properly complete semiannual certifications. Although the certifications were completed, the employees certified 100% of their time to administrative activities and not to the Title I program and the certifications were completed at the beginning of the period they were to cover. There was no additional documentation provided to support the time charged to the Title I program. The errors in completing the semiannual certifications and lack of additional supporting documentation has resulted in questioned costs for the Title I program in the amount of \$176,497.

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

One employee who worked on multiple federal programs and was partially paid with Title I monies maintained a time and effort log. However, the amounts actually paid from the Title I program did not reconcile back to the amounts recorded in the time and effort logs. Based on the hours logged, the Title I program was overcharged by \$654 and has resulted in questioned costs of this amount.

Total questioned costs relating to failure to properly complete semiannual certifications and to pay in accordance with time and effort documentation are \$177,151.

Semiannual certifications and time and effort logs should be an "after the fact" representation of the hours worked. Therefore, these should be completed in a reasonably short time after the end of the period the certification or log is meant to cover. The District should review the guidelines regarding the completion of semi-annual certifications and take the necessary measures to ensure that the requirements are met. In addition, the District should implement procedures to reconcile actual hours recorded on time and effort logs to actual amounts paid.

Official's Response: The Southern Local School District has experienced yearly turnovers in the administration offices that directly affect the administration of the Title Programs. Therefore, miscommunication and errors have occurred in the turnovers.

The main issue was the semi-annual time and effort logs. The wrong form was being used by the teachers. This has been corrected for the current fiscal year, and every effort is being made to keep accurate and complete time logs to reconcile back with payroll.

FINDING NUMBER 2011-02

Cash Management

Finding Number	2011-02
CFDA Title and Number	State Fiscal Stabilization Fund 84.394
Federal Award Number / Year	2011
Federal Agency	U. S. Department of Education
Pass-Through Agency	Ohio Department of Education

Non-compliance/Material Weakness

34 CFR 80.20 (b)(7) states in part: "When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements." Interest should not be earned on these funds. If interest is earned on the funds, the interest earned must be remitted to the US Department of Education via a check sent to the Ohio Department of Education. Ohio Department of Education will review the calculation and determine if the amount remitted is correct. An amount of \$100 per entity per year may be retained under 34 CFR 80.21 for administrative expenses.

In the State Fiscal Stabilization Fund (CFDA #84.394), the District maintained balances averaging \$131,896 each month. Interest earned on these funds using the U.S. Treasury Current Value of Funds rate total \$1,318 as of June 30, 2011, An amount of \$100 per entity per year may be retained under 34 CFR Section 80.21 for administrative expenses. Interest earned in excess of that must be remitted to the U.S Department of Education via a check sent to the Ohio Department of Education.

By not minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees, future funding to the District could be at risk. The District should take steps to spend federal monies within the month that they are received.

Officials' Response: The stabilization fund carried large balances from month to month. This was a first time for everyone with the stabilization money, so there were miscommunications on all sides on how to handle this money. The funds were depleted as required by the end of the fiscal year.

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**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Ohio Revised Code Section 5705.41(D) Disbursements were not properly certified.	Partially Corrected	Reported in the management letter

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Southern Local School District
Columbiana County
38095 State Road 39 East
Salineville, Ohio 43952

To the Board of Education:

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

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

1. We noted the Board of Education amended its anti-harassment policy at its meeting on December 13, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 27, 2012

Voinovich Government Center / 242 Federal Plaza W. / Suite 302 / Youngstown, OH 44503-1293
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Dave Yost • Auditor of State

SOUTHERN LOCAL SCHOOL DISTRICT

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 5, 2012**