



Dave Yost • Auditor of State



**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

### ***Report on the Financial Statements***

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Columbiana County, Ohio, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 3 to the financial statements, during the year ended June 30, 2013, the District adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

### **Other Matters**

#### *Required Supplementary Information*

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

#### *Supplementary and Other Information*

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Federal Awards Receipts and Expenditures Schedule (the Schedule) also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is also not a required part of the financial statements.

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report June 6, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

June 6, 2014

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(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, 2013. 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 2013 are as follows:

- In total, net position of governmental activities decreased \$1,134,109, which represents a 10.81% decrease from 2012.
- General revenues accounted for \$7,733,927 in revenue or 69.54% of all revenues. Program specific revenues in the form of charges for services and sales, and operating grants and contributions accounted for \$3,387,473 or 30.46% of total revenues of \$11,121,400.
- The District had \$12,255,509 in expenses related to governmental activities; \$3,387,473 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 \$7,733,927 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, bond retirement fund, and permanent improvement fund. The general fund had \$8,702,778 in revenues and \$9,086,790 in expenditures and other financing uses. During fiscal year 2013 the general fund's fund deficit increased \$384,012 from a deficit balance of \$316,648 to a deficit of \$700,660.
- The District's bond retirement fund had \$268,441 in revenues and \$252,282 in expenditures. During fiscal year 2013, the bond retirement fund's fund balance increased \$16,159 from \$469,501 to \$485,660.
- The District's permanent improvement fund had \$1,074,619 in revenues and other financing sources and \$64,152 in expenditures. During fiscal year 2013, the permanent improvement fund's fund balance increased \$1,010,467 from \$36,204 to \$1,046,671.

**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 position* 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, bond retirement fund, and permanent improvement 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, 2013  
(UNAUDITED)

**Reporting the District as a Whole**

***Statement of Net position 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 2013?" The statement of net position and the statement of activities answer this question. These statements include *all assets, deferred outflows, liabilities, deferred inflows, 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 position* and changes in that position. This change in net position 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 position 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 position and statement of activities can be found on pages 16-17 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 12. 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, bond retirement fund, and permanent improvement 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 position 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 18-22 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 23-25 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(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 assets and liabilities on page 26. 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 27-55 of this report.

**The District as a Whole**

The table below provides a summary of the District's net position at June 30, 2013 and June 30, 2012. The 2012 amounts for assets, deferred outflows, liabilities, and deferred inflows have been reclassified to conform to 2013 presentation.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

	<b>Net Position</b>	
	Governmental Activities 2013	Governmental Activities 2012
<b><u>Assets</u></b>		
Current and other assets	\$ 4,888,585	\$ 4,451,570
Capital assets, net	<u>11,094,472</u>	<u>11,750,659</u>
Total assets	<u>15,983,057</u>	<u>16,202,229</u>
<b><u>Deferred outflows of resources</u></b>		
Unamortized deferred charges on debt refunding	<u>76,771</u>	<u>83,496</u>
Total deferred outflows of resources	<u>76,771</u>	<u>83,496</u>
<b><u>Liabilities</u></b>		
Current liabilities	1,208,000	1,245,521
Long-term liabilities	<u>3,694,014</u>	<u>2,895,907</u>
Total liabilities	<u>4,902,014</u>	<u>4,141,428</u>
<b><u>Deferred inflows of resources</u></b>		
Property taxes levied for the next fiscal year	<u>1,801,430</u>	<u>1,653,804</u>
Total deferred inflows of resources	<u>1,801,430</u>	<u>1,653,804</u>
<b><u>Net position</u></b>		
Net investment in capital assets	8,944,541	9,443,988
Restricted	709,653	895,093
Unrestricted (deficit)	<u>(297,810)</u>	<u>151,412</u>
Total net position	<u>\$ 9,356,384</u>	<u>\$ 10,490,493</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9,356,384.

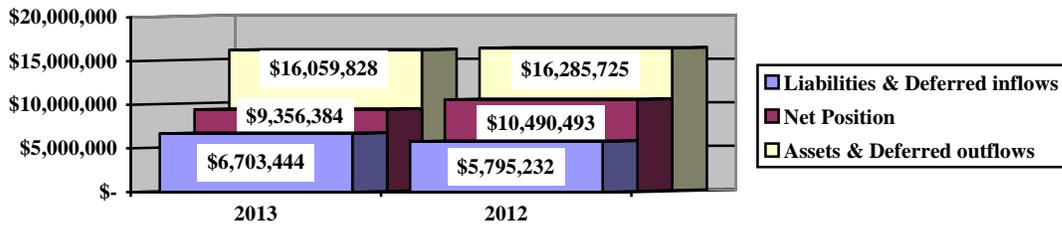
At year-end, capital assets represented 69.41% of total assets. Capital assets include land, land improvements, buildings and improvements, infrastructure, furniture and equipment and vehicles. Net investment in capital assets was \$8,944,541. These capital assets are used to provide services to the 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

The graph below presents the District's governmental activities assets and deferred outflows, liabilities and deferred inflows, and net position at June 30, 2013 and June 30, 2012.

**Governmental Activities**



The table below shows the change in net position for fiscal year 2013 and 2012.

**Change in Net Position**

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 808,249	\$ 709,186
Operating grants and contributions	2,579,224	2,818,450
General revenues:		
Property taxes	1,878,177	1,852,740
Grants and entitlements	5,748,384	5,949,270
Investment earnings	4,997	13,499
Other	<u>102,369</u>	<u>379,300</u>
Total revenues	<u>11,121,400</u>	<u>11,722,445</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

**Change in Net Position**

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 3,785,176	\$ 3,963,369
Special	1,177,605	1,084,296
Vocational	232,067	231,356
Other	266,520	223,039
Support services:		
Pupil	897,330	925,262
Instructional staff	709,500	762,434
Board of education	1,267,750	1,188,653
Administration	739,781	672,584
Fiscal	243,788	245,978
Business	58,759	58,281
Operations and maintenance	1,043,779	1,233,733
Pupil transportation	874,891	905,396
Central	94,661	116,491
Operation of non-instructional services:		
Food service operations	414,889	426,203
Operations of other non-instructional services	19,838	38,114
Extracurricular activities	255,586	239,485
Interest and fiscal charges	<u>173,589</u>	<u>126,497</u>
Total expenses	<u>12,255,509</u>	<u>12,441,171</u>
Change in net position	<u>(1,134,109)</u>	<u>(718,726)</u>
Net position at beginning of year	<u>10,490,493</u>	<u>11,209,219</u>
Net position at end of year	<u>\$ 9,356,384</u>	<u>\$ 10,490,493</u>

**Governmental Activities**

Net position of the District's governmental activities decreased \$1,134,109. Total governmental expenses of \$12,255,509 were offset by program revenues of \$3,387,473 and general revenues of \$7,733,927. Program revenues supported 27.64% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 68.58% of total governmental revenue.

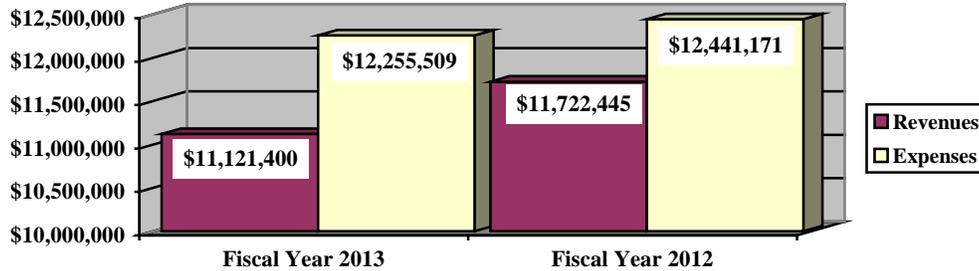
The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,461,368 or 44.56% of total governmental expenses for fiscal year 2013.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

The graph below presents the District's governmental activities revenues and expenses for fiscal year 2013 and 2012.

**Governmental Activities - Revenues and Expenses**



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

**Governmental Activities**

	Total Cost of Services <u>2013</u>	Net Cost of Services <u>2013</u>	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 3,785,176	\$ 3,699,375	\$ 3,963,369	\$ 3,812,091
Special	1,177,605	199,772	1,084,296	146,953
Vocational	232,067	199,434	231,356	198,723
Other	266,520	20,581	223,039	(22,515)
Support services:				
Pupil	897,330	567,945	925,262	595,739
Instructional staff	709,500	201,214	762,434	186,979
Board of education	1,267,750	745,753	1,188,653	797,486
Administration	739,781	673,822	672,584	534,708
Fiscal	243,788	243,788	245,978	245,978
Business	58,759	58,759	58,281	58,281
Operations and maintenance	1,043,779	1,040,179	1,233,733	1,210,141
Pupil transportation	874,891	847,945	905,396	883,962
Central	94,661	36,537	116,491	21,546
Food service operations	414,889	(4,955)	426,203	(28,512)
Operations of non-instructional services	19,838	792	38,114	(2,827)
Extracurricular activities	255,586	163,506	239,485	148,305
Interest and fiscal charges	173,589	173,589	126,497	126,497
<b>Total expenses</b>	<u>\$ 12,255,509</u>	<u>\$ 8,868,036</u>	<u>\$ 12,441,171</u>	<u>\$ 8,913,535</u>

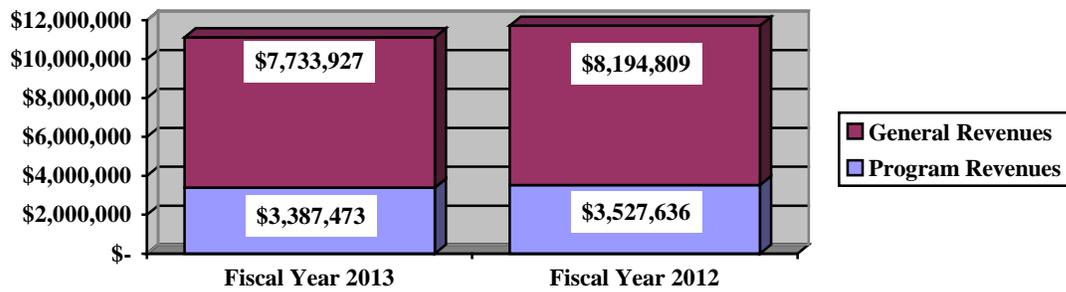
**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, 75.42% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 72.36%. 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 2013 and 2012.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$1,108,067, which is higher than last year's total of \$467,954. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2013 and 2012.

	Fund Balance (Deficit) <u>June 30, 2013</u>	Fund Balance (Deficit) <u>June 30, 2012</u>	Increase (Decrease)	Percentage Change
General	\$ (700,660)	\$ (316,648)	\$ (384,012)	(121.27) %
Bond Retirement	485,660	469,501	16,159	(3.44) %
Permanent Improvement	1,046,671	36,204	1,010,467	2,791.04 %
Other Governmental	<u>276,396</u>	<u>278,897</u>	<u>(2,501)</u>	(0.90) %
Total	<u>\$ 1,108,067</u>	<u>\$ 467,954</u>	<u>\$ 640,113</u>	136.79 %

**General Fund**

The District's general fund deficit increased \$384,012. The increase in fund deficit can be attributed to revenues of \$8,702,778 being less than expenditures and other financing uses of \$9,086,790. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

	<u>2013</u> <u>Amount</u>	<u>2012</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 1,595,887	\$ 1,581,174	\$ 14,713	0.93 %
Tuition	537,165	410,236	126,929	30.94 %
Earnings on investments	110	1,266	(1,156)	(91.31) %
Intergovernmental	6,361,034	6,562,029	(200,995)	(3.06) %
Other revenues	<u>208,582</u>	<u>498,344</u>	<u>(289,762)</u>	(58.14) %
Total	<u>\$ 8,702,778</u>	<u>\$ 9,053,049</u>	<u>\$ (350,271)</u>	(3.87) %
<b><u>Expenditures</u></b>				
Instruction	\$ 4,128,882	\$ 4,435,797	\$ (306,915)	(6.92) %
Support services	4,565,487	4,466,555	98,932	2.21 %
Extracurricular activities	186,786	172,529	14,257	8.26 %
Debt service	<u>10,635</u>	<u>10,635</u>	-	-
Total	<u>\$ 8,891,790</u>	<u>\$ 9,085,516</u>	<u>\$ (193,726)</u>	(2.13) %

The increase in tuition revenue of \$126,929 is due to an increase in open enrollment revenue received during the fiscal year. Instructional expenditures decreased \$306,915, which was due, in part, to a decrease in wage and benefit costs.

***Bond Retirement Fund***

The District's bond retirement fund balance increased \$16,159 from \$469,501 to \$485,660 at June 30, 2013. The increase in fund balance can be attributed to revenues of \$268,441 being greater than expenditures of \$252,282.

***Permanent Improvement Fund***

The District's permanent improvement fund balance increased \$1,010,467 at June 30, 2013. The increase in fund balance can be attributed to monies received in the current year for football field renovations.

***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 2013, the District amended its general fund budget. For the general fund, original budgeted revenues and other financing sources were \$9,249,675. Final budgeted revenues and other financing sources were \$8,980,431. Actual revenues and other financing sources for fiscal 2013 were \$8,884,569, which is \$95,862 lower than final budgeted revenues and other financing sources.

General fund original appropriations (appropriated expenditures including other financing uses) were \$9,395,894. General fund final appropriations (appropriated expenditures including other financing uses) were \$9,139,016. The actual budget basis expenditures and other financing uses for fiscal year 2013 totaled \$9,138,555, which represents a decrease of \$461 under final budgeted appropriations and other financing uses.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2013, the District had \$11,094,472 invested in land, land improvements, buildings and improvements, furniture and equipment, infrastructure and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2013 balances compared to June 30, 2012:

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

	Governmental Activities	
	2013	2012
Land	\$ 84,670	\$ 84,670
Land improvements	371,678	405,644
Building and improvements	10,271,442	10,815,627
Furniture and equipment	165,719	179,643
Infrastructure	71,344	79,030
Vehicles	129,619	186,045
Total	<u>\$ 11,094,472</u>	<u>\$ 11,750,659</u>

The overall decrease in capital assets of \$656,187 is due to depreciation expense of \$664,605 exceeding capital outlays of \$8,418 during the fiscal year.

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

***Debt Administration***

At June 30, 2013, the District had \$3,267,044 in general obligation bonds, capital lease obligations, and lease purchase obligations outstanding. Of this total, \$240,734 is due within one year and \$3,026,310 is due in greater than one year. The following table summarizes the bonds outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities	Governmental Activities
	2013	2012
General obligation bonds	\$ 2,168,864	\$ 2,298,749
Capital lease obligations	11,807	21,090
Lease purchase obligations	1,086,373	80,590
Total	<u>\$ 3,267,044</u>	<u>\$ 2,400,429</u>

At June 30, 2013, the District's overall legal debt margin was \$5,939,816, and an unvoted debt margin of \$83,379.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

**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.

**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 POSITION  
JUNE 30, 2013

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 1,945,727
Cash with fiscal agent . . . . .	543,341
Receivables:	
Taxes . . . . .	2,180,827
Accounts. . . . .	66
Intergovernmental . . . . .	212,150
Prepayments . . . . .	197
Materials and supplies inventory. . . . .	6,277
Capital assets:	
Land . . . . .	84,670
Depreciable capital assets, net. . . . .	<u>11,009,802</u>
Capital assets, net . . . . .	<u>11,094,472</u>
 Total assets. . . . .	 <u>15,983,057</u>
<b>Deferred Outflows of Resources:</b>	
Unamortized deferred charges on debt refunding	<u>76,771</u>
 Total deferred outflows of resources . . . . .	 <u>76,771</u>
<b>Liabilities:</b>	
Accounts payable. . . . .	46,241
Accrued wages and benefits. . . . .	804,866
Pension obligation payable. . . . .	160,172
Intergovernmental payable . . . . .	28,234
Accrued interest payable . . . . .	3,525
Claims payable. . . . .	164,962
Long-term liabilities:	
Due within one year. . . . .	275,110
Due in more than one year. . . . .	<u>3,418,904</u>
 Total liabilities . . . . .	 <u>4,902,014</u>
<b>Deferred Inflows of Resources:</b>	
Property taxes levied for the next fiscal year. . . . .	<u>1,801,430</u>
 Total deferred inflows of resources . . . . .	 <u>1,801,430</u>
<b>Net Position:</b>	
Net investment in capital assets . . . . .	8,944,541
Restricted for:	
Capital projects . . . . .	83,286
Debt service. . . . .	403,713
State funded programs. . . . .	165
Federally funded programs . . . . .	130,112
Student activities . . . . .	6,339
Other purposes . . . . .	86,038
Unrestricted (deficit) . . . . .	<u>(297,810)</u>
 Total net position. . . . .	 <u>\$ 9,356,384</u>

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, 2013

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 3,785,176	\$ 85,801	\$ -	\$ (3,699,375)
Special . . . . .	1,177,605	-	977,833	(199,772)
Vocational . . . . .	232,067	-	32,633	(199,434)
Other . . . . .	266,520	-	245,939	(20,581)
Support services:				
Pupil . . . . .	897,330	-	329,385	(567,945)
Instructional staff . . . . .	709,500	-	508,286	(201,214)
Board of education . . . . .	1,267,750	521,997	-	(745,753)
Administration . . . . .	739,781	-	65,959	(673,822)
Fiscal . . . . .	243,788	-	-	(243,788)
Business . . . . .	58,759	-	-	(58,759)
Operations and maintenance . . . . .	1,043,779	-	3,600	(1,040,179)
Pupil transportation . . . . .	874,891	-	26,946	(847,945)
Central . . . . .	94,661	-	58,124	(36,537)
Operation of non-instructional services:				
Food service operations . . . . .	414,889	108,371	311,473	4,955
Other non-instructional services . . . . .	19,838	-	19,046	(792)
Extracurricular activities . . . . .	255,586	92,080	-	(163,506)
Interest and fiscal charges . . . . .	173,589	-	-	(173,589)
<b>Total governmental activities . . . . .</b>	<b>\$ 12,255,509</b>	<b>\$ 808,249</b>	<b>\$ 2,579,224</b>	<b>(8,868,036)</b>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes . . . . .				1,620,439
Debt service . . . . .				230,514
Capital projects . . . . .				27,224
Grants and entitlements not restricted				
to specific programs . . . . .				5,748,384
Investment earnings . . . . .				4,997
Miscellaneous . . . . .				102,369
<b>Total general revenues . . . . .</b>				<b>7,733,927</b>
Change in net position . . . . .				(1,134,109)
<b>Net position at beginning of year . . . . .</b>				<b>10,490,493</b>
<b>Net position at end of year . . . . .</b>				<b>\$ 9,356,384</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Equity in pooled cash and cash equivalents. . . . .	\$ 169,645	\$ 477,379	\$ 1,045,663	\$ 253,040	\$ 1,945,727
Receivables:					
Taxes . . . . .	1,751,789	239,486	189,552	-	2,180,827
Accounts . . . . .	66	-	-	-	66
Interfund loans . . . . .	11,165	-	-	-	11,165
Intergovernmental. . . . .	12,216	-	-	199,934	212,150
Prepayments. . . . .	197	-	-	-	197
Materials and supplies inventory . . . . .	-	-	-	6,277	6,277
Total assets . . . . .	<u>\$ 1,945,078</u>	<u>\$ 716,865</u>	<u>\$ 1,235,215</u>	<u>\$ 459,251</u>	<u>\$ 4,356,409</u>
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 46,241	\$ -	\$ -	\$ -	\$ 46,241
Accrued wages and benefits. . . . .	715,240	-	-	89,626	804,866
Compensated absences payable . . . . .	26,102	-	-	-	26,102
Interfund loans payable. . . . .	-	-	-	11,165	11,165
Pension obligation payable . . . . .	137,455	-	-	22,717	160,172
Intergovernmental payable . . . . .	23,855	-	-	4,379	28,234
Total liabilities. . . . .	<u>948,893</u>	<u>-</u>	<u>-</u>	<u>127,887</u>	<u>1,076,780</u>
<b>Deferred Inflows of Resources:</b>					
Property taxes levied for the next fiscal year. . . . .	1,426,889	190,944	183,597	-	1,801,430
Delinquent property tax revenue not available. . . . .	269,956	40,261	4,947	-	315,164
Intergovernmental revenue not available . . . . .	-	-	-	54,968	54,968
Total deferred inflows of resources . . . . .	<u>1,696,845</u>	<u>231,205</u>	<u>188,544</u>	<u>54,968</u>	<u>2,171,562</u>
<b>Fund Balances:</b>					
Nonspendable:					
Materials and supplies inventory. . . . .	-	-	-	6,277	6,277
Prepays . . . . .	197	-	-	-	197
Restricted:					
Debt service . . . . .	-	485,660	-	-	485,660
Capital improvements . . . . .	-	-	1,046,671	76,851	1,123,522
Food service operations . . . . .	-	-	-	90,226	90,226
Special education . . . . .	-	-	-	12,392	12,392
Targeted academic assistance . . . . .	-	-	-	77,002	77,002
Other purposes. . . . .	-	-	-	7,309	7,309
Extracurricular. . . . .	-	-	-	6,339	6,339
Unassigned (deficit). . . . .	(700,857)	-	-	-	(700,857)
Total fund balances (deficit) . . . . .	<u>(700,660)</u>	<u>485,660</u>	<u>1,046,671</u>	<u>276,396</u>	<u>1,108,067</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,945,078</u>	<u>\$ 716,865</u>	<u>\$ 1,235,215</u>	<u>\$ 459,251</u>	<u>\$ 4,356,409</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2013

<b>Total governmental fund balances</b>		\$ 1,108,067
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		11,094,472
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Taxes receivable	\$ 315,164	
Intergovernmental receivable	<u>54,968</u>	
Total		370,132
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 position.		378,379
Unamortized premiums on bonds issued are not recognized in the funds.		(123,524)
Unamortized amounts on refundings are not recognized in the funds.		76,771
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(3,525)
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	(277,344)	
Capital lease obligation payable	(11,807)	
Lease purchase obligation payable	(1,086,373)	
General obligation bonds payable	<u>(2,168,864)</u>	
Total		<u>(3,544,388)</u>
<b>Net position of governmental activities</b>		<u>\$ 9,356,384</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, 2013

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
From local sources:					
Taxes . . . . .	\$ 1,595,887	\$ 226,666	\$ 27,224	\$ -	\$ 1,849,777
Tuition . . . . .	537,165	-	-	-	537,165
Charges for services . . . . .	-	-	-	108,371	108,371
Earnings on investments . . . . .	110	-	-	-	110
Extracurricular . . . . .	36,154	-	-	55,926	92,080
Contract services . . . . .	70,633	-	-	-	70,633
Other local revenues . . . . .	101,795	-	-	574	102,369
Intergovernmental - State . . . . .	6,361,034	41,775	2,395	9,913	6,415,117
Intergovernmental - Federal . . . . .	-	-	-	1,954,106	1,954,106
Total revenues . . . . .	<u>8,702,778</u>	<u>268,441</u>	<u>29,619</u>	<u>2,128,890</u>	<u>11,129,728</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular . . . . .	3,117,933	-	-	20,099	3,138,032
Special . . . . .	764,376	-	-	382,184	1,146,560
Vocational . . . . .	227,733	-	-	-	227,733
Other . . . . .	18,840	-	-	247,680	266,520
Support services:					
Pupil . . . . .	535,169	-	-	354,899	890,068
Instructional staff . . . . .	176,198	-	-	526,620	702,818
Board of education . . . . .	1,267,077	-	-	-	1,267,077
Administration . . . . .	659,868	-	-	58,020	717,888
Fiscal . . . . .	237,427	5,904	739	-	244,070
Business . . . . .	58,759	-	-	-	58,759
Operations and maintenance . . . . .	838,677	-	63,413	120,935	1,023,025
Pupil transportation . . . . .	760,523	-	-	29,033	789,556
Central . . . . .	31,789	-	-	62,626	94,415
Operation of non-instructional services:					
Food service operations . . . . .	-	-	-	399,533	399,533
Other non-instructional services . . . . .	-	-	-	19,838	19,838
Extracurricular activities . . . . .	186,786	-	-	61,275	248,061
Debt service:					
Principal retirement . . . . .	9,283	160,000	-	39,217	208,500
Interest and fiscal charges . . . . .	1,352	86,378	-	4,432	92,162
Total expenditures . . . . .	<u>8,891,790</u>	<u>252,282</u>	<u>64,152</u>	<u>2,326,391</u>	<u>11,534,615</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(189,012)</u>	<u>16,159</u>	<u>(34,533)</u>	<u>(197,501)</u>	<u>(404,887)</u>
<b>Other financing sources (uses):</b>					
Transfers in . . . . .	-	-	-	195,000	195,000
Transfers (out) . . . . .	(195,000)	-	-	-	(195,000)
Proceeds of lease transaction . . . . .	-	-	1,045,000	-	1,045,000
Total other financing sources (uses) . . . . .	<u>(195,000)</u>	<u>-</u>	<u>1,045,000</u>	<u>195,000</u>	<u>1,045,000</u>
Net change in fund balances . . . . .	(384,012)	16,159	1,010,467	(2,501)	640,113
<b>Fund balances (deficit) at beginning of year . . . . .</b>	<u>(316,648)</u>	<u>469,501</u>	<u>36,204</u>	<u>278,897</u>	<u>467,954</u>
<b>Fund balances (deficit) at end of year . . . . .</b>	<u>\$ (700,660)</u>	<u>\$ 485,660</u>	<u>\$ 1,046,671</u>	<u>\$ 276,396</u>	<u>\$ 1,108,067</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, 2013

<b>Net change in fund balances - total governmental funds</b>	\$	640,113
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay.		
Capital asset additions	\$ 8,418	
Depreciation expense	<u>(664,605)</u>	(656,187)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	28,857	
Intergovernmental	<u>(42,072)</u>	(13,215)
Total		
 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 position.		
		208,500
 Issuances of leases are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net position.		
		(1,045,000)
 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	448	
Accreted interest	(30,115)	
Amortization of deferred charges	(6,725)	
Amortization of bond premium	10,820	
Removal of unamortized bond issue costs	<u>(55,855)</u>	
Total		(81,427)
 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.		
		147
 The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		<u>(187,040)</u>
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u>(1,134,109)</u></b>

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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 1,612,000	\$ 1,564,056	\$ 1,582,135	\$ 18,079
Tuition . . . . .	410,100	393,821	537,165	143,344
Earnings on investments . . . . .	250	245	150	(95)
Contract services . . . . .	85,800	83,659	70,633	(13,026)
Other local revenues . . . . .	174,000	171,060	97,001	(74,059)
Intergovernmental - State . . . . .	6,721,808	6,529,039	6,361,034	(168,005)
Total revenues . . . . .	<u>9,003,958</u>	<u>8,741,880</u>	<u>8,648,118</u>	<u>(93,762)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	3,368,290	3,204,408	3,203,947	461
Special . . . . .	765,950	756,976	756,976	-
Vocational . . . . .	210,600	231,972	231,972	-
Other . . . . .	33,500	16,850	16,850	-
Support services:				
Pupil . . . . .	490,595	545,122	545,122	-
Instructional staff . . . . .	226,600	172,227	172,227	-
Board of education . . . . .	1,032,000	1,272,143	1,272,143	-
Administration . . . . .	738,749	646,506	646,506	-
Fiscal . . . . .	231,360	236,695	236,695	-
Business . . . . .	60,000	69,394	69,394	-
Operations and maintenance . . . . .	965,600	837,465	837,465	-
Pupil transportation . . . . .	912,850	766,966	766,966	-
Central . . . . .	18,200	31,765	31,765	-
Extracurricular activities . . . . .	136,600	144,362	144,362	-
Total expenditures . . . . .	<u>9,190,894</u>	<u>8,932,851</u>	<u>8,932,390</u>	<u>461</u>
Excess of expenditures over revenues . . . . .	<u>(186,936)</u>	<u>(190,971)</u>	<u>(284,272)</u>	<u>(93,301)</u>
<b>Other financing sources (uses):</b>				
Refund of prior year's expenditures . . . . .	5,000	4,992	264	(4,728)
Transfers (out) . . . . .	(180,000)	(195,000)	(195,000)	-
Advances in . . . . .	234,717	227,604	234,717	7,113
Advances (out) . . . . .	(25,000)	(11,165)	(11,165)	-
Sale of capital assets . . . . .	6,000	5,955	1,470	(4,485)
Total other financing sources (uses) . . . . .	<u>40,717</u>	<u>32,386</u>	<u>30,286</u>	<u>(2,100)</u>
Net change in fund balance . . . . .	(146,219)	(158,585)	(253,986)	(95,401)
<b>Fund balance at beginning of year . . . . .</b>	382,113	382,113	382,113	-
<b>Prior year encumbrances appropriated . . . . .</b>	12,365	12,365	12,365	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 248,259</u>	<u>\$ 235,893</u>	<u>\$ 140,492</u>	<u>\$ (95,401)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2013

		<b>Governmental Activities - Internal Service Fund</b>
		<u>                    </u>
<b>Assets:</b>		
Cash with fiscal agent . . . . .	\$	543,341
		<u>                    </u>
Total assets . . . . .		543,341
		<u>                    </u>
<b>Liabilities:</b>		
Claims payable . . . . .		164,962
		<u>                    </u>
Total liabilities . . . . .		164,962
		<u>                    </u>
<b>Net position:</b>		
Unrestricted . . . . .		378,379
		<u>                    </u>
Total net position . . . . .	\$	<u>378,379</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues:</b>	
Charges for services. . . . .	\$ 1,881,501
Total operating revenues . . . . .	<u>1,881,501</u>
<b>Operating expenses:</b>	
Purchased services. . . . .	474,129
Claims . . . . .	<u>1,599,299</u>
Total operating expenses. . . . .	<u>2,073,428</u>
Operating loss . . . . .	<u>(191,927)</u>
<b>Nonoperating revenues:</b>	
Interest revenue . . . . .	<u>4,887</u>
Total nonoperating revenues. . . . .	<u>4,887</u>
Change in net position. . . . .	(187,040)
<b>Net position at beginning of year. . . . .</b>	<u>565,419</u>
<b>Net position at end of year . . . . .</b>	<u><u>\$ 378,379</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, 2013

	<b>Governmental Activities - Internal Service Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from charges for services . . . . .	\$ 1,881,501
Cash payments for purchased services . . . . .	(474,129)
Cash payments for claims . . . . .	<u>(1,594,541)</u>
Net cash used in operating activities . . . . .	<u>(187,169)</u>
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	<u>4,887</u>
Net cash provided by investing activities . . . . .	<u>4,887</u>
Net decrease in cash with fiscal agent . . . . .	(182,282)
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<u>725,623</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u><u>\$ 543,341</u></u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss . . . . .	\$ (191,927)
Changes in assets and liabilities:	
Increase in claims payable . . . . .	<u>4,758</u>
Net cash used in operating activities . . . . .	<u><u>\$ (187,169)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND  
JUNE 30, 2013

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 31,253
Total assets . . . . .	<u>\$ 31,253</u>
<b>Liabilities:</b>	
Due to students. . . . .	\$ 31,253
Total liabilities . . . . .	<u>\$ 31,253</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, 2013

**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 504<sup>th</sup> 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 and further mandated by State and/or Federal agencies. The Board of Education controls the District's 4 instructional/support facilities staffed by 47 classified employees and 74 certified employees who provide services to 756 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'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” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34”. 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, 2013

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

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, 2013

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

*INSURANCE PURCHASING POOLS*

Jefferson Health Plan

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 deferred outflows of resources and liabilities and deferred inflows of resources 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.

Permanent improvement fund - The permanent improvement fund is used to account for taxes levied and the accumulation of resources and payment of the lease purchase agreement for football field renovations, bleachers and a building.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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.

*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 position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. 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 position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the District are included on the statement of net position.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources 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 position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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

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

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

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as deferred inflows. Grants not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at June 30, 2013, are recorded as deferred inflows on the governmental fund financial statements.

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

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 2013 is as follows:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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.
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 2013.
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, 2013; 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

**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.

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 2013 amounted to \$110, which includes \$90 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 position, 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 2013, 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, 2013

**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. Interfund Balances**

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund loans receivable/payable”. These amounts are eliminated in the governmental activities column on the statement of net position.

**J. 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, 2013 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, 2013

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

**K. Accrued Liabilities and Long-Term Obligations**

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

**L. 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, 2013

**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.

**M. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**N. Prepayments**

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

**O. Estimates**

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

**P. 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  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2013, the District had no extraordinary or special items.

**R. Bond Premium and Discount/Accounting Gain or Loss**

Bond premiums are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter and is presented as deferred outflows of resources. On the governmental fund financial statements, bond premiums are recognized in the current period.

A reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 10.A.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2013, the District has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections-2012".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the District.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the District.

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**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the District.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The implementation of GASB Statement No. 65 has changed the presentation of the financial statements to incorporate the concepts of net position, deferred outflows and deferred inflows of resources. For the District, the implementation of GASB Statement No. 65 has changed (1) the classification of certain items, including the deferral of property taxes levied for the subsequent fiscal year, previously reported as liabilities to deferred inflows of resources, (2) the classification of unamortized deferred charges on debt refunding transactions from a reduction of liabilities to deferred outflows of resources, and (3) the reporting of debt issuance costs to an expense in the period incurred rather than amortized over the term of the related debt issuance.

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the District.

**B. Deficit Fund Balances**

Fund balances at June 30, 2013 included the following individual fund deficits:

<u>Major fund</u>	<u>Deficit</u>
General	\$ 700,660

The deficit fund balance resulted from adjustments for accrued liabilities.

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**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;
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 the State Treasury Asset Reserve of Ohio (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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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, 2013, was \$543,341.

**B. Deposits with Financial Institutions**

At June 30, 2013, the carrying amount of all District deposits was \$1,976,980. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", \$1,498,024 of the District's bank balance of \$1,998,024 was exposed to custodial risk as discussed below, while \$500,000 was covered by the FDIC.

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. Reconciliation of Cash and Investments to the Statement of Net Position**

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 position as of June 30, 2013:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,976,980
Cash with fiscal agent	<u>543,341</u>
Total	<u>\$ 2,520,321</u>

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 2,489,068
Agency fund	<u>31,253</u>
Total	<u>\$ 2,520,321</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund balances at June 30, 2013 as reported on the fund statements consist of the following individual interfund loans receivable and payable.

<u>Receivable fund</u>	<u>Payable funds</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 11,165</u>

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore no internal balances at June 30, 2013 are reported on the statement of net position.

- B. Interfund transfers for the year ended June 30, 2013, consisted of the following, as reported on the fund financial statements:

<u>Transfers to nonmajor governmental funds from:</u>	<u>Amount</u>
General	<u>\$ 195,000</u>

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.

**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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 6 - PROPERTY TAXES - (Continued)**

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2013 represent the collection of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed values as of January 1, 2012, 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 2013 represent the collection of calendar year 2012 taxes. Public utility real and personal property taxes received in calendar year 2013 became a lien on December 31, 2011, were levied after April 1, 2012, 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.

The District receives property taxes from Columbiana, Jefferson and Carroll Counties. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2013, are available to finance fiscal year 2013 operations. The amount available as an advance at June 30, 2013 was \$54,944 in the general fund, \$8,281 in the bond retirement fund and \$1,008 in the permanent improvement fund. This amount is recorded as revenue. The amount available for advance at June 30, 2012 was \$41,192 in the general fund, \$6,343 in the bond retirement fund and \$754 in the permanent improvement 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, 2013 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

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 reported as a deferred inflow.

The assessed values upon which the fiscal year 2013 taxes were collected are:

	2012 Second Half Collections		2013 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 77,237,860	93.02	\$ 77,412,440	92.84
Public utility personal	<u>5,791,670</u>	<u>6.98</u>	<u>5,967,050</u>	<u>7.16</u>
Total	<u>\$ 83,029,530</u>	<u>100.00</u>	<u>\$ 83,379,490</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$39.44		\$39.44	

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2013 consisted of taxes, accounts, 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 position follows:

**Governmental activities:**

Taxes	\$ 2,180,827
Accounts	66
Intergovernmental	<u>212,150</u>
Total	<u>\$ 2,393,043</u>

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

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	<u>Balance 06/30/12</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/13</u>
<b>Governmental activities:</b>				
<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	730,388	-	-	730,388
Buildings and improvements	16,457,124	-	-	16,457,124
Furniture and equipment	447,683	8,418	(5,664)	450,437
Infrastructure	139,856	-	-	139,856
Vehicles	973,838	-	-	973,838
Total capital assets, being depreciated	<u>18,748,889</u>	<u>8,418</u>	<u>(5,664)</u>	<u>18,751,643</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(324,744)	(33,966)	-	(358,710)
Buildings and improvements	(5,641,497)	(544,185)	-	(6,185,682)
Furniture and equipment	(268,040)	(22,342)	5,664	(284,718)
Infrastructure	(60,826)	(7,686)	-	(68,512)
Vehicles	(787,793)	(56,426)	-	(844,219)
Total accumulated depreciation	<u>(7,082,900)</u>	<u>(664,605)</u>	<u>5,664</u>	<u>(7,741,841)</u>
Governmental activities capital assets, net	<u>\$ 11,750,659</u>	<u>\$ (656,187)</u>	<u>\$ -</u>	<u>\$ 11,094,472</u>

**SOUTHERN LOCAL SCHOOL DISTRICT  
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FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 8 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 566,517
<u>Support services:</u>	
Instructional staff	701
Board of education	673
Administration	6,047
Operations and maintenance	20,841
Pupil transportation	58,258
Food service operations	4,691
Extracurricular activities	<u>6,877</u>
Total depreciation expense	<u>\$ 664,605</u>

**NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE**

- A. In a prior year, the District entered into a capital lease for the acquisition of copiers. At inception, the lease was accounted for as an other financing source and as 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 position 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, 2013 was \$30,594, leaving a current book value of \$13,113. A corresponding liability has been recorded in the governmental activities on the statement of net position. Principal payments made during fiscal year 2013 totaled \$9,283.

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, 2013.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 10,633
2015	<u>1,773</u>
Total minimum lease payments	<u>12,406</u>
Less: amount representing interest	<u>(599)</u>
Present value of minimum lease payments	<u>\$ 11,807</u>

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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

Capital assets consisting of building improvements have been capitalized in the amount of \$330,500. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2013 was \$107,413, leaving a current book value of \$223,087. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2013 totaled \$39,217 paid by the building fund, a nonmajor governmental fund.

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

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2013.

Fiscal Year Ending <u>June 30</u>	<u>Amount</u>
2014	\$ 43,649
Total	43,649
Less: amount representing interest	<u>(2,276)</u>
Present value of minimum lease payments	<u>\$ 41,373</u>

- C.** During fiscal year 2013, the District entered into lease-purchase agreement with the Ohio School Building Leasing Corporation to finance football field renovations, bleachers and a building at the District. The source of revenue to fund the principal and interest payments is derived from general operating revenues of the District. The proceeds of the lease were not spent during fiscal year 2013.

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  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**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, 2013.

Fiscal Year Ending <u>June 30</u>	<u>Amount</u>
2014	\$ 64,584
2015	129,168
2016	129,168
2017	129,168
2018	129,170
2019 - 2023	645,841
2024	<u>63,098</u>
Total	1,290,197
Less: amount representing interest	<u>(245,197)</u>
Present value of minimum lease payments	<u>\$ 1,045,000</u>

**NOTE 10 - LONG-TERM OBLIGATIONS**

- A. During fiscal year 2013, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/12</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/13</u>	Amounts Due in <u>One Year</u>
<b>Governmental activities:</b>					
Refunding bonds - Series 2007					
Current interest	\$ 2,145,000	\$ -	\$ (160,000)	\$ 1,985,000	\$ 165,000
Capital appreciation	64,998	-	-	64,998	-
Accreted interest	<u>88,751</u>	<u>30,115</u>	<u>-</u>	<u>118,866</u>	<u>-</u>
Total general obligation bonds	<u>2,298,749</u>	<u>30,115</u>	<u>(160,000)</u>	<u>2,168,864</u>	<u>165,000</u>
Compensated absences	361,134	33,985	(91,673)	303,446	34,376
Capital lease obligation	21,090	-	(9,283)	11,807	10,053
Lease purchase obligation	<u>80,590</u>	<u>1,045,000</u>	<u>(39,217)</u>	<u>1,086,373</u>	<u>65,681</u>
Total	<u>\$ 2,761,563</u>	<u>\$ 1,109,100</u>	<u>\$ (300,173)</u>	<u>\$ 3,570,490</u>	<u>\$ 275,110</u>
Add: Unamortized premium on refunding				<u>123,524</u>	
Total on statement of net position				<u>\$ 3,694,014</u>	

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

*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 position.

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

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 \$118,866 has been included in the statement of net position at June 30, 2013.

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.

Fiscal Year Ending June 30	Current Interest Bonds - Series 2007			Capital Appreciation Bonds - Series 2007		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 165,000	\$ 79,471	\$ 244,471	\$ -	\$ -	\$ -
2015	170,000	72,352	242,352	-	-	-
2016	175,000	65,021	240,021	-	-	-
2017	-	61,303	61,303	34,978	150,022	185,000
2018	-	61,303	61,303	30,020	159,980	190,000
2019 - 2023	1,005,000	205,860	1,210,860	-	-	-
2024 - 2025	470,000	19,950	489,950	-	-	-
Total	<u>\$ 1,985,000</u>	<u>\$ 565,260</u>	<u>\$ 2,550,260</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, 2013, are a voted debt margin of \$5,939,816, (including available funds of \$485,660) and an unvoted debt margin of \$83,379.

**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.

**SOUTHERN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 11 - OTHER EMPLOYEE BENEFITS - (Continued)**

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.

**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 2013, the District contracted with Schools of Ohio 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 Ohio 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 Ohio 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 12 - RISK MANAGEMENT - (Continued)**

**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 \$164,962 reported in the internal service fund at June 30, 2013, 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.

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>
2013	\$ 160,204	\$ 1,599,299	\$ (1,594,541)	\$ 164,962
2012	115,558	1,483,823	(1,439,177)	160,204

**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](http://www.ohsers.org), under "*Employers/Audit Resources*".

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 2013, 13.05 percent and 0.05 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, 2013, 2012 and 2011 were \$131,435, \$126,566 and \$112,848, respectively; 74.50 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 13 - PENSION PLANS - (Continued)**

**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](http://www.strsoh.org), under "Publications".

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 2013, 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, 2013, 2012 and 2011 were \$474,606, \$483,147 and \$433,696, respectively; 80.88 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$9,942 made by the District and \$7,102 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, 2013, 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, 2013

**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 monthly premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the 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](http://www.ohsers.org), under "Employers/Audit Resources".

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 2013, 0.16 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 2013, the actuarially determined amount was \$20,525.

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, 2013, 2012 and 2011 were \$16,082, \$19,005 and \$31,967, respectively; 74.50 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$7,425, \$7,504 and \$7,262, respectively; 74.50 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**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](http://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 2013, 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, 2013, 2012 and 2011 were \$36,508, \$37,165 and \$33,361, respectively; 80.88 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

**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, 2013

**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	\$ (253,986)
Net adjustment for revenue accruals	16,918
Net adjustment for expenditure accruals	57,923
Net adjustment for other sources/uses	(225,286)
Funds budgeted elsewhere	(4,484)
Adjustment for encumbrances	<u>24,903</u>
GAAP basis	<u>\$ (384,012)</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, 2013

**NOTE 17 - SET-ASIDES**

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, 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. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2012	\$ -
Current year set-aside requirement	153,708
Contributions in excess of the current fiscal year set-aside requirement	-
Current year qualifying expenditures	(291,485)
Excess qualified expenditures from prior years	-
Current year offsets	-
Waiver granted by ODE	-
Prior year offset from bond proceeds	-
Total	<u>\$ (137,777)</u>
Balance carried forward to fiscal year 2014	<u>\$ -</u>
Set-aside balance June 30, 2013	<u>\$ -</u>

**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	\$ 17,054
Permanent improvement	1,011,454
Other governmental	<u>30,421</u>
Total	<u>\$ 1,058,929</u>

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**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**FEDERAL AWARDS RECEIPT AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Expenditures</b>	<b>Non-Cash Expenditures</b>
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>					
<i>Passed Through Ohio Department of Education:</i>					
<i>Nutrition Cluster:</i>					
<i>Non-Cash Assistance (Food Distribution):</i>					
National School Lunch Program	10.555		\$ 21,489		\$ 14,206
<i>Cash Assistance:</i>					
National School Breakfast Program	10.553	\$ 87,530		\$ 87,530	
National School Lunch Program	10.555	194,258		194,258	
Total U.S. Department of Agriculture		<b>281,788</b>	<b>21,489</b>	<b>281,788</b>	<b>14,206</b>
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>					
<i>Passed Through Ohio Department of Education:</i>					
<i>Title 1, Part A Cluster:</i>					
Title I Grants to Local Educational Agencies	84.010	415,691		419,373	
ARRA, Title 1 Grants to Local Educational Agencies	84.389	630			
<i>Subtotal - Title 1, Part A Cluster</i>		<u>416,321</u>		<u>419,373</u>	
<i>School Improvement Grants Cluster:</i>					
School Improvement Grants	84.377	292,346		321,235	
ARRA, School Improvement Grants	84.388	999,756		763,872	
<i>Subtotal - School Improvement Grant Cluster</i>		<u>1,292,102</u>		<u>1,085,107</u>	
Special Education_Grants to States	84.027	195,430		167,515	
Educational Technology State Grants (Title II-D)	84.318	2,155		2,155	
Rural Education	84.358	20,415		5,500	
Improving Teacher Quality State Grants (Title II-A)	84.367	30,078		30,140	
Education Jobs Fund	84.410	29,612		33,131	
ARRA, State Fiscal Stabilization Fund (SFSF) - Race-to-the -Top Incentive Grants	84.395	1,650		1,650	
Total U.S. Department of Education		<b>1,987,763</b>		<b>1,744,571</b>	
<b>Totals</b>		<b><u>\$2,269,551</u></b>	<b><u>\$21,489</u></b>	<b><u>\$2,026,359</u></b>	<b><u>\$14,206</u></b>

*The accompanying notes to this schedule are an integral part of this schedule.*

**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**NOTES TO FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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



# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 6, 2014, wherein we noted the School adopted new accounting guidance in Governmental Accounting Standards Board No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*.

### ***Internal Control Over Financial Reporting***

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

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

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

***Compliance and Other Matters***

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

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

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  
Columbus, Ohio

June 6, 2014



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Education:

### ***Report on Compliance for Each Major Federal Program***

We have audited the Southern Local School District's (the "District") compliance with the applicable 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, 2013. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

### ***Management's Responsibility***

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### ***Opinion on Each Major Federal Program***

In our opinion, the Southern Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of findings as item 2013-001. This finding did not require us to modify our compliance opinion on each major federal program.

The District's response to our noncompliance finding is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

### ***Report on Internal Control Over Compliance***

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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 material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2013-002 to be a material weakness.

The District's response to our internal control over compliance finding is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

Southern Local School District  
Columbiana County  
Independent Auditor's Report on Compliance with Requirements  
Applicable to the Each Major Federal Program and on Internal Control Over  
Compliance Required by OMB Circular A-133  
Page 3

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

June 6, 2014

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**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unmodified
<i>(d)(1)(ii)</i>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<i>(d)(1)(vii)</i>	<b>Major Program (list):</b>	Title 1 (CFDA #84.010); and School Improvement Grants Cluster (CFDA #84.377 & #84.389)
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	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**

**1. Single Audit Deadline**

<b>Finding Number</b>	2013-001
<b>CFDA Title and Number</b>	Title 1 (CFDA #84.010); and School Improvement Grants Cluster (CFDA #84.377 & #84.389)
<b>Federal Award Number / Year</b>	2013
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**NONCOMPLIANCE**

**OMB Circular A-133 §.200-(b)** provides that non-Federal entities that expend \$500,000 or more in a year in Federal awards shall have a single audit conducted in accordance with **Section 500** except when they elect to have a program-specific audit conducted in accordance with paragraph **(c)** of this section.

**OMB Circular A-133 §.320-(a)** provides the audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

The Southern Local School District (the "District") did not file its June 30, 2013 Data Collection form and reporting package within the time frame as required by OMB Circular A-133 §.320.

We recommend the District submit its data collection form and reporting package within the time frame as required.

**Official's Response:**

The Southern Local books were available for the State Auditors to audit, but due to personnel changes within the Auditor's office, (who were in charge of my audit), the Auditors were unable to finish the audit by the March 2014 deadline.

**AOS Conclusion:**

Audit report has a material weakness for the federal programs so the District will not qualify as a low risk entity.

**2. Federal Grant Requisitions**

<b>Finding Number</b>	2013-002
<b>CFDA Title and Number</b>	Title 1 (CFDA #84.010); and School Improvement Grants Cluster (CFDA #84.377 & #84.389)
<b>Federal Award Number / Year</b>	2013
<b>Federal Agency</b>	United States Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**MATERIAL WEAKNESS**

Voucher packets charged to a federal grant program should include a requisition approved by the Superintendent and Federal Grants Coordinator, along with the purchase order and invoice.

Eight out of 60 nonpayroll expenditures tested for the Title 1 program did not have requisitions attached to the voucher package or the requisitions were not signed by the Superintendent.

Eleven out of 30 School Improvement Grant expenditures did not have requisitions attached to the voucher signed by the Federal Coordinator and 18 out of the 30 did not have the Superintendent's signature on the requisitions.

Failure to sign the purchase requisition could result in unallowable purchases and potential questioned costs.

Requisitions should be approved by the Federal Coordinator and the Superintendent prior to issuing purchase orders and purchase of goods or services.

**Official's Response:**

The District's Federal Coordinator position had a change in personnel from 2012 to 2013, and the new Coordinator was not informed of the correct procedures until the second half of the year, at which time, she corrected the problems for the rest 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, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain</b></i>
2012-01	The District did not certify or record the amount against applicable appropriation accounts	Yes	Finding No Longer Valid.
2012-02	The District spent Title 1 monies for unallowable purposes.	Yes	Finding No Longer Valid.
2012-03	The District did not document time and effort for employees charged to the Competitive School Improvement Grant.	Yes	Finding No Longer Valid.
2012-04	The District spent Competitive School Improvement Grant monies for unallowable purposes.	Yes	Finding No Longer Valid.
2012-05	The District did not obtain approval for administrator rates to be charged to the Competitive School Improvement Grant.	Yes	Finding No Longer Valid.
2012-06	The District reported amounts on select project cash requests and final expenditure reports which did not agree to amounts per the expenditure ledger.	Yes	Finding No Longer Valid.
2012-07	The District spent monies from the Title 1 and Competitive School Improvement Grants outside the period of availability.	Yes	Finding No Longer Valid.
2012-08	The District did not spend grant monies received within 30 days.	Yes	Finding No Longer Valid.
2012-09	The District did not have adequate controls in place regarding the review of Allowable Costs/Cost Principles.	Yes	Finding No Longer Valid.

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**SOUTHERN LOCAL SCHOOL DISTRICT  
COLUMBIANA COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
JUNE 30, 2013**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2013-001	District will ensure timely filing with Federal Clearing House.	March 31, 2015	Doreen Marshall, Treasurer
2013-002	Federal Coordinator has been made aware of required procedures to ensure compliance.	June 30, 2014	Doreen Marshall, Treasurer

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# Dave Yost • Auditor of State

## Independent Accountants' Report on Applying Agreed-Upon Procedure

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

To the Board of Education:

Ohio Revised 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 Revised 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 amended its anti-harassment policy at its meeting on June 12, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

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

June 6, 2014

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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  
JULY 8, 2014**