



**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet	
Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures And changes in Fund Balances of Governmental Funds To the Statement of Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual General Fund.....	19
Statement of Fiduciary Net Assets Fiduciary Funds	20
Notes to the Basic Financial Statements	21
Federal Awards Receipts and Expenditures Schedule.....	49
Notes to the Federal Awards Receipts and Expenditures Schedule	50
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters..... Required by <i>Government Auditing Standards</i>	51
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	53
Schedule of Findings.....	55

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Sandy Valley Local School District
Stark County
5362 State Route 183, N.E.
Magnolia, Ohio 44643

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate discretely presented component unit and remaining fund information of Sandy Valley Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate discretely presented component unit and remaining fund information of Sandy Valley Local School District, Stark County, Ohio, as of June 30, 2005, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is required by 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 basic financial statements. We subjected the Federal Awards Receipts and Expenditures Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

February 21, 2006

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The discussion and analysis of the Sandy Valley 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, 2005. 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 2005 are as follows:

- In total, net assets of governmental activities decreased \$578,402 which represents a 11.11% decrease from 2004.
- General revenues accounted for \$11,501,935 in revenue or 85.58% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,938,515 or 14.42% of total revenues of \$13,440,450.
- The District had \$14,018,852 in expenses related to governmental activities; only \$1,938,515 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 \$11,501,935 were not adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$11,769,034 in revenues and \$12,202,833 in expenditures and other financing uses. During fiscal 2005, the general fund's fund balance decreased \$433,799 from \$2,115,092 to \$1,681,293.

Using the Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations. The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity, or fiduciary, as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 20. 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 21-47 of this report.

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2005 and 2004.

	Net Assets	
	Governmental Activities 2005	Restated Governmental Activities 2004
<u>Assets</u>		
Current and other assets	\$ 7,033,227	\$ 8,102,731
Capital assets	<u>3,736,224</u>	<u>3,654,988</u>
Total assets	<u>10,769,451</u>	<u>11,757,719</u>
<u>Liabilities</u>		
Current liabilities	4,919,701	5,129,775
Long-term liabilities	<u>1,221,925</u>	<u>1,421,717</u>
Total liabilities	<u>6,141,626</u>	<u>6,551,492</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,299,807	3,005,363
Restricted	314,732	494,766
Unrestricted	<u>1,013,286</u>	<u>1,706,098</u>
Total net assets	<u>\$ 4,627,825</u>	<u>\$ 5,206,227</u>

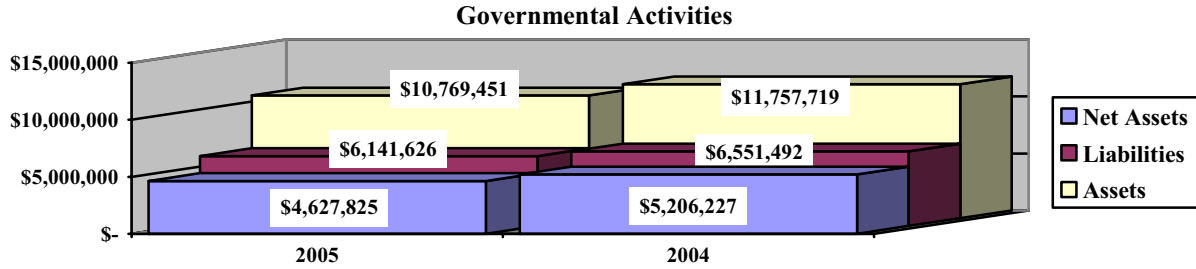
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$4,627,825. Of this total, \$1,013,286 was unrestricted in its use.

At year-end, capital assets represented 34.69% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$3,299,807. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$314,732, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,013,286 may be used to meet the District's ongoing obligations to the students and creditors.

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED



The table below shows the change in net assets for fiscal years 2005 and 2004.

Change in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 868,796	\$ 800,995
Operating grants and contributions	1,069,719	968,680
Capital grants and contributions	-	39,325
General revenues:		
Property taxes	3,881,210	3,472,100
Grants and entitlements	7,464,076	7,268,807
Investment earnings	86,995	39,853
Other	<u>69,654</u>	<u>35,255</u>
Total revenues	<u>13,440,450</u>	<u>12,625,015</u>

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Change in Net Assets

	Governmental Activities 2005	Restated Governmental Activities 2004
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 5,572,711	\$ 5,008,672
Special	2,009,362	1,953,525
Vocational	381,523	332,667
Adult education	7,001	4,022
Other	560,083	463,568
Support services:		
Pupil	1,116,695	1,073,494
Instructional staff	193,875	190,357
Board of education	10,939	8,773
Administration	1,127,859	1,203,880
Fiscal	322,207	297,340
Business	14,793	10,468
Operations and maintenance	1,079,135	932,892
Pupil transportation	910,392	894,782
Central	24,430	22,879
Operations of non-instructional services	63,333	50,944
Extracurricular activities	104,934	357,507
Food service operations	497,583	503,874
Interest and fiscal charges	21,997	14,513
Total expenses	<u>14,018,852</u>	<u>13,324,157</u>
Change in net assets	(578,402)	(699,142)
Net assets at beginning of year, restated	<u>5,206,227</u>	<u>5,905,369</u>
Net assets at end of year	<u>\$ 4,627,825</u>	<u>\$ 5,206,227</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$578,402. Total governmental expenses of \$14,018,852 were offset by program revenues of \$1,938,515 and general revenues of \$11,501,935. Program revenues supported 13.83% 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 84.41% of total governmental revenue.

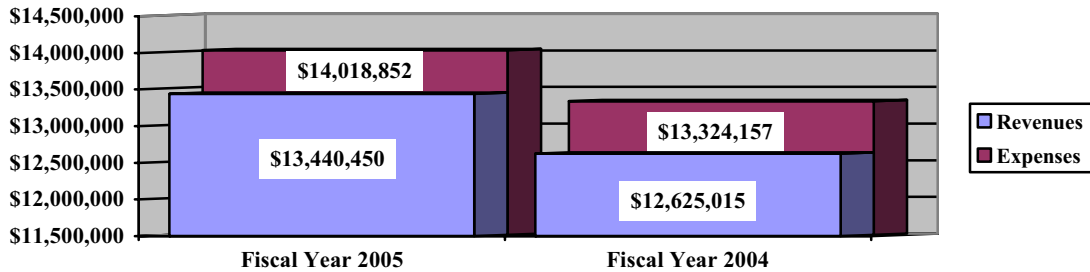
The largest expense of the District is for instructional programs. Instruction expenses totaled \$8,530,680 or 60.85% of total governmental expenses for fiscal 2005.

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

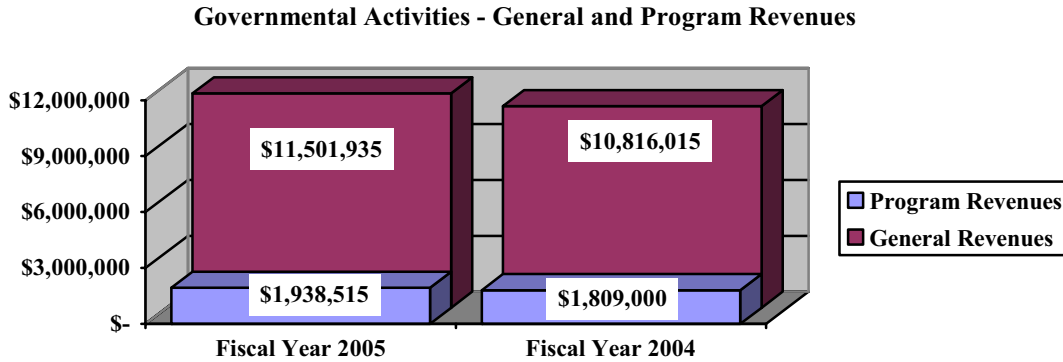
	Total Cost of Services 2005	Net Cost of Services 2005	Restated Total Cost of Services 2004	Restated Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 5,572,711	\$ 5,080,485	\$ 5,008,672	\$ 4,630,940
Special	2,009,362	1,484,434	1,953,525	1,488,523
Vocational	381,523	381,523	332,667	331,148
Adult education	7,001	91	4,022	(2,114)
Other	560,083	436,567	463,568	281,904
Support services:				
Pupil	1,116,695	1,102,857	1,073,494	1,069,102
Instructional staff	193,875	171,212	190,357	154,078
Board of education	10,939	10,939	8,773	8,723
Administration	1,127,859	1,063,765	1,203,880	1,156,642
Fiscal	322,207	322,207	297,340	297,340
Business	14,793	14,793	10,468	10,468
Operations and maintenance	1,079,135	1,070,967	932,892	929,206
Pupil transportation	910,392	908,796	894,782	894,782
Central	24,430	24,430	22,879	22,879
Operations of non-instructional services	63,333	6,203	50,944	(7,026)
Food service operations	104,934	(28,301)	357,507	16,982
Extracurricular activities	497,583	7,372	503,874	217,067
Interest and fiscal charges	21,997	21,997	14,513	14,513
Total expenses	<u>\$ 14,018,852</u>	<u>\$ 12,080,337</u>	<u>\$ 13,324,157</u>	<u>\$ 11,515,157</u>

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The dependence upon tax and other general revenues for governmental activities is apparent, 86.55% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.17%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$1,842,724, which is lower than last year's total of \$2,631,233. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	Increase <u>(Decrease)</u>
General	\$ 1,681,293	\$ 2,115,092	\$ (433,799)
Other Governmental	<u>161,431</u>	<u>516,141</u>	<u>(354,710)</u>
Total	<u>\$ 1,842,724</u>	<u>\$ 2,631,233</u>	<u>\$ (788,509)</u>

General Fund

The District's general fund's fund balance decreased \$433,799. The decrease in fund balance can be attributed to expenditures increasing a higher rate than revenue. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

	<u>2005</u> <u>Amount</u>	<u>Restated</u> <u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 3,811,545	\$ 3,378,966	12.80 %
Tuition	333,004	259,646	28.25 %
Earnings on investments	67,354	39,593	70.12 %
Intergovernmental	7,439,686	7,240,643	2.75 %
Other revenues	<u>117,445</u>	<u>67,884</u>	73.01 %
Total	<u>\$11,769,034</u>	<u>\$ 10,986,732</u>	7.12 %
<u>Expenditures</u>			
Instruction	\$ 7,700,514	\$ 7,044,011	9.32 %
Support services	4,259,260	4,429,730	(3.85) %
Extracurricular activities	242,385	220,568	9.89 %
Operation of non-instructional services	<u>-</u>	<u>230</u>	(100.00) %
Total	<u>\$12,202,159</u>	<u>\$ 11,694,539</u>	4.34 %

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 2005, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$11,109,912, which equals the original budgeted revenues and other financing sources. Actual revenues and other financing sources for fiscal 2005 was \$11,766,698. This represents a \$656,786 increase over final budgeted revenues and other financing sources. This increase is primarily due to conservative tax and intergovernmental estimates in the original and final budgeted amounts.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$11,915,315 were increased to \$12,377,225 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$12,351,320, which was \$25,905 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$3,736,224 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

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

	Governmental Activities	
	2005	Restated 2004
Land	\$ 1,248,658	\$ 1,248,658
Construction in progress	-	90,638
Land improvements	904,399	579,879
Building and improvements	1,268,442	1,321,482
Furniture and equipment	61,602	68,412
Vehicles	253,123	345,919
Total	\$ 3,736,224	\$ 3,654,988

Total additions to capital assets for 2005 were \$280,692. The total depreciation expense for 2005 was \$199,456.

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

Debt Administration

At June 30, 2005, the District had \$190,000 in tax anticipation notes outstanding. Of this total, \$95,000 is due within one year and \$95,000 is due within greater than one year. At June 30, 2005, the District had \$246,417 in lease purchase agreements outstanding. Of this total, \$123,208 is due within one year and \$123,209 is due in greater than one year. The following table summarizes the lease and notes outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2005	2004
Lease purchase agreement	\$ 246,417	\$ 369,625
Tax anticipation notes	190,000	280,000
Total	\$ 436,417	\$ 649,625

The tax anticipation notes were received in 2002. These notes are scheduled to mature in fiscal year 2006 and bear an interest rate of 4.50%. Payment of principal and interest on the tax anticipation note is being made from the debt service fund.

See Note 9 for more information about the lease purchase agreement and Note 10 to the basic financial statements for additional information on the District's long-term obligations

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Current Financial Related Activities

Building Program

In 2005 the district received official notification to participate in the Ohio School Facility Commission (OSFC) Classroom Facility Assistance Program. In November 2005 a 5.4 mill bond issue was passed by the district residents to support the local share and local funded initiatives in the building project. The local share of the project is \$12,400,000. In addition, per OSFC requirement to participate, a .5 mill classroom maintenance levy was passed as well. The Master Plan for the project calls for construction of a new K-5 Elementary School Building and a new 6-12 Jr. Sr. High School Building. All of the existing buildings will be razed and the Elementary Building land in the communities of East Sparta, Magnolia and Waynesburg will be offered back to those communities to be used for a public purpose. The district has been preparing for this event since 2001.

Finance

House Bill 66, the new State Biennium Budget Measure effective July 1, 2005 has not provided much relief in the area of State Funding. The relatively flat increases over the next two years in the foundation formula for Sandy Valley continue to put pressure on the local taxpayer and have made it necessary for the administration to concentrate budget efforts immediately for the next two budget years. The district has a 1.2 mill Permanent Improvement Levy up for renewal in 2006 and a 5.2 mill Emergency Operating levy up for renewal in 2006 as well.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Paul Lattavo, Treasurer, Sandy Valley Local School District, 5362 State Route 183 NE, Magnolia, Ohio 44643.

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Primary Government	Component Unit
	Governmental Activities	Cardinal Digital Academy
Assets:		
Equity in pooled cash and cash equivalents. . .	\$ 3,462,679	\$ 129,138
Receivables:		
Taxes	3,452,964	-
Accounts	14,630	-
Intergovernmental	64,775	-
Accrued interest	19,133	-
Prepayments	10,621	740
Materials and supplies inventory.	8,425	-
Capital assets:		
Land.	1,248,658	-
Depreciable capital assets, net	2,487,566	9,867
Total capital assets, net	3,736,224	9,867
 Total assets.	 10,769,451	 139,745
Liabilities:		
Accounts payable.	145,358	466
Accrued wages and benefits	1,234,388	-
Intergovernmental payable	86,408	126,082
Pension obligation payable.	309,377	-
Deferred revenue	3,144,170	-
Long-term liabilities:		
Due within one year.	414,663	-
Due within more than one year	807,262	-
 Total liabilities	 6,141,626	 126,548
Net Assets:		
Invested in capital assets, net of related debt.	3,299,807	9,867
Restricted for:		
Capital projects	140,198	-
State funded programs	13,224	22,494
Federally funded programs	23,614	6,800
Student activities	46,062	-
Other purposes	91,634	-
Unrestricted (deficit)	1,013,286	(25,964)
 Total net assets	 \$ 4,627,825	 \$ 13,197

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Primary</u>	<u>Component</u>
				<u>Governmental</u>	<u>Unit</u>
			<u>Governmental</u>	<u>Digital</u>	
			<u>Activities</u>	<u>Academy</u>	
Governmental activities:					
Instruction:					
Regular	\$ 5,572,711	\$ 374,977	\$ 117,249	\$ (5,080,485)	\$ -
Special	2,009,362	-	524,928	(1,484,434)	-
Vocational	381,523	-	-	(381,523)	-
Adult education	7,001	6,910	-	(91)	-
Other	560,083	87,500	36,016	(436,567)	-
Support services:					
Pupil.	1,116,695	-	13,838	(1,102,857)	-
Instructional staff	193,875	224	22,439	(171,212)	-
Board of education	10,939	-	-	(10,939)	-
Administration.	1,127,859	-	64,094	(1,063,765)	-
Fiscal.	322,207	-	-	(322,207)	-
Business.	14,793	-	-	(14,793)	-
Operations and maintenance	1,079,135	8,168	-	(1,070,967)	-
Pupil transportation.	910,392	-	1,596	(908,796)	-
Central	24,430	-	-	(24,430)	-
Operation of non-instructional					
services	63,333	-	57,130	(6,203)	-
Extracurricular activities.	104,934	133,235	-	28,301	-
Food service operations	497,583	257,782	232,429	(7,372)	-
Interest and fiscal charges	21,997	-	-	(21,997)	-
Total governmental activities	<u>\$ 14,018,852</u>	<u>\$ 868,796</u>	<u>\$ 1,069,719</u>	<u>(12,080,337)</u>	<u>-</u>
Component Unit:					
Cardinal Digital Academy	<u>\$ 353,990</u>	<u>\$ -</u>	<u>\$ 153,000</u>	<u>-</u>	<u>(200,990)</u>
General Revenues:					
Property taxes levied for:					
General purposes				3,721,302	-
Capital projects				159,908	-
Grants and entitlements not restricted to specific programs.				7,464,076	171,392
Investment earnings				86,995	332
Miscellaneous				69,654	-
Total general revenues				<u>11,501,935</u>	<u>171,724</u>
Change in net assets				(578,402)	(29,266)
Net assets at beginning of year (restated).				<u>5,206,227</u>	<u>42,463</u>
Net assets at end of year.				<u>\$ 4,627,825</u>	<u>\$ 13,197</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 3,096,562	\$ 274,483	\$ 3,371,045
Receivables:			
Taxes	3,307,674	145,290	3,452,964
Accounts	14,630	-	14,630
Intergovernmental	-	64,775	64,775
Accrued interest	19,133	-	19,133
Prepayments	10,621	-	10,621
Materials and supplies inventory	-	8,425	8,425
Restricted assets:			
Equity in pooled cash and cash equivalents	91,634	-	91,634
Total assets	\$ 6,540,254	\$ 492,973	\$ 7,033,227
Liabilities:			
Accounts payable	\$ 129,435	\$ 15,923	\$ 145,358
Accrued wages and benefits	1,119,727	114,661	1,234,388
Compensated absences payable	99,138	39,268	138,406
Pension obligation payable	292,254	17,123	309,377
Intergovernmental payable	79,780	6,628	86,408
Deferred revenue	3,138,627	137,939	3,276,566
Total liabilities	4,858,961	331,542	5,190,503
Fund Balances:			
Reserved for encumbrances	47,594	48,660	96,254
Reserved for materials and supplies inventory	-	8,425	8,425
Reserved for property tax unavailable for appropriation	188,180	7,351	195,531
Reserved for prepayments	10,621	-	10,621
Reserved for capital acquisitions	91,634	-	91,634
Unreserved, undesignated (deficit), reported in:			
General fund	1,343,264	-	1,343,264
Special revenue funds	-	(31,091)	(31,091)
Capital projects funds	-	128,086	128,086
Total fund balances	1,681,293	161,431	1,842,724
Total liabilities and fund balances	\$ 6,540,254	\$ 492,973	\$ 7,033,227

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances		\$	1,842,724
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			3,736,224
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	113,263	
Interest revenue		19,133	
		<hr/>	
Total			132,396
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(647,102)	
Tax anticipation note		(190,000)	
Lease-purchase		(246,417)	
		<hr/>	
Total			<hr/> (1,083,519)
Net assets of governmental activities		\$	<hr/> <u>4,627,825</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES OF FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 3,811,545	\$ 164,805	\$ 3,976,350
Tuition.	333,004	6,839	339,843
Earnings on investments.	67,354	508	67,862
Charges for services	-	257,782	257,782
Extracurricular.	-	187,256	187,256
Classroom materials and fees.	41,973	-	41,973
Other local revenues.	75,472	36,124	111,596
Intergovernmental - Intermediate	11,308	-	11,308
Intergovernmental - State	7,428,378	171,608	7,599,986
Intergovernmental - Federal.	-	923,775	923,775
Total revenue	<u>11,769,034</u>	<u>1,748,697</u>	<u>13,517,731</u>
Expenditures:			
Current:			
Instruction:			
Regular	5,386,621	120,867	5,507,488
Special.	1,494,709	527,607	2,022,316
Vocational.	380,325	1,198	381,523
Adult education	-	7,001	7,001
Other	438,859	120,796	559,655
Support Services:			
Pupil.	1,099,511	12,984	1,112,495
Instructional staff	154,364	38,252	192,616
Board of education	10,939	-	10,939
Administration.	1,061,804	57,900	1,119,704
Fiscal	314,431	3,338	317,769
Business	14,793	-	14,793
Operations and maintenance.	774,397	301,008	1,075,405
Pupil transportation	804,591	1,600	806,191
Central.	24,430	-	24,430
Operation of non-instructional services.	-	58,475	58,475
Extracurricular activities	242,385	121,014	363,399
Facilities acquisition and construction	-	975	975
Food service operations.	-	495,290	495,290
Debt service:			
Principal retirement	-	213,208	213,208
Interest and fiscal charges	-	21,997	21,997
Total expenditures	<u>12,202,159</u>	<u>2,103,510</u>	<u>14,305,669</u>
Excess of revenues under expenditures	<u>(433,125)</u>	<u>(354,813)</u>	<u>(787,938)</u>
Other financing sources (uses):			
Transfers in.	-	101,249	101,249
Transfers (out)	(674)	(100,575)	(101,249)
Total other financing sources (uses)	<u>(674)</u>	<u>674</u>	<u>-</u>
Net change in fund balances	(433,799)	(354,139)	(787,938)
Fund balances			
at beginning of year (restated)	2,115,092	516,141	2,631,233
Decrease in reserve for inventory.	-	(571)	(571)
Fund balances at end of year	<u>\$ 1,681,293</u>	<u>\$ 161,431</u>	<u>\$ 1,842,724</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK 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, 2005

Net change in fund balances - total governmental funds \$ (787,938)

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

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

Capital asset additions	\$	280,692	
Current year depreciation		<u>(199,456)</u>	
Total			81,236

Governmental funds report expenditures for inventory when
purchased. However, on the statement of activities, they are
reported as an expense when incurred. (571)

Principal payments on notes and capital lease obligations are
expenditures in the governmental funds, but the repayment
reduces long-term liabilities on the statements of net assets. 213,208

Revenue on the statement of activities that do not provide
current financial resources are not reported as revenue in
the funds.

Taxes		(95,140)	
Intergovernmental revenue		(1,274)	
Accrued interest		<u>19,133</u>	
Total			(77,281)

Some expenses reported on 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. (7,056)

Change in net assets of governmental activities \$ (578,402)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK 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, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 3,483,276	\$ 3,483,276	\$ 3,724,115	\$ 240,839
Tuition.	254,844	254,844	333,004	78,160
Earnings on investments.	75,000	75,000	80,397	5,397
Classroom materials and supplies	35,000	35,000	41,973	6,973
Other local revenues.	49,442	49,442	62,755	13,313
Intergovernmental - Intermediate	10,000	10,000	11,308	1,308
Intergovernmental - State	7,152,350	7,152,350	7,428,378	276,028
Total revenue	<u>11,059,912</u>	<u>11,059,912</u>	<u>11,681,930</u>	<u>622,018</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,139,271	5,338,500	5,339,801	(1,301)
Special.	1,465,090	1,521,886	1,521,886	-
Vocational.	365,865	380,048	380,048	-
Other.	435,926	452,825	452,825	-
Support Services:				
Pupil.	1,061,989	1,103,158	1,103,158	-
Instructional staff	152,829	158,754	158,754	-
Board of education	10,536	10,944	10,944	-
Administration.	1,073,537	1,115,154	1,115,154	-
Fiscal	295,286	306,733	306,527	206
Business	14,644	15,212	15,212	-
Operations and maintenance.	777,936	808,094	791,094	17,000
Pupil transportation	784,546	814,960	804,960	10,000
Central.	23,518	24,430	24,430	-
Extracurricular activities.	232,088	241,085	241,085	-
Total expenditures	<u>11,833,061</u>	<u>12,291,783</u>	<u>12,265,878</u>	<u>25,905</u>
Excess of revenues over (under) expenditures.	<u>(773,149)</u>	<u>(1,231,871)</u>	<u>(583,948)</u>	<u>647,923</u>
Other financing sources (uses):				
Transfers (out)	(649)	(674)	(674)	-
Advances in.	50,000	50,000	84,768	34,768
Advances (out)	(81,605)	(84,768)	(84,768)	-
Total other financing sources (uses)	<u>(32,254)</u>	<u>(35,442)</u>	<u>(674)</u>	<u>34,768</u>
Net change in fund balance	(805,403)	(1,267,313)	(584,622)	682,691
Fund balance at beginning of year.	3,519,374	3,519,374	3,519,374	-
Prior year encumbrances appropriated	119,875	119,875	119,875	-
Fund balance at end of year	<u>\$ 2,833,846</u>	<u>\$ 2,371,936</u>	<u>\$ 3,054,627</u>	<u>\$ 682,691</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 26,250
Total assets	<u>\$ 26,250</u>
Liabilities:	
Accounts payable.	\$ 132
Due to students.	26,118
Total liabilities	<u>\$ 26,250</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Sandy Valley Local School District (the "District") is a body politic and corporate established for the purpose of exercising the right and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District is governed by a five-member board of education (the Board) elected by its citizens, which is responsible for the provision of public education to residents of the District.

The District encompasses all or portions of several villages and townships which are almost entirely located in Stark County, Ohio. The District is the 365th largest in the State of Ohio (among 614 public school districts) in terms of total enrollment. The District's facilities are staffed by 77 classified employees and 129 certificated employees who provide services to 1,543 students and other community members. The District operates five school buildings, bus garage, warehouse, and administration building staffed by administrators, teachers, and non-certified personnel providing educational opportunities to its students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's 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 organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has one component unit. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

DISCRETELY PRESENTED COMPONENT UNIT

The Cardinal Digital Academy Community School

The Cardinal Digital Academy (the "Academy") is a legally separate, conversion community school, served by a Board of Directors. The Academy provides students within the District and throughout Northeast Ohio with curriculum and instruction via distance learning technology. The Board of Director's consists of the District's Superintendent, Technology Coordinator, Curriculum Director, and two additional Board members appointed by the District. The Sandy Valley Local School District is the sponsoring District of the Academy under Ohio Revised Code Section 3314. The superintendent of the District serves as the Chief Administrative Officer of the Academy and the Treasurer serves as the Chief Financial Officer. Based on the significant services provided by the District to the Academy, the Academy's purpose of servicing the students within the District, and the relationship between the Board of Education of the District and the Board of Directors of the Academy, the Academy is a component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Academy at 5362 State Rt. 183 NE, Magnolia, Ohio 44643.

JOINTLY GOVERNED ORGANIZATIONS

Stark/Portage Area Computer Consortium

The Stark/Portage Area Computer Consortium (SPARCC) is a jointly governed organization created as a regional council of governments pursuant to State statutes made up of public school districts and county boards of education from Stark, Portage, and Carroll Counties. The primary function of SPARCC is to provide data processing services to its member districts with the major emphasis being placed on accounting, inventory control and payroll services. Other areas of service provided by SPARCC include student scheduling, registration, grade reporting, and test scoring. Each member district pays an annual fee for the services provided by SPARCC.

SPARCC is governed by a board of directors comprised of each Superintendent with the Consortium. The Stark County Educational Service Center serves as the fiscal agent of SPARCC and receives funding from the State Department of Education. Each district has one vote in all matters and each member district's control over budgeting and financing of SPARCC is limited to its voting authority and any representation it may have on the board of directors. The continued existence of SPARCC is not dependent on the District's continued participation and no equity interest exists. Financial information can be obtained by writing the Stark/Portage Area Computer consortium, 2100 38th Street NW, Canton, Ohio 44709.

Stark County Joint Vocational School

The Stark County Joint Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a seven member Board, consisting of one representative from each of the six participating district's boards, one board member that rotates from each participating district, and has its own budgeting and taxing authority. Financial information can be obtained by writing the Stark County Joint Vocational School, 6805 Richville Drive, S.W., Massillon, Ohio 44646.

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Stark County Tax Incentive Review Council

Stark County Tax Incentive Review Council (SCTIRC) is a jointly governed organization, created as a regional council of governments pursuant to State statutes. SCTIRC has 24 members, consisting of three members appointed by the County Commissioners, four members appointed by municipal corporations, ten members appointed by township trustees, one member from the county auditor's office and six members appointed by boards of education located within the enterprise zones of Stark County. The SCTIRC reviews and evaluates the performance of each Enterprise Zone Agreement. This body is advisory in nature and cannot directly impact an existing Enterprise Zone Agreement; however, the council can make written recommendations to the legislative authority that approved the agreement. There is no cost associated with being a member of this Council. The continued existence of the SCTIRC is not dependent upon the District's continued participation and no measurable equity interest exists.

PUBLIC ENTITY RISK POOLS

Shared Risk Pool

Stark County Schools Council of Governments Health Benefit Plan

The Stark County Schools Council of Governments Health Benefit Plan (Council) is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The Council is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the council. All council revenues are generated from charges for services received from the participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract.

Insurance Purchasing Pool

Stark County Schools Council of Governments Workers' Compensation Group Rating Plan

The Stark County Schools Council of Governments Workers' Compensation Group Rating Plan has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The governing body is comprised of the superintendents and the members who have been appointed by the respective governing body of each member.

The intent of the pool is to achieve a reduced rate for the District and the other group members. The injury claim history of all participating members is used to calculate a common rate for the group. An annual fee is paid to Comp Management, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member entity annually based on its payroll percent of the group.

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.

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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. Fiduciary funds are reported by fund type.

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

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. Fiduciary funds also use the accrual basis of accounting.

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

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

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.

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received 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. Unused donated commodities are reported as intergovernmental revenue.

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the fund level. Any budgetary modifications at these levels may only be made by resolution of the Board of Education.

Tax Budget:

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 express purpose of this budget document is to reflect the need for existing (or increased tax rates). By no later than January 20, the Board-adopted budget is filed with Stark County Budget Commission for rate determination.

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts from the certificate of amended resources that was in effect at the time the original and final appropriations were passed by the Board of Education.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, at the fund level must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the level of budgetary control must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, all supplemental appropriations were legally enacted.

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

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

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.

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

During fiscal year 2005, investments were limited to federal agency securities and State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$67,354, which includes \$16,938 assigned from other District 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, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method on the fund financial statements and using the consumption method on the government-wide financial statements.

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During the fiscal year the District increased its threshold from \$3,000 to \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Description	Governmental Activities Estimated Lives
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

I. Interfund Balances

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

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, “Accounting for Compensated Absences”. Vacation benefits are accrued as a liability as the benefits are earned if the employee’s rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at June 30, by those employees who are currently eligible to receive termination benefits and by those employees who are expected to become eligible in the future.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

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

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Q. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a capital acquisition reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 17.

R. Nonpublic Schools

Within the District boundaries, St. Phillip and James Catholic Schools are operated by the Catholic Diocese. Current State legislation provides funding to this school. These monies are received and disbursed on behalf of the schools by the Treasurer of the District, as directed by the non-public school. This activity is reflected in a nonmajor governmental fund by the District for financial reporting purposes.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	General	Nonmajor	Total
Fund Balances, June 30, 2004	\$ 2,208,977	\$ 527,508	\$ 2,736,485
GASB Technical Bulletin No. 2004-2	(93,885)	(11,367)	(105,252)
Restated Fund Balance, June 30, 2004	\$ 2,115,092	\$ 516,141	\$ 2,631,233

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Restatement of Net Assets

The beginning net assets of the governmental activities have been restated due to a change in the District's capitalization threshold of capital assets at June 30, 2004. The adjustment for capital assets had the following effect on net assets as previously reported:

	Governmental Activities
Net assets, June 30, 2004	\$ 5,212,477
Adjustment for capital assets	(6,250)
Restated adjusted net assets, June 30, 2004	\$ 5,206,227

C. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

	Deficit
<u>Nonmajor Funds</u>	
Food service	\$ 43,041
Auxiliary Services	1,483
Entry Year Grant	77
Title I	43,172
Improving Teacher Quality	5,869

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of 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.

Interim monies to 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 division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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.

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

At year-end, the District had \$1,175 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$731,910. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$636,339 of the District's bank balance of \$736,339 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

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

C. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>
STAR Ohio	\$ 579,267	\$ 579,267	\$ -	\$ -	\$ -
FHLB	491,875	-	-	491,875	-
FNMA	1,684,702	-	702,357	492,970	489,375
	<u>\$ 2,755,844</u>	<u>\$ 579,267</u>	<u>\$ 702,357</u>	<u>\$ 984,845</u>	<u>\$ 489,375</u>

The weighted average maturity of investments is .88 years.

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

Credit Risk: The District's investments, except STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 579,267	21.02
FNMA	1,684,702	61.13
FHLB	491,875	17.85
	<u>\$ 2,755,844</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 731,910
Investments	2,755,844
Cash on hand	<u>1,175</u>
Total	<u>\$ 3,488,929</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 3,462,679
Agency funds	<u>26,250</u>
Total	<u>\$ 3,488,929</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers to nonmajor governmental funds from:	
General fund	\$ 674
Nonmajor governmental funds	100,575

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

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Stark, Tuscarawas and Carroll Counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available as an advance at June 30, 2005 was \$188,180 in the general fund and \$7,351 in the Permanent Improvement capital projects fund (nonmajor governmental fund). The amount that was available as an advance at June 30, 2004 was \$100,750 in the general fund and \$7,916 in the Permanent Improvement capital projects fund (nonmajor governmental fund).

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2005 taxes were collected are:

	<u>2004 Second Half Collections</u>		<u>2005 First Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 110,107,300	82.61	\$ 117,606,560	82.80
Public utility personal	14,970,830	11.23	8,437,380	5.94
Tangible personal property	<u>8,204,150</u>	<u>6.16</u>	<u>15,992,593</u>	<u>11.26</u>
Total	<u>\$ 133,282,280</u>	<u>100.00</u>	<u>\$ 142,036,533</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$42.50		\$41.90	
Permanent improvements	2.00		2.00	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities

Taxes	\$ 3,452,964
Accounts	14,630
Intergovernmental	64,775
Accrued interest	<u>19,133</u>
Total	<u>\$ 3,551,502</u>

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

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the government activities have been restated due to a change in the capitalization threshold in the current year. See Note 3.A. for detail:

	Balance		Restated
	June 30, 2004	Adjustments	Balance
			July 1, 2004
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 1,248,658	\$ -	\$ 1,248,658
Construction in progress	90,638	-	90,638
Total capital assets, not being depreciated	<u>1,339,296</u>	<u>-</u>	<u>1,339,296</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	1,145,753	(11,532)	1,134,221
Buildings and improvement	3,788,783	(14,784)	3,773,999
Furniture and equipment	336,649	(145,037)	191,612
Vehicles	1,161,988	(64,917)	1,097,071
Total capital assets, being depreciated	<u>6,433,173</u>	<u>(236,270)</u>	<u>6,196,903</u>
<i>Less: accumulated depreciation</i>	<u>(4,111,231)</u>	<u>230,020</u>	<u>(3,881,211)</u>
Governmental activities capital assets, net	<u>\$ 3,661,238</u>	<u>\$ (6,250)</u>	<u>\$ 3,654,988</u>

- B. Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Restated			Balance
	Balance	Additions	Deductions	06/30/05
	06/30/04			
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,248,658	\$ -	\$ -	\$ 1,248,658
Construction in progress	90,638	-	(90,638)	-
Total capital assets, not being depreciated	<u>1,339,296</u>	<u>-</u>	<u>(90,638)</u>	<u>1,248,658</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,134,221	371,330	(103,985)	1,401,566
Building and improvements	3,773,999	-	-	3,773,999
Furniture and equipment	191,612	-	-	191,612
Vehicles	1,097,071	-	-	1,097,071
Total capital assets, being depreciated	<u>6,196,903</u>	<u>371,330</u>	<u>(103,985)</u>	<u>6,464,248</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(554,342)	(46,810)	103,985	(497,167)
Building and improvements	(2,452,517)	(53,040)	-	(2,505,557)
Furniture and equipment	(123,200)	(6,810)	-	(130,010)
Vehicles	(751,152)	(92,796)	-	(843,948)
Total accumulated depreciation	<u>(3,881,211)</u>	<u>(199,456)</u>	<u>103,985</u>	<u>(3,976,682)</u>
Governmental activities capital assets, net	<u>\$ 3,654,988</u>	<u>\$ 171,874</u>	<u>\$ (90,638)</u>	<u>\$ 3,736,224</u>

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 71,281
<u>Support Services:</u>	
Instructional staff	897
Operations and maintenance	1,130
Pupil transportation	102,940
Extracurricular activities	22,227
Food service operations	<u>981</u>
Total depreciation expense	<u>\$ 199,456</u>

NOTE 9 - LEASE PURCHASE AGREEMENT - LESSEE DISCLOSURE

In fiscal year 2004, the District entered into a lease purchase agreement for stadium bleachers, stadium lighting and a press box. These lease agreements meet the criteria of capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments will be reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures will be reported as function expenditures on the budgetary statements.

In 2004, capital assets were reported as construction in progress in the amount of \$90,638. The remaining \$280,692 represents the current year expenditures for the construction of the stadium bleachers, lighting and press box. The initial liability of \$369,625 was recorded in the government-wide financial statements to represent the present value of the minimum lease payments at the time the District entered into the lease purchase agreement. The District began making payments in fiscal year 2005.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 130,822
2007	<u>127,016</u>
Total minimum lease payments	257,838
Less amount representing interest	<u>(11,421)</u>
Total	<u>\$ 246,417</u>

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS

- A. The District has issued tax anticipation notes to provide funds for the purchase of land. These notes will be repaid from proceeds of an approved permanent improvement tax levy.

The following is a description of the District's notes outstanding as of June 30, 2005:

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Outstanding 06/30/04</u>	<u>Retired in 2005</u>	<u>Outstanding 06/30/05</u>
Tax anticipation notes	4.50%	11/01/01	12/01/06	\$ 280,000	\$ (90,000)	\$ 190,000
Total				<u>\$ 280,000</u>	<u>\$ (90,000)</u>	<u>\$ 190,000</u>

The following is a summary of the District's future annual debt service requirements to maturity for the tax anticipation notes:

<u>Fiscal Year Ending</u>	<u>Principal on Notes</u>	<u>Interest on Notes</u>	<u>Total</u>
2006	\$ 95,000	\$ 6,413	\$ 101,413
2007	<u>95,000</u>	<u>2,138</u>	<u>97,138</u>
Total	<u>\$ 190,000</u>	<u>\$ 8,551</u>	<u>\$ 198,551</u>

- B. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 06/30/05</u>	<u>Amounts Due in One Year</u>
Governmental Activities					
Lease purchase agreement	\$ 369,625	\$ -	\$ (123,208)	\$ 246,417	\$ 123,208
Compensated absences payable	772,092	122,037	(108,621)	785,508	196,455
Tax anticipation note	<u>280,000</u>	<u>-</u>	<u>(90,000)</u>	<u>190,000</u>	<u>95,000</u>
Total governmental activities long-term liabilities	<u>\$ 1,421,717</u>	<u>\$ 122,037</u>	<u>\$ (321,829)</u>	<u>\$ 1,221,925</u>	<u>\$ 414,663</u>

Compensated absences will be paid from the fund from which the employee is paid.

C. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$12,783,288 and an unvoted debt margin of \$142,037.

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation, personal and sick leave components are derived from negotiated agreements and state laws. Classified employees earn 10 to 20 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators and classified employees earn sick leave at the rate of 1.25 days per month. A liability for sick leave is based on the accumulated sick leave at the balance sheet date by those employees who are currently eligible to receive severance benefits. The District's severance liability has been calculated using the pay rates in effect at June 30, 2005 and reduced to the maximum payment allowed by labor contracts (52 days for classified, and 42 or 69 days for certified employees based on length of service), plus any additional salary related payments.

B. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance to all of its employees through the Unum Life Insurance Company in the amount of \$50,000.

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. During fiscal year 2005, the District has contracted with private for various types of insurance as follows:

<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Deductible</u>
Buildings and Contents:		
Replacement Cost	\$26,380,250	\$5,000
Inland Marine Coverage	various	500
Boiler and Machinery	included	5,000
Automobile Liability	1,000,000	250
Uninsured Motorists	50,000	500
General Liability:		
Per occurrence	1,000,000	0
Aggregate	2,000,000	0
Umbrella Liability:		
Per occurrence	5,000,000	10,000
Aggregate	5,000,000	
Errors and Omission:		
Per occurrence	1,000,000	2,500
Aggregate	1,000,000	

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

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 - RISK MANAGEMENT - (Continued)

B. Group Health and Dental Insurance

The District participates in the Stark County Schools Council of Governments Health Benefit Plan, a shared risk pool (Note 2) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The District's Board of Education pays 90% of medical and 100% of dental monthly premiums.

Claims are paid for all participants regardless of claims flow. Upon termination, all district claims would be paid without regard to the District's account balance or the Directors have the right to hold monies for an exiting school district subsequent to the settlement of all expenses and claims.

C. Workers' Compensation

The District participates in the Stark County Schools Council of Governments Workers' Compensation Group Rating Plan, an insurance purchasing pool (Note 2.B.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performances are compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "Equity Pooling Fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 13 - DEFINED BENEFIT PENSION PLAN

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 13 - DEFINED BENEFIT PENSION PLAN - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$214,626, \$204,501 and \$193,846, respectively; 43.69% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$120,852 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 13 - DEFINED BENEFIT PENSION PLAN - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$870,743, \$820,138, and \$777,334, respectively; 81.90% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$157,608 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$12,254 made by the District and \$14,806 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid to those Board members.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$62,196 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

After the allocation of basic benefits, the remainder of the employers 14% contribution is allocated to providing health care benefits. For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. However, the surcharge is capped at 2% of each employers' SERS salaries. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$75,191 during the 2005 fiscal year.

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

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	\$ (584,622)
Net adjustment for revenue accruals	87,104
Net adjustment for expenditure accruals	(107,050)
Adjustment for encumbrances	170,769
GAAP basis	\$ (433,799)

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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 a party to legal proceedings that, in the opinion of management, would have a material adverse effect on the financial statements.

C. State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...".

The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 17 - STATUTORY RESERVES

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

The following cash basis information describes the change in the year-end set-aside amounts for textbooks, and capital acquisition. Disclosure of this information is required by state statute.

	Textbooks/ Instructional Materials	Capital Acquisition
Set-aside cash balance as of June 30, 2004	\$ (673,776)	\$ 29,526
Current year set-aside requirement	227,478	227,478
Current year offsets	-	(165,370)
Qualifying disbursements	<u>(496,561)</u>	<u>-</u>
Total	<u>\$ (942,859)</u>	<u>\$ 91,634</u>
Balance carried forward to FY 2006	<u>\$ (942,859)</u>	<u>\$ 91,634</u>

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 17 - STATUTORY RESERVES - (Continued)

The District had offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbook/instructional materials reserve, this extra amount may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to next fiscal year.

A schedule of the restricted assets at June 30, 2005 follows:

Amount restricted for capital acquisition	<u>\$ 91,634</u>
Total restricted assets	<u>\$ 91,634</u>

NOTE 18 - OPERATING LEASES - LESSEE DISCLOSURE

During fiscal year 2005, the District entered into an operating lease agreement for copiers. In prior years, the District entered into two operating lease agreements for modular classroom structures. The copier lease began on April 11, 2005 and has a forty-two month term. The first modular classroom lease began July 20, 2001 and has a thirty-six month term. The second modular classroom lease began June 11, 2003 and has a sixty month term. Fiscal year 2005 rental costs on the operating leases were \$26,680.

The following is a schedule of the future minimum rental payments required under the operating leases:

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$ 97,692
2007	97,692
2008	92,489
2009	<u>22,609</u>
Total minimum rental payments	<u>\$ 310,482</u>

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**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Child Nutrition Cluster: Food Distribution Program	Not Applicable	10.550		\$43,793		\$43,793
National School Lunch Program	Not Applicable	10.555	165,786		165,786	
Total U.S. Department of Agriculture-Child Nutrition Cluster			165,786	43,793	165,786	43,793
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster: Special Education Grants to States	050302-6BSF-2005 050302-6BSF-2004	84.027	262,789		245,789 5,878	
Total Special Education Grants to State			262,789		251,667	
Title I Grants to Local Educational Agencies	050302-C1S1-2005 050302-C1S1-2004	84.010	266,167 (951)		257,276 19,148	
Total Title I Grants to Local Educational Agencies			265,216		276,424	
Improving Teacher Quality State Grants	050302-TRS1-2005 050302-TRS1-2004	84.367	87,282 4,073		78,291 11,663	
Total Improving Teacher Quality State Grants			91,355		89,954	
Education Technology State Grants	050302-TJS1-2005	84.318	7,962		7,527	
State Grants for Innovative Programs	050302-C2S1-2005	84.298	7,243 (4) 7,239		6,662 905 7,567	
Safe and Drug Free Schools and Communities State Grants	050302-DRWS1-2005 050302-DRWS1-2004	84.186	8,656 (1,805) 6,851		6,722 1,043 7,765	
Total U.S. Department of Education			641,412		640,904	
TOTAL			<u>\$807,198</u>	<u>\$43,793</u>	<u>\$806,690</u>	<u>\$43,793</u>

See Accompanying Notes to the Federal Awards Receipts and Expenditures Schedule

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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



Auditor of State Betty Montgomery

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

Sandy Valley Local School District
Stark County
5362 State Route 183, N.E.
Magnolia, Ohio 44643

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate discretely presented component unit and remaining fund information of Sandy Valley Local School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

In a separate letter to the District's management dated February 21, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

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

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

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

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

Betty Montgomery
Auditor of State

February 21, 2006



Auditor of State Betty Montgomery

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

Sandy Valley Local School District
Stark County
5362 State Route 183, N.E.
Magnolia, Ohio 44643

To the Board of Education:

Compliance

We have audited the compliance of Sandy Valley Local School District, Stark County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

The District's basic financial statements include the operations of Cardinal Digital Academy which received \$150,000 in federal awards which is not included in the Federal Awards Receipts and Expenditures Schedule for the year ended June 30, 2005. Our audit of Federal awards, described below, did not include the operations of Cardinal Digital Academy because the component unit is legally separate from the primary government which this report addresses, and because it expended less than \$500,000 of Federal awards for the year ended June 30, 2005, it was not subject to OMB Circular A-133 audit requirements.

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

In our opinion, Sandy Valley Local School District, Stark County, Ohio, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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



Betty Montgomery
Auditor of State

February 21, 2006

**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster CFDA #84.027 and #84.173
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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**SANDY VALLEY LOCAL SCHOOL DISTRICT
STARK COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 07, 2006**