



**Auditor of State
Betty Montgomery**

**SCIOTOVILLE COMMUNITY SCHOOL
SCIOTO COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Sciotoville Community School
Scioto County
224 Marshall Avenue
Sciotoville, Ohio 45662

To the Board of Directors:

We have audited the accompanying financial statements of the Sciotoville Community School, Scioto County, Ohio (the School), as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Sciotoville Community School, Scioto County, Ohio, as of June 30, 2005, and the respective change in financial position and its cash flows 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 28, 2006 on our consideration of the School'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.

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 28, 2006

SCIOTOVILLE COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The discussion and analysis of the Sciotoville Community School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

- Net assets increased \$213,278, which represents a 6.6 percent increase from 2004. This increase was due to an increase in students and a related increase in State foundation monies. There was also an increase in some of the federal grant awards and other revenues.
- Total assets increased \$221,700, which represents a 6.4 percent increase from 2004. This was primarily due to an increase in cash.
- Liabilities increased \$8,422, which represents a 3.3 percent increase from 2004. Accrued wages and benefits increased by \$8,873, while intergovernmental payables related to accrued pension benefits increased by \$9,189. These additional liabilities were due to an increase in staff. Accounts payable and undistributed monies decreased by \$12,884. The decrease in these liabilities were due to timing of payments near the fiscal year-end.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

SCIOTOVILLE COMMUNITY SCHOOL

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer the question, "How did we do financially during 2005?" These statements are prepared using the economic resources measurement focus. With this measurement focus, all assets and liabilities are reported, both short and long term. These statements use the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal year 2005 and fiscal year 2004:

(Table 1)
Net Assets

	<u>2005</u>	<u>2004</u>
Assets:		
Current Assets	\$1,139,749	\$945,877
Land	123,582	70,582
Depreciable Capital Assets, Net	<u>2,450,959</u>	<u>2,476,131</u>
Total Assets	<u>3,714,290</u>	<u>3,492,590</u>
Liabilities:		
Current Liabilities	258,152	252,337
Non-Current Liabilities	<u>5,582</u>	<u>2,975</u>
Total Liabilities	<u>263,734</u>	<u>255,312</u>
Net Assets:		
Invested in Capital Assets	2,574,541	2,546,713
Restricted	111,940	73,368
Unrestricted	<u>764,075</u>	<u>617,197</u>
Total Net Assets	<u>\$3,450,556</u>	<u>\$3,237,278</u>

Total assets increased \$221,700. This increase was primarily due to an increase in cash. Equity in pooled cash and cash equivalents increased by \$217,275 from 2004. This was due to an increase in foundation revenues, grant revenues and other revenues. While there was an increase in net assets, there was also an increase in restricted net assets of \$38,572, which was primarily due to increases in grant revenues for fiscal year-end 2005 compared to fiscal year-end 2004. Capital Assets, net of depreciation, increased by \$27,828.

SCIOTOVILLE COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Table 2 shows the changes in net assets for fiscal year 2004 and fiscal year 2005, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2005	2004
Operating Revenues:		
Extracurricular and Lunchroom Sales	\$118,599	\$121,331
Foundation Payments	2,153,138	1,935,109
Disadvantaged Pupil Impact Aid	46,035	23,860
Other Revenues	42,626	4,544
Charges for Services	392	0
Non-Operating Revenues:		
Federal Donated Commodities	14,050	4,591
Federal and State Meals Subsidies	71,487	57,097
Other Federal and State Grants	381,419	311,015
Interest	9,807	6,303
Other	7,299	12,552
Capital Contributions	3,395	185,747
Total Revenues	2,848,247	2,662,149
Operating Expenses:		
Salaries	1,412,424	1,339,865
Fringe Benefits	618,478	522,173
Purchased Services	225,280	189,453
Materials and Supplies	121,856	210,206
Cost of Sales	62,398	41,010
Depreciation	105,863	97,633
Other Expenses	88,670	71,476
Total Expenses	2,634,969	2,471,816
Increase in Net Assets	\$213,278	\$190,333

Net assets increased by \$213,278 from 2004 to 2005, and the amount of the change in net assets increased \$22,945 compared to fiscal year 2004. While there was an increase in expenses of \$163,153, there was also an increase in revenues of \$186,098 from 2004 to 2005. Of the increase in revenues, the foundation payments increased by \$218,029, receipts from grants increased by \$94,253 and receipts from Disadvantaged Pupil Impact Aid increased by \$22,175. Community Schools receive no support from tax revenues. The increases in these revenues were primarily due to an increased number of students for the fiscal year.

SCIOTOVILLE COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

The expense for salaries increased by \$72,559 and employee benefits increased by \$96,305 from 2004 due to an increase in staff during fiscal year 2005. Purchased Services expense increased by \$35,827 from 2004. This was primarily due to an increase in utility expenses and some maintenance costs for the School building. Materials and supplies expense decreased by \$88,350 from 2004. This is because, in fiscal year 2004, there were large purchases of textbooks and there were not many textbooks purchased in fiscal year 2005.

Capital Assets

At the end of fiscal year 2005 the School had \$2,574,541, invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles, which represented an increase of \$27,828 from 2004. The majority of the increase consisted of the purchase of land, modular buildings to be used as classrooms, and computer equipment. Table 3 shows fiscal year 2005 and fiscal year 2004:

(Table 3)
Capital Assets at June 30, 2005
(Net of Depreciation)

	2005	2004
Land	\$123,582	\$70,582
Land Improvements	26,548	1,195
Buildings and Improvements	2,187,624	2,205,004
Furniture, Fixtures and Equipment	227,412	258,507
Vehicles	9,375	11,425
Totals	\$2,574,541	\$2,546,713

For more information on capital assets see Note 6 to the basic financial statements.

Current Financial Issues

During the 2004-2005 school year, there were 359 students enrolled in the School. The School receives its finances mostly from State aide. Per pupil aide for fiscal year 2005 amounted to \$5,169 per student.

During the fiscal year, the School acquired an additional sixth grade class. This increased the number of students and contributed to a related increase in State foundation monies of \$218,029.

In July 2005, the School received a donation of a house with a market value of \$33,050.

In November 2005, the School purchased a set of bleachers for Allard Park at a cost of \$8,500.

At the present time, the School is financially sound and is able to meet all of its financial obligations and the School began the 2006 fiscal year with a very good financial base.

SCIOTOVILLE COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Contacting the School's Financial Management

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information contact, Ron Blevins, Business Manager at Scioto Community School, 224 Marshall Street, Scioto, Ohio 45662 or e-mail at rblevins_ec@scoca-k12.org.

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SCIOTOVILLE COMMUNITY SCHOOL

Statement of Net Assets

June 30, 2005

Assets:

Current Assets:

Equity in Pooled Cash and Cash Equivalents	\$1,033,369
Intergovernmental Receivables	87,907
Inventory Held for Resale	4,418
Materials and Supplies Inventory	12,169
Prepaid Items	1,886
Total Current Assets	<u>1,139,749</u>

Non-Current Assets:

Capital Assets:	
Land	123,582
Depreciable Capital Assets, Net	2,450,959
Total Non-Current Assets	<u>2,574,541</u>

Total Assets 3,714,290

Liabilities:

Current Liabilities:

Accounts Payable	10,983
Accrued Wages and Benefits	182,653
Intergovernmental Payable	55,920
Compensated Absences Payable	4,882
Undistributed Monies	3,714
Total Current Liabilities	<u>258,152</u>

Non-Current Liabilities:

Compensated Absences Payable	<u>5,582</u>
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Total Liabilities 263,734

Net Assets

Invested in Capital Assets	2,574,541
Restricted for Other Purposes	111,940
Unrestricted	<u>764,075</u>

Total Net Assets \$3,450,556

See accompanying notes to the basic financial statements

SCIOTOVILLE COMMUNITY SCHOOL
Statement of Revenues, Expenses and
Change in Net Assets
For the Fiscal Year Ended June 30, 2005

Operating Revenues:	
Extracurricular and Lunchroom Sales	\$118,599
Foundation Payments	2,153,138
Disadvantaged Pupil Impact Aid	46,035
Charges for Services	392
Other Revenues	<u>42,626</u>
<i>Total Operating Revenues</i>	<u>2,360,790</u>
Operating Expenses:	
Salaries	1,412,424
Fringe Benefits	618,478
Purchased Services	225,280
Materials and Supplies	121,856
Cost of Sales	62,398
Depreciation	105,863
Other Expenses	<u>88,670</u>
<i>Total Operating Expenses</i>	<u>2,634,969</u>
<i>Operating Loss</i>	<u>(274,179)</u>
Non-Operating Revenues:	
Federal Donated Commodities	14,050
Federal and State Meals Subsidies	71,487
Other Federal and State Grants	381,419
Interest	9,807
Other	<u>7,299</u>
<i>Total Non-Operating Revenues</i>	<u>484,062</u>
<i>Income Before Contributions</i>	209,883
Capital Contributions	<u>3,395</u>
<i>Change in Net Assets</i>	213,278
<i>Net Assets Beginning of Year - Restated (Note 12)</i>	<u>3,237,278</u>
<i>Net Assets End of Year</i>	<u><u>\$3,450,556</u></u>

See accompanying notes to the basic financial statements

SCIOTOVILLE COMMUNITY SCHOOL

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2005

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from Customers	\$131,457
Cash Received from Others	42,626
Cash Received from Foundation Payments	2,153,138
Cash Received from Disadvantaged Pupil Impact Aid	50,607
Cash Payments to Suppliers for Goods and Services	(419,563)
Cash Payments to Employees for Services	(1,416,392)
Cash Payments for Employee Benefits	(595,342)
Cash Payments to Others	<u>(88,670)</u>

Net Cash Used for Operating Activities (142,139)

Cash Flows from Noncapital Financing Activities:

Other Non-Operating Revenues	7,299
Federal and State Subsidies Received	68,052
Operating Grants Received	<u>404,552</u>

Net Cash Provided by Noncapital Financing Activities 479,903

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(130,296)</u>
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Cash Flows from Investing Activities:

Interest	<u>9,807</u>
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Net Increase in Cash and Cash Equivalents 217,275

Cash and Cash Equivalents at Beginning of Year 816,094

Cash and Cash Equivalents at End of Year \$1,033,369

(continued)

SCIOTOVILLE COMMUNITY SCHOOL

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2005

(continued)

Reconciliation of Operating Loss to Net

Cash Used for Operating Activities:

Operating Loss (\$274,179)

Adjustments to Reconcile Operating

Loss to Net Cash Used for Operating Activities:

Depreciation 105,863

Donated Commodities Received During Year 14,050

Changes in Assets and Liabilities:

Decrease in DPIA Receivable 4,572

Increase in Prepaid Items (131)

Decrease in Inventory Held for Resale 455

Increase in Materials and Supplies Inventory (1,191)

Decrease in Accounts Payable (5,742)

Increase in Accrued Wages and Benefits 8,873

Increase in Intergovernmental Payable 9,189

Increase in Compensated Absences 3,244

Decrease in Undistributed Monies (7,142)

Total Adjustments 132,040

Net Cash Used for Operating Activities (\$142,139)

Non-Cash Transactions:

During fiscal year 2005, the Enterprise Fund received \$14,050 in donated commodities.

During fiscal year 2005, the School traded in an asset (\$7,917).

During fiscal year 2005, the School received a donated asset with a fair market value of \$3,395.

See accompanying notes to the basic financial statements

SCIOTOVILLE COMMUNITY SCHOOL

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2005

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Sciotoville Community School of Sciotoville, Inc. (the “School”) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades seven through twelve. The School, which is part of the State’s education program, is independent of any School and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. Sciotoville Community School qualifies as an exempt organization under Section 501c (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School’s tax exempt status.

The School was approved for operation under contract with the Ohio Department of Education (the “Sponsor”) for a period of five years commencing July 1, 2001. However, due to new State legislation, the Ohio Department of Education could no longer serve as the Sponsor. Therefore, the contract was terminated as of July 1, 2005. On May 9, 2005, the Montgomery County Educational Service Center signed a contract with the School to become the School’s Sponsor effective July 1, 2005 for a period of one year. The contract will expire on June 30, 2006. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a seven-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the School’s one instructional/support facility staffed by 15 non-certified and 34 certificated full time teaching personnel who provide services to 359 students.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Sciotoville Community School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its enterprise fund, provided they do not conflict with or contradict GASB pronouncements. The School has elected not to apply FASB Statements issued after November 30, 1989 to its enterprise fund. The more significant of the School’s accounting policies are described below.

A. Basis Of Presentation

The School’s basic financial statements consist of a Statement of Net Assets, a Statement of Revenue, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

SCIOTOVILLE COMMUNITY SCHOOL

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. Enterprise fund accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus

The accounting and financial reporting treatment of the School's financial transactions is determined by the School's measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The Statement of Cash Flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of the measurements made.

The School's financial statements are prepared using the accrual basis of accounting.

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.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. 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 School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Expenses are recognized at the time they are incurred.

SCIOTOVILLE COMMUNITY SCHOOL

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School; therefore no budgetary information is presented in the financial statements.

E. Cash and Cash Equivalents

The School's Business Manager accounts for all monies received by the School. To improve cash management, all cash received from the State of Ohio is electronically transferred into the main checking account.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Inventory

Inventory is stated at cost. Cost is determined on a first-in, first-out basis. Inventories consist of donated and purchased food held for resale, as well as supplies, all of which are expensed when used.

H. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of one thousand dollars. The capitalization threshold for computers is five hundred dollars. The School does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Land Improvements	15 - 20 years
Buildings and Improvements	1 - 50 years
Furniture, Fixtures and Equipment	3 - 20 years
Vehicles	3 - 10 years

SCIOTOVILLE COMMUNITY SCHOOL
Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the School's termination policy. The School records a liability for accumulated unused sick leave for employees with at least five years of current service for all positions (including certified and non-certified staff). Since the School has not been in operation for five years, there is no sick leave benefits liability.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and State grants restricted to expenditures for specified purposes.

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

The Statement of Net Assets reports \$111,940 of restricted net assets, none of which is restricted by enabling legislation.

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are operating grants and sales for food service. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

SCIOTOVILLE COMMUNITY SCHOOL
Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Contributions of Capital

Contributions of capital arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

M. Estimates

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2005, the School has implemented *GASB Statement No. 40, “Deposit and Investment Risk Disclosures”*, *GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation”* and *GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Post-Employment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers”*.

GASB Statement No. 40 establishes new disclosure requirements for risks associated with deposits and investments. The implementation of this statement had no effect on the School’s financial statements for fiscal year 2005.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets. The implementation of this new statement had no effect on the School’s financial statements for fiscal year 2005.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans. The implementation of this statement had no effect on the School’s financial statements for fiscal year 2005.

SCIOTOVILLE COMMUNITY SCHOOL
Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2005

NOTE 4 - DEPOSITS

Deposits: Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$100,470 of the School's bank balance of \$200,470 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School's name.

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

Investments: As of June 30, 2005, the School had the following investments. All investments are in an internal investment pool.

	Fair Value	Maturity Date
Repurchase Agreement	\$840,000	May 15, 2009

Interest Rate Risk: The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least two percent and be marked to market daily.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The repurchase agreement investments are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the School's name. The School does not have an investment policy that addresses investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Business Manager or qualified trustee.

Concentration of Credit Risk: The School's investments in a repurchase agreement represent 100 percent of the School's total investments.

SCIOTOVILLE COMMUNITY SCHOOL

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2005

NOTE 5 - RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Title I Grants to Local Educational Agencies (Title I)	\$56,885
Improving Teacher Quality State Grants (Title II-A)	6,251
Education Technology State Grants (Title II-D)	2,310
Safe and Drug Free Schools and Communities State Grants (Title IV-A)	3,945
State Grants for Innovative Programs (Title V)	61
Special Education Grants to States (Part B-IDEA)	10,676
National School Lunch and Breakfast Programs	7,779
Total Intergovernmental Receivables	<u><u>\$87,907</u></u>

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance</u> <u>6/30/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/05</u>
Capital Assets Not Being Depreciated:				
Land	\$70,582	\$53,000	\$0	\$123,582
Capital Assets Being Depreciated:				
Land Improvements	1,327	26,319	0	27,646
Buildings and Improvements	2,310,961	29,149	0	2,340,110
Furniture, Fixtures and Equipment	358,697	33,140	(8,445)	383,392
Vehicles	14,500	0	0	14,500
Total Capital Assets				
Being Depreciated	2,685,485	88,608	(8,445)	2,765,648
Less Accumulated Depreciation:				
Land Improvements	(132)	(966)	0	(1,098)
Buildings and Improvements	(105,957)	(46,529)	0	(152,486)
Furniture, Fixtures and Equipment	(100,190)	(56,318)	528	(155,980)
Vehicles	(3,075)	(2,050)	0	(5,125)
Total Accumulated Depreciation	(209,354)	(105,863)	528	(314,689)
Total Capital Assets				
Being Depreciated, Net	2,476,131	(17,255)	(7,917)	2,450,959
Capital Assets, Net	<u><u>\$2,546,713</u></u>	<u><u>\$35,745</u></u>	<u><u>(\$7,917)</u></u>	<u><u>\$2,574,541</u></u>

\$2,024,386 of the buildings and \$65,182 of the land are capital contributions received in June 2002. \$185,747 of the buildings is a result of capital contributions received in fiscal year 2004 in the form of grants through the Federal Emergency Repair Program – School Renovation Grants. \$3,395 is a result of capital contributions consisting of a piano received in the current fiscal year from the band boosters.

SCIOTOVILLE COMMUNITY SCHOOL
Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2005

NOTE 7 - RISK MANAGEMENT

A. Property and Liability

The School 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 School contracted with Sherman Kricker Insurance Company for general liability and property insurance and Tudor Insurance Company for educational errors and omissions insurance.

Coverages are as follows:

Building and Contents (\$1,000 deductible)	\$3,708,000
Boiler and Machinery	No Limit
Business Personal Property (\$1,000 deductible)	100,000
Educational Errors and Omissions (\$5,000 each loss)	1,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	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 insurance coverage from last year.

B. Workers' Compensation

The School pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

SCIOTOVILLE COMMUNITY SCHOOL

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2005

NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$30,276, \$26,196, and \$33,217, respectively; 100 percent has been contributed for fiscal years 2005, 2004, and 2003.

B. State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

SCIOTOVILLE COMMUNITY SCHOOL
Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2005

NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$154,878, \$126,817, and \$140,800, respectively; 75.78 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$3,850 made by the School and \$5,182 made by the plan members.

NOTE 9 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$11,914 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

SCIOTOVILLE COMMUNITY SCHOOL
Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2005

NOTE 9 - POSTEMPLOYMENT BENEFITS (continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$14,204.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 10 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining sick leave benefits are derived from policies and procedures approved by the Board of Directors. The School follows the Ohio Revised Code for vacation benefits. Non-certified employees earn ten to twenty days of vacation per year, depending upon the length of service. Accumulated unused vacation time is paid to non-certified employees upon termination of employment up to a maximum of 50 days. Teachers do not earn vacation.

Teachers, administrators, and non-certified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 200 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation up to a maximum of thirty days for those employees with five or more years of continuous service and who apply and qualify for retirement under SERS and STRS.

B. Insurance Benefits

The School provides life, dental and medical/surgical benefits to most employees through Medical Mutual of Ohio. The School also provides vision benefits to most employees through Vision Service Plan.

SCIOTOVILLE COMMUNITY SCHOOL
Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2005

NOTE 10 - EMPLOYEE BENEFITS (continued)

C. Deferred Compensation

School employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 11 – LONG-TERM OBLIGATIONS

The changes in the School’s long-term obligations during the fiscal year 2005 were as follows:

	Principal Outstanding 6/30/04	Additions	Deductions	Principal Outstanding 6/30/05	Amounts Due Within One Year
<u>Long-Term Obligations</u>	<u>\$7,220</u>	<u>\$9,982</u>	<u>\$6,738</u>	<u>\$10,464</u>	<u>\$4,882</u>
Compensated Absences	<u>\$7,220</u>	<u>\$9,982</u>	<u>\$6,738</u>	<u>\$10,464</u>	<u>\$4,882</u>

NOTE 12 – RESTATEMENT OF PRIOR YEAR NET ASSETS

During fiscal year 2005, errors were discovered that related to intergovernmental payables and undistributed monies in prior years. These errors resulted in the following restatement of net assets:

Net Assets, June 30, 2004	\$3,222,877
Restatement of Intergovernmental Paybles	24,158
Restatement of Undistributed Monies	<u>(9,757)</u>
Net Assets, June 30, 2004, As Restated	<u>\$3,237,278</u>

NOTE 13 - CONTINGENCIES

A. Grants

The School received financial assistance from federal and State 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2005.

SCIOTOVILLE COMMUNITY SCHOOL
Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2005

NOTE 13 – CONTINGENCIES (continued)

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The results of this review could result in State funding being adjusted. The School does not anticipate any adjustments to State funding for fiscal year 2005 as a result of such a review.

C. Litigation

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) School's program violates the State Constitution and State laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the State public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the Sciotoville Community School is not presently determinable.

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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*

Sciotoville Community School
Scioto County
224 Marshall Avenue
Sciotoville, Ohio 45662

To the Board of Directors:

We have audited the financial statements of the Sciotoville Community School, Scioto County, Ohio (the School), as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements and have issued our report thereon dated February 28, 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 School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the basic 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 School's management dated February 28, 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 School's basic 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*.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

Sciotoville Community School
Scioto 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, and Board of Directors. 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 28, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

SCIOTOVILLE COMMUNITY SCHOOL

SCIOTO 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 30, 2006**