



**Auditor of State  
Betty Montgomery**





Mary Taylor, CPA  
Auditor of State

January 9, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

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**SANDY VALLEY LOCAL SCHOOL DISTRICT  
STARK COUNTY**

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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, each 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, 2006, 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, each 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, 2006, 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 December 8, 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.

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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

December 8, 2006



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(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, 2006. 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 2006 are as follows:

- In total, net assets of governmental activities increased \$4,108,991 which represents an 88.79% increase from 2005.
- General revenues accounted for \$16,329,978 in revenue or 88.77% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,066,433 or 11.23% of total revenues of \$18,396,411.
- The District had \$14,287,420 in expenses related to governmental activities; only \$2,066,433 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 \$16,329,978 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund and classroom facilities fund. The general fund had \$12,441,895 in revenues and other financing sources and \$12,671,340 in expenditures and other financing uses. During fiscal 2006, the general fund's fund balance decreased \$229,445 from \$1,681,293 to \$1,451,848.
- Another District major governmental fund is the debt service fund. The debt service fund had \$13,146,647 in revenues and other financing sources and \$12,971,281 in expenditures. During fiscal 2006, the debt service fund's fund balance increased \$175,366 from \$0 to \$175,366.
- The last of the District's major governmental funds is the classroom facilities fund. The classroom facilities fund had \$12,340,279 in revenues and other financing sources and \$758,942 in expenditures. During fiscal 2006, the classroom facilities fund's fund balance increased \$11,581,337 from \$0 to \$11,581,337.

**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, debt service fund and classroom facilities fund are the only governmental funds reported as major funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

The analysis of the District's major governmental funds begins on page 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 major governmental funds are the general fund, debt service fund and classroom facilities 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

***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 - 48 of this report.

**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 2006 and 2005.

	<b>Net Assets</b>	
	Governmental Activities 2006	Governmental Activities 2005
<b><u>Assets</u></b>		
Current and other assets	\$ 46,198,331	\$ 7,033,227
Capital assets	<u>4,726,366</u>	<u>3,736,224</u>
Total assets	<u>50,924,697</u>	<u>10,769,451</u>
<b><u>Liabilities</u></b>		
Current liabilities	28,341,519	4,919,701
Long-term liabilities	<u>13,846,362</u>	<u>1,221,925</u>
Total liabilities	<u>42,187,881</u>	<u>6,141,626</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	4,203,025	3,299,807
Restricted	3,836,154	314,732
Unrestricted	<u>697,637</u>	<u>1,013,286</u>
Total net assets	<u>\$ 8,736,816</u>	<u>\$ 4,627,825</u>

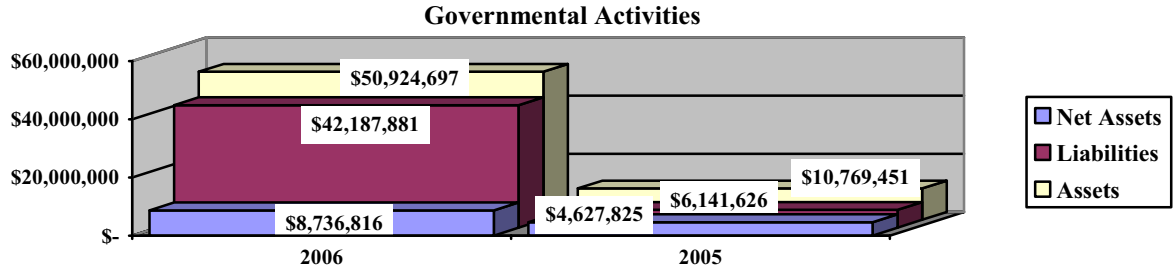
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$8,736,816. Of this total, \$697,637 was unrestricted in its use.

At year-end, capital assets represented 9.28% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$4,203,025. 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

A portion of the District's net assets, \$3,836,154, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$697,637 may be used to meet the District's ongoing obligations to the students and creditors.



The table below shows the change in net assets for fiscal years 2006 and 2005.

**Change in Net Assets**

	Governmental Activities 2006	Governmental Activities 2005
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 975,295	\$ 868,796
Operating grants and contributions	1,091,138	1,069,719
General revenues:		
Property taxes	4,423,004	3,881,210
Grants and entitlements	11,188,202	7,464,076
Investment earnings	493,459	86,995
Other	225,313	69,654
Total revenues	<u>18,396,411</u>	<u>13,440,450</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

**Change in Net Assets**

	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2005</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 5,507,455	\$ 5,572,711
Special	2,041,223	2,009,362
Vocational	390,537	381,523
Adult education	6,238	7,001
Other	373,904	560,083
Support services:		
Pupil	1,109,169	1,116,695
Instructional staff	166,546	193,875
Board of education	12,990	10,939
Administration	1,146,430	1,127,859
Fiscal	326,908	322,207
Business	58,066	14,793
Operations and maintenance	832,316	1,079,135
Pupil transportation	962,604	910,392
Central	29,662	24,430
Operations of non-instructional services	64,256	63,333
Extracurricular activities	414,627	104,934
Food service operations	539,916	497,583
Interest and fiscal charges	<u>304,573</u>	<u>21,997</u>
Total expenses	<u>14,287,420</u>	<u>14,018,852</u>
Change in net assets	4,108,991	(578,402)
Net assets at beginning of year, restated	<u>4,627,825</u>	<u>5,206,227</u>
Net assets at end of year	<u>\$ 8,736,816</u>	<u>\$ 4,627,825</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$4,108,991. Total governmental expenses of \$14,287,420 were offset by program revenues of \$2,066,433 and general revenues of \$16,329,978. Program revenues supported 14.46% 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 84.87% of total governmental revenue.

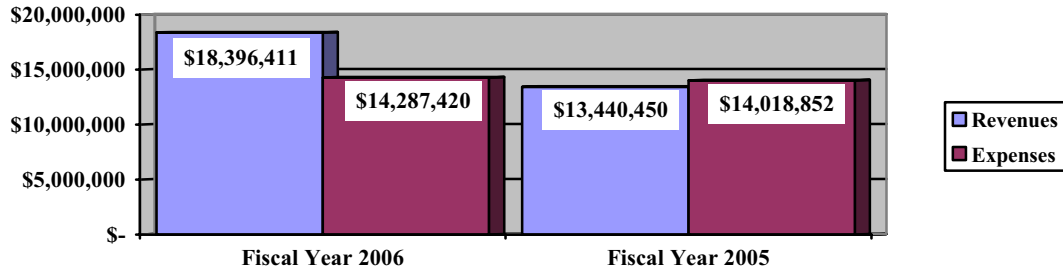
The largest expense of the District is for instructional programs. Instruction expenses totaled \$8,319,357 or 58.23% of total governmental expenses for fiscal 2006.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

**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**

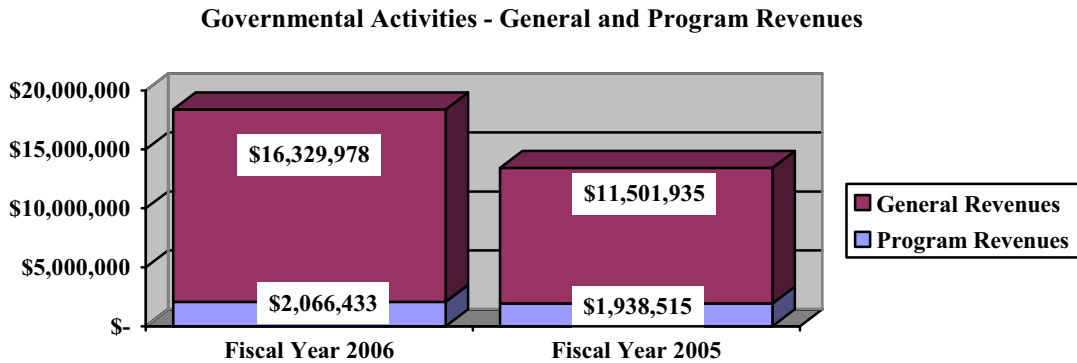
	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
<b>Program expenses</b>				
Instruction:				
Regular	\$ 5,507,455	\$ 4,938,138	\$ 5,572,711	\$ 5,080,485
Special	2,041,223	1,519,942	2,009,362	1,484,434
Vocational	390,537	390,537	381,523	381,523
Adult education	6,238	(1,553)	7,001	91
Other	373,904	253,277	560,083	436,567
Support services:				
Pupil	1,109,169	1,091,751	1,116,695	1,102,857
Instructional staff	166,546	144,877	193,875	171,212
Board of education	12,990	12,990	10,939	10,939
Administration	1,146,430	1,089,729	1,127,859	1,063,765
Fiscal	326,908	323,851	322,207	322,207
Business	58,066	58,066	14,793	14,793
Operations and maintenance	832,316	829,996	1,079,135	1,070,967
Pupil transportation	962,604	961,181	910,392	908,796
Central	29,662	29,662	24,430	24,430
Operations of non-instructional services	64,256	4,687	63,333	6,203
Extracurricular activities	414,627	268,820	497,583	7,372
Food service operations	539,916	463	104,934	(28,301)
Interest and fiscal charges	304,573	304,573	21,997	21,997
<b>Total expenses</b>	<u>\$ 14,287,420</u>	<u>\$ 12,220,987</u>	<u>\$ 14,018,852</u>	<u>\$ 12,080,337</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, 85.35% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.54%. The District's taxpayers, as a whole, are a primary source to support District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.



**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$17,272,370, which is higher than last year's total of \$1,842,724. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance June 30, 2006	Fund Balance June 30, 2005	Increase (Decrease)
General	\$ 1,451,848	\$ 1,681,293	\$ (229,445)
Debt Service	175,366	-	175,366
Classroom Facilities	11,581,337	-	11,581,337
Other Governmental	<u>4,063,819</u>	<u>161,431</u>	<u>3,902,388</u>
Total	<u>\$ 17,272,370</u>	<u>\$ 1,842,724</u>	<u>\$ 15,429,646</u>

**General Fund**

The District's general fund's fund balance decreased \$229,445. The decrease in fund balance can be attributed to expenditures and revenues increasing at approximately the same rate. 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, 2006  
(UNAUDITED)

	<u>2006</u>	<u>2005</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 3,789,885	\$ 3,811,545	(0.57) %
Tuition	413,598	333,004	24.20 %
Earnings on investments	140,891	67,354	109.18 %
Intergovernmental	7,554,744	7,439,686	1.55 %
Other revenues	<u>237,645</u>	<u>117,445</u>	102.35 %
Total	<u>\$ 12,136,763</u>	<u>\$ 11,769,034</u>	3.12 %
<b><u>Expenditures</u></b>			
Instruction	\$ 7,611,317	\$ 7,700,514	(1.16) %
Support services	4,502,684	4,259,260	5.72 %
Extracurricular activities	251,189	242,385	3.63 %
Capital outlay	<u>305,132</u>	<u>-</u>	100.00 %
Total	<u>\$ 12,670,322</u>	<u>\$ 12,202,159</u>	3.84 %

***Debt Service Fund***

Another District major governmental fund is the debt service fund. The debt service fund had \$13,146,647 in revenues and other financing sources and \$12,971,281 in expenditures. During fiscal 2006, the debt service fund's fund balance increased \$175,366 from \$0 to \$175,366.

***Classroom Facilities Fund***

The last of the District's major governmental funds is the classroom facilities fund. The classroom facilities fund had \$12,340,279 in revenues and other financing sources and \$758,942 in expenditures. During fiscal 2006, the classroom facilities fund's fund balance increased \$11,581,337 from \$0 to \$11,581,337.

***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 2006, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$12,096,087, which was greater than the original budgeted revenues and other financing sources of \$11,285,955. Actual revenues and other financing sources for fiscal 2006 was \$12,495,111. This represents a \$399,024 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 \$12,816,380 were increased to \$12,936,097 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$12,905,098, which was \$30,999 less than the final budget appropriations.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2006, the District had \$4,726,366 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

<b>Capital Assets at June 30 (Net of Depreciation)</b>		
<u>Governmental Activities</u>		
	<u>2006</u>	<u>2005</u>
Land	\$ 1,248,658	\$ 1,248,658
Construction in progress	795,854	-
Land improvements	858,344	904,399
Building and improvements	1,215,402	1,268,442
Furniture and equipment	54,792	61,602
Vehicles	<u>553,316</u>	<u>253,123</u>
<b>Total</b>	<b><u>\$ 4,726,366</u></b>	<b><u>\$ 3,736,224</u></b>

Total additions to capital assets for 2006 were \$1,232,129. The total depreciation expense for 2006 was \$224,599. The District had disposals of \$17,388 (net of accumulated depreciation).

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

***Debt Administration***

At June 30, 2006, the District had \$12,928,196 in general obligation bonds, tax anticipation notes and lease purchase agreements outstanding. Of this total, \$375,176 is due within one year and \$12,553,020 is due within greater than one year. The following table summarizes the bonds, notes and leases outstanding.

	<b>Outstanding Debt, at Year End</b>	
	Governmental Activities	Governmental Activities
	<u>2006</u>	<u>2005</u>
General obligation bonds:	\$ 12,404,855	\$ -
Lease purchase agreement	428,341	246,417
Tax anticipation notes	<u>95,000</u>	<u>190,000</u>
<b>Total</b>	<b><u>\$ 12,928,196</u></b>	<b><u>\$ 436,417</u></b>

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(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 OSFC, with input from the District, appointed Hammond Construction, Inc., as the Construction Manager for the building project. Throughout the year, district officials, Hammond, MKC architects, and the OSFC project coordinator met to plan the project. At every crucial stage of planning the Board of Education was consulted and Board action was recommended. The site package bidding is scheduled for October, 2006, trade packages for spring 2007 and completion of the project is now set for fall of 2008.

**Finance**

In May of 2006, the District voters approved a 1.2 mill Permanent Improvement Renewal Levy for five years. Proceeds from this levy will be used to maintain the current infrastructure until the buildings are razed in 2008. The funds will also be used to maintain the transportation department and any remaining structures.

A five year General Operating Emergency Renewal levy, generating \$750,000 annually, is scheduled to be placed on the ballot in November, 2006. The District five year forecast continues to project a deficit in fiscal year 2008-09 and that problem is being addressed by the Board of Education.

**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, 2006

	<b>Primary Government</b>	<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Cardinal Digital Academy</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents. . .	\$ 18,932,283	\$ 95,180
Receivables:		
Taxes . . . . .	4,203,329	-
Accounts . . . . .	33,590	-
Intergovernmental . . . . .	22,654,187	-
Accrued interest . . . . .	133,227	-
Prepayments . . . . .	9,828	391
Materials and supplies inventory. . . . .	6,790	-
Unamortized bond issue costs . . . . .	225,097	-
Capital assets:		
Land. . . . .	1,248,658	-
Construction in progress. . . . .	795,854	-
Depreciable capital assets, net . . . . .	2,681,854	7,674
Total capital assets, net . . . . .	4,726,366	7,674
Total assets. . . . .	50,924,697	103,245
<b>Liabilities:</b>		
Accounts payable. . . . .	62,519	-
Contracts payable . . . . .	136,770	-
Accrued wages and benefits . . . . .	1,332,294	-
Accrued interest payable . . . . .	44,856	-
Intergovernmental payable . . . . .	97,327	81,622
Pension obligation payable. . . . .	302,547	-
Deferred revenue . . . . .	26,365,206	-
Long-term liabilities:		
Due within one year. . . . .	548,590	-
Due within more than one year . . . . .	13,297,772	-
Total liabilities . . . . .	42,187,881	81,622
<b>Net Assets:</b>		
Invested in capital assets, net		
of related debt. . . . .	4,203,025	7,674
Restricted for:		
Capital projects . . . . .	3,407,155	-
Debt service. . . . .	153,951	-
Classroom facilities maintenance . . . . .	41,663	-
State funded programs . . . . .	2,032	1,233
Federally funded programs . . . . .	28,195	-
Student activities . . . . .	50,658	-
Other purposes . . . . .	152,500	-
Unrestricted . . . . .	697,637	12,716
Total net assets . . . . .	\$ 8,736,816	\$ 21,623

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, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Primary Government	Component Unit
				Governmental Activities	Digital Academy
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 5,507,455	\$ 453,435	\$ 115,882	\$ (4,938,138)	\$ -
Special . . . . .	2,041,223	-	521,281	(1,519,942)	-
Vocational . . . . .	390,537	-	-	(390,537)	-
Adult education . . . . .	6,238	7,791	-	1,553	-
Other . . . . .	373,904	83,254	37,373	(253,277)	-
Support services:					
Pupil. . . . .	1,109,169	213	17,205	(1,091,751)	-
Instructional staff . . . . .	166,546	-	21,669	(144,877)	-
Board of education . . . . .	12,990	-	-	(12,990)	-
Administration. . . . .	1,146,430	-	56,701	(1,089,729)	-
Fiscal. . . . .	326,908	-	3,057	(323,851)	-
Business. . . . .	58,066	-	-	(58,066)	-
Operations and maintenance . . . . .	832,316	2,320	-	(829,996)	-
Pupil transportation. . . . .	962,604	-	1,423	(961,181)	-
Central . . . . .	29,662	-	-	(29,662)	-
Operation of non-instructional services . . . . .	64,256	-	59,569	(4,687)	-
Extracurricular activities. . . . .	414,627	145,807	-	(268,820)	-
Food service operations . . . . .	539,916	282,475	256,978	(463)	-
Interest and fiscal charges . . . . .	304,573	-	-	(304,573)	-
Total governmental activities . . . . .	\$ 14,287,420	\$ 975,295	\$ 1,091,138	(12,220,987)	-
<b>Component Unit:</b>					
Cardinal Digital Academy	\$ 302,971	\$ -	\$ 153,040	-	(149,931)
<b>General Revenues:</b>					
Property taxes levied for:					
General purposes . . . . .				3,807,051	-
Debt service. . . . .				408,524	-
Special revenue . . . . .				33,527	-
Capital projects . . . . .				173,902	-
Grants and entitlements not restricted to specific programs. . . . .				7,629,434	157,878
Grants and entitlements restricted for Ohio School Facilities Commission. . . . .				3,558,768	-
Investment earnings . . . . .				493,459	479
Miscellaneous . . . . .				225,313	-
Total general revenues . . . . .				16,329,978	158,357
Change in net assets . . . . .				4,108,991	8,426
<b>Net assets at beginning of year . . . . .</b>				4,627,825	13,197
<b>Net assets at end of year. . . . .</b>				\$ 8,736,816	\$ 21,623

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and cash equivalents . . . . .	\$ 2,784,365	\$ 128,602	\$ 11,712,381	\$ 4,154,435	\$ 18,779,783
Receivables:					
Taxes . . . . .	3,384,631	681,858	-	136,840	4,203,329
Accounts . . . . .	32,742	-	-	848	33,590
Intergovernmental . . . . .	-	-	22,599,763	54,424	22,654,187
Accrued interest . . . . .	12,926	-	84,596	35,705	133,227
Prepayments . . . . .	9,828	-	-	-	9,828
Materials and supplies inventory . . . . .	-	-	-	6,790	6,790
Restricted assets:					
Equity in pooled cash and cash equivalents . . . . .	152,500	-	-	-	152,500
Total assets . . . . .	<u>\$ 6,376,992</u>	<u>\$ 810,460</u>	<u>\$ 34,396,740</u>	<u>\$ 4,389,042</u>	<u>\$ 45,973,234</u>
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 54,663	\$ 300	\$ -	\$ 7,556	\$ 62,519
Contracts payable . . . . .	-	-	131,044	5,726	136,770
Accrued wages and benefits . . . . .	1,219,110	-	-	113,184	1,332,294
Compensated absences payable . . . . .	109,076	-	-	-	109,076
Pension obligation payable . . . . .	285,822	-	-	16,725	302,547
Intergovernmental payable . . . . .	85,890	-	-	11,437	97,327
Deferred revenue . . . . .	3,170,583	634,794	22,684,359	170,595	26,660,331
Total liabilities . . . . .	<u>4,925,144</u>	<u>635,094</u>	<u>22,815,403</u>	<u>325,223</u>	<u>28,700,864</u>
<b>Fund Balances:</b>					
Reserved for encumbrances . . . . .	89,552	-	2,974,254	205,083	3,268,889
Reserved for materials and supplies inventory . . . . .	-	-	-	6,790	6,790
Reserved for property taxes unavailable for appropriation . . . . .	221,341	47,064	-	12,968	281,373
Reserved for prepayments . . . . .	9,828	-	-	-	9,828
Reserved for debt service . . . . .	-	128,302	-	-	128,302
Reserved for capital acquisitions . . . . .	152,500	-	-	-	152,500
Unreserved, undesignated, reported in:					
General fund . . . . .	978,627	-	-	-	978,627
Special revenue funds . . . . .	-	-	-	81,746	81,746
Capital projects funds . . . . .	-	-	8,607,083	3,757,232	12,364,315
Total fund balances . . . . .	<u>1,451,848</u>	<u>175,366</u>	<u>11,581,337</u>	<u>4,063,819</u>	<u>17,272,370</u>
Total liabilities and fund balances . . . . .	<u>\$ 6,376,992</u>	<u>\$ 810,460</u>	<u>\$ 34,396,740</u>	<u>\$ 4,389,042</u>	<u>\$ 45,973,234</u>

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, 2006

<b>Total governmental fund balances</b>		\$ 17,272,370
<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.		4,726,366
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 156,513	
Interest revenue	127,594	
Intergovernmental	11,018	
Total		295,125
Unamortized premiums on bond issuances are not recognized in the funds.		(225,111)
Unamortized bond issuance costs are not recognized in the funds.		225,097
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(44,856)
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	(583,979)	
General obligation bonds	(12,404,855)	
Tax anticipation note	(95,000)	
Lease-purchase	(428,341)	
Total		(13,512,175)
<b>Net assets of governmental activities</b>		<b>\$ 8,736,816</b>

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, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
From local sources:					
Taxes . . . . .	\$ 3,789,885	\$ 385,083	\$ -	\$ 204,786	\$ 4,379,754
Tuition . . . . .	413,598	-	-	7,012	420,610
Earnings on investments . . . . .	140,891	-	62,001	182,106	384,998
Charges for services . . . . .	-	-	-	282,475	282,475
Extracurricular . . . . .	-	-	-	189,607	189,607
Classroom materials and fees . . . . .	39,837	-	-	-	39,837
Other local revenues . . . . .	197,808	-	-	70,271	268,079
Intergovernmental - Intermediate . . . . .	20,360	-	-	-	20,360
Intergovernmental - State . . . . .	7,534,384	33,075	3,558,768	184,499	11,310,726
Intergovernmental - Federal . . . . .	-	-	-	937,236	937,236
Total revenue . . . . .	<u>12,136,763</u>	<u>418,158</u>	<u>3,620,769</u>	<u>2,057,992</u>	<u>18,233,682</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular . . . . .	5,396,750	-	-	118,760	5,515,510
Special . . . . .	1,563,387	-	-	475,393	2,038,780
Vocational . . . . .	390,537	-	-	-	390,537
Adult education . . . . .	-	-	-	6,238	6,238
Other . . . . .	260,643	-	-	112,629	373,272
Support Services:					
Pupil . . . . .	1,074,165	-	-	17,214	1,091,379
Instructional staff . . . . .	150,905	-	-	18,641	169,546
Board of education . . . . .	12,990	-	-	-	12,990
Administration . . . . .	1,097,492	-	-	58,876	1,156,368
Fiscal . . . . .	307,065	7,248	303	3,803	318,419
Business . . . . .	58,066	-	-	-	58,066
Operations and maintenance . . . . .	826,674	-	-	2,955	829,629
Pupil transportation . . . . .	945,665	-	-	1,485	947,150
Central . . . . .	29,662	-	-	-	29,662
Operation of non-instructional services . . . . .	-	-	-	62,253	62,253
Extracurricular activities . . . . .	251,189	-	-	141,211	392,400
Facilities acquisition and construction . . . . .	-	-	758,639	37,215	795,854
Capital outlay . . . . .	305,132	-	-	-	305,132
Food service operations . . . . .	-	-	-	541,292	541,292
Debt service:					
Principal retirement . . . . .	-	12,495,000	-	123,208	12,618,208
Interest and fiscal charges . . . . .	-	241,956	-	12,891	254,847
Bond issue costs . . . . .	-	227,077	-	-	227,077
Total expenditures . . . . .	<u>12,670,322</u>	<u>12,971,281</u>	<u>758,942</u>	<u>1,734,064</u>	<u>28,134,609</u>
Excess of revenues over (under) expenditures . . . . .	<u>(533,559)</u>	<u>(12,553,123)</u>	<u>2,861,827</u>	<u>323,928</u>	<u>(9,900,927)</u>
<b>Other financing sources (uses):</b>					
Premium on bonds . . . . .	-	227,091	-	-	227,091
Sale of bonds . . . . .	-	12,399,985	-	-	12,399,985
Sale of notes . . . . .	-	-	8,719,510	3,680,490	12,400,000
Transfers in . . . . .	-	101,413	-	1,018	102,431
Transfers (out) . . . . .	(1,018)	-	-	(101,413)	(102,431)
Capital lease transaction . . . . .	305,132	-	-	-	305,132
Total other financing sources (uses) . . . . .	<u>304,114</u>	<u>12,728,489</u>	<u>8,719,510</u>	<u>3,580,095</u>	<u>25,332,208</u>
Net change in fund balances . . . . .	(229,445)	175,366	11,581,337	3,904,023	15,431,281
<b>Fund balances at beginning of year . . . . .</b>	<b>1,681,293</b>	<b>-</b>	<b>-</b>	<b>161,431</b>	<b>1,842,724</b>
<b>Decrease in reserve for inventory . . . . .</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,635)</b>	<b>(1,635)</b>
<b>Fund balances at end of year . . . . .</b>	<b><u>\$ 1,451,848</u></b>	<b><u>\$ 175,366</u></b>	<b><u>\$ 11,581,337</u></b>	<b><u>\$ 4,063,819</u></b>	<b><u>\$ 17,272,370</u></b>

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, 2006

<b>Net change in fund balances - total governmental funds</b>	\$	15,431,281
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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 exceed depreciation expense in the current period.		
Capital asset additions	\$ 1,232,129	
Current year depreciation	<u>(224,599)</u>	
Total		1,007,530
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		(17,388)
Governmental funds report expenditures for inventory when purchased. However, on the statement of activities, they are reported as an expense when incurred.		(1,635)
Principal payments on bonds, notes and capital lease obligations are expenditures in the governmental funds, but the repayment reduces long-term liabilities on the statements of net assets.		12,618,208
Proceeds of bonds, notes and lease purchase are recorded as revenue in the governmental funds, however, the proceeds increase long-term liabilities on the statement net assets.		(25,105,117)
Premiums on debt issuances are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance on the statement of activities.		(225,111)
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance on the statement of activities.		225,097
Revenue on the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		
Taxes	43,250	
Intergovernmental revenue	11,018	
Accrued interest	<u>108,461</u>	
Total		162,729
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due.		
Accrued interest	(44,856)	
Accreted interest on capital appreciation bonds	<u>(4,870)</u>	
Total		(49,726)
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.		<u>63,123</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>4,108,991</u></b>

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, 2006

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 3,348,847	\$ 3,589,235	\$ 3,756,724	\$ 167,489
Tuition. . . . .	296,433	317,712	413,598	95,886
Earnings on investments. . . . .	88,637	95,000	114,518	19,518
Classroom materials and supplies . . . . .	32,656	35,000	39,837	4,837
Other local revenues. . . . .	611,255	655,132	517,569	(137,563)
Intergovernmental - Intermediate . . . . .	-	-	20,360	20,360
Intergovernmental - State . . . . .	6,908,127	7,404,008	7,534,384	130,376
Total revenue . . . . .	<u>11,285,955</u>	<u>12,096,087</u>	<u>12,396,990</u>	<u>300,903</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	5,335,508	5,385,346	5,385,346	-
Special. . . . .	1,578,975	1,593,724	1,593,724	-
Vocational. . . . .	385,731	389,334	389,334	-
Other. . . . .	329,870	332,951	332,951	-
Support Services:				
Pupil. . . . .	1,071,168	1,081,174	1,081,174	-
Instructional staff . . . . .	147,108	148,482	148,482	-
Board of education . . . . .	12,847	12,967	12,967	-
Administration. . . . .	1,085,752	1,095,894	1,095,894	-
Fiscal . . . . .	306,038	308,897	307,898	999
Business . . . . .	63,593	64,187	64,187	-
Operations and maintenance. . . . .	849,679	857,616	852,616	5,000
Pupil transportation . . . . .	1,274,866	1,286,774	1,261,774	25,000
Central. . . . .	29,387	29,662	29,662	-
Extracurricular activities. . . . .	247,637	249,950	249,950	-
Total expenditures . . . . .	<u>12,718,159</u>	<u>12,836,958</u>	<u>12,805,959</u>	<u>30,999</u>
Excess of revenues over (under) expenditures. . . . .	<u>(1,432,204)</u>	<u>(740,871)</u>	<u>(408,969)</u>	<u>331,902</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	-	-	52,875	52,875
Transfers (out) . . . . .	(53,394)	(53,893)	(53,893)	-
Advances in. . . . .	-	-	45,246	45,246
Advances (out) . . . . .	(44,827)	(45,246)	(45,246)	-
Total other financing sources (uses) . . . . .	<u>(98,221)</u>	<u>(99,139)</u>	<u>(1,018)</u>	<u>98,121</u>
Net change in fund balance . . . . .	(1,530,425)	(840,010)	(409,987)	430,023
<b>Fund balance at beginning of year. . . . .</b>	3,054,627	3,054,627	3,054,627	-
<b>Prior year encumbrances appropriated . . . . .</b>	170,769	170,769	170,769	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 1,694,971</u>	<u>\$ 2,385,386</u>	<u>\$ 2,815,409</u>	<u>\$ 430,023</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, 2006

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 34,607
Total assets . . . . .	<u>\$ 34,607</u>
<b>Liabilities:</b>	
Due to students. . . . .	\$ 34,607
Total liabilities . . . . .	<u>\$ 34,607</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, 2006

**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 364<sup>th</sup> largest in the State of Ohio (among 615 public school districts) in terms of total enrollment. The District's facilities are staffed by 77 classified employees and 131 certificated employees who provide services to 1,532 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, 2006

**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 Directors 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 38<sup>th</sup> Street NW, Canton, Ohio 44709.

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

*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.

*GOVERNMENTAL FUNDS*

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and principal and interest and certain long-term obligations from governmental resources when the government is obligated in some manner for payment. It is also used to account for the accumulation of resources and payment of general obligation bonds and loans payable.

Classroom Facilities - This fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

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, 2006

**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, 2006

**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, 2006, but which were levied to finance fiscal year 2007 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 this level 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.

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 Commission's 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.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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.

During fiscal year 2006, 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 earning 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 2006 amounted to \$140,891, which includes \$52,554 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**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. The District maintains its capitalization threshold at \$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:

Description	Governmental Activities <u>Estimated Lives</u>
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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**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.

**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, debt service, 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. As of June 30, 2006, net assets restricted by enabling legislation were \$300,627 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, 2006

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

**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.

**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. Unamortized Bond Issuance Costs and Bond Premium**

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Unamortized bond issuance costs are recorded as an asset on the financial statements.

Bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds. Capital appreciation bond discounts are accreted over the term of the bonds.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**S. 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.

**T. 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 2006.

**U. Vocational Education**

The District has entered into a career technical education agreement with the Canton Local School District and the Osnaburg Local School District to provide career technical education programs for students. The Canton Local School District is the principal agency for the programs and is responsible for the physical facilities of the programs. For fiscal year 2006, the District was required to pay the Canton Local School District a service charge equal to \$190,000 reduced by all State aid for District students attending the Canton Local School District for these programs.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles**

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**B. Deficit Fund Balances**

Fund balances at June 30, 2006 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Food service	\$ 45,497
Auxiliary Services	1,060
Management Information Systems	4
Entry Year Grant	92
Poverty Aid	3,067
Improving Teacher Quality	787

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.

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;

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in 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.

**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, 2006, the carrying amount of all District deposits was \$2,774,645. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$2,492,961 of the District's bank balance of \$2,792,961 was exposed to custodial risk as discussed below, while \$300,000 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, 2006, the District had the following investments and maturities:

**SANDY VALLEY LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

<u>Investment type</u>	<u>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>	<u>Greater than 24 months</u>
STAR Ohio	\$ 4,868,695	\$ 4,868,695	\$ -	\$ -	\$ -	\$ -
FHLB	5,962,437	499,220	345,188	2,011,057	3,106,972	-
FNMA	3,863,471	496,720	489,845	1,530,123	426,371	920,412
FHLMC	1,486,464	-	695,072	791,392	-	-
U.S. Government market money	10,003	10,003	-	-	-	-
	<u>\$ 16,191,070</u>	<u>\$ 5,874,638</u>	<u>\$ 1,530,105</u>	<u>\$ 4,332,572</u>	<u>\$ 3,533,343</u>	<u>\$ 920,412</u>

The weighted average maturity of investments is .93 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.

*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, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 4,868,695	30.07
FHLB	5,962,437	36.83
FNMA	3,863,471	23.86
FHLMC	1,486,464	9.18
U.S. Government money market	10,003	0.06
Total investments	<u>\$ 16,191,070</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, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 2,774,645
Investments	16,191,070
Cash on hand	<u>1,175</u>
Total	<u>\$ 18,966,890</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 18,932,283
Agency funds	<u>34,607</u>
Total	<u>\$ 18,966,890</u>



**SANDY VALLEY LOCAL SCHOOL DISTRICT  
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**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers to nonmajor governmental funds from:	
General fund	\$ 1,018
Nonmajor governmental funds	101,413

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.

**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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2004. 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 advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available as an advance at June 30, 2006 was \$221,341 in the general fund, \$47,064 in the debt service fund, \$11,539 in the Permanent Improvement capital projects fund (nonmajor governmental fund) and \$1,429 in the classroom facilities special revenue fund, (nonmajor governmental fund). The amount that was 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).

**SANDY VALLEY LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 6 – PROPERTY TAXES - (Continued)**

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 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.

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second		2006 First	
	Half Collections		Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$ 117,606,560	82.80	\$ 114,770,190	84.65
Public utility personal	8,437,380	5.94	8,437,380	6.22
Tangible personal property	15,992,593	11.26	12,381,456	9.13
<b>Total</b>	<b>\$ 142,036,533</b>	<b>100.00</b>	<b>\$ 135,589,026</b>	<b>100.00</b>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$41.90		\$42.40	
Permanent improvements	2.00		2.00	
Bonded debt	-		5.40	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2006 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	\$ 4,203,329
Accounts	33,590
Intergovernmental	22,654,187
Accrued interest	133,227
<b>Total</b>	<b>\$ 27,024,333</b>

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  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance 06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/06</u>
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,248,658	\$ -	\$ -	\$ 1,248,658
Construction in progress	-	795,854	-	795,854
Total capital assets, not being depreciated	<u>1,248,658</u>	<u>795,854</u>	<u>-</u>	<u>2,044,512</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,401,566	-	-	1,401,566
Building and improvements	3,773,999	-	-	3,773,999
Furniture and equipment	191,612	-	-	191,612
Vehicles	<u>1,097,071</u>	<u>436,275</u>	<u>(210,864)</u>	<u>1,322,482</u>
Total capital assets, being depreciated	<u>6,464,248</u>	<u>436,275</u>	<u>(210,864)</u>	<u>6,689,659</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(497,167)	(46,055)	-	(543,222)
Building and improvements	(2,505,557)	(53,040)	-	(2,558,597)
Furniture and equipment	(130,010)	(6,810)	-	(136,820)
Vehicles	<u>(843,948)</u>	<u>(118,694)</u>	<u>193,476</u>	<u>(769,166)</u>
Total accumulated depreciation	<u>(3,976,682)</u>	<u>(224,599)</u>	<u>193,476</u>	<u>(4,007,805)</u>
Governmental activities capital assets, net	<u>\$ 3,736,224</u>	<u>\$ 1,007,530</u>	<u>\$ (17,388)</u>	<u>\$ 4,726,366</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 70,526
<u>Support Services:</u>	
Instructional staff	897
Operations and maintenance	1,130
Pupil transportation	128,838
Extracurricular activities	22,227
Food service operations	<u>981</u>
Total depreciation expense	<u>\$ 224,599</u>

**SANDY VALLEY LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 9 - LEASE PURCHASE AGREEMENT - LESSEE DISCLOSURE**

During the year, the District entered into a lease purchase agreement for school buses. 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.

Capital assets consisting of land improvements and vehicles have been capitalized in the amount of \$369,625 and \$305,132, respectively. These amounts represent the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2006 for land improvements and vehicles was \$18,566 and \$19,390, respectively, leaving a current book value of \$351,059 and \$285,742, respectively. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2006 totaled \$123,208 paid by the general fund.

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, 2006:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 194,357
2008	66,865
2009	66,823
2010	66,780
2011	<u>66,736</u>
Total minimum lease payments	461,561
Less amount representing interest	<u>(33,220)</u>
Total	<u>\$ 428,341</u>

**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, 2006:

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Outstanding 06/30/05</u>	<u>Retired in 2006</u>	<u>Outstanding 06/30/06</u>
Tax anticipation notes	4.50%	11/01/01	12/01/06	<u>\$ 190,000</u>	<u>\$ (95,000)</u>	<u>\$ 95,000</u>
Total				<u>\$ 190,000</u>	<u>\$ (95,000)</u>	<u>\$ 95,000</u>

**SANDY VALLEY LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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>
2007	<u>\$ 95,000</u>	<u>\$ 2,138</u>	<u>\$ 97,138</u>

- B.** On March 29, 2006, the District issued \$12,399,985 in general obligations bonds (Series 2006 School Facilities Construction and Improvement Bonds). The bond issue represents the District's local share and local funded initiatives of a construction project approved and significantly funded by the Ohio School Facilities Commission (OSFC). The OSFC has awarded the District a \$26,158,531 grant for the project, and will make quarterly disbursements to the District until the project is completed. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to this bond issue are recorded as an expenditure in the debt service fund. The source of payment is denied from a 5.4 mill bonded debt tax levy. In conjunction with the 5.4 mills which support the bond issue, the District also passed in fiscal 2006 a .5 mill levy to ultimately fund the maintenance costs of the new facilities. Tax revenue from this levy have been reported in the special revenue funds.

This issue is comprised of both current interest bonds, par value \$12,220,000, and capital appreciation bonds, par value \$730,000. The interest rates on the current interest bonds range from 3.50% to 4.25%. The capital appreciation bonds mature on December 1, 2014 (effective interest rate of 15.86%), December 1, 2015 (effective interest rate of 15.86%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2006 is \$179,985. A total of \$4,870 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2006.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2033.

The following is a schedule of activity for fiscal 2006 on the 2006 series general obligation bonds:

	<u>Balance 06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 06/30/06</u>
Current interest bonds	\$ -	\$ 12,220,000	\$ -	\$ 12,220,000
Capital appreciation bonds	-	184,855	-	184,855
Total G.O. bonds	<u>\$ -</u>	<u>\$ 12,404,855</u>	<u>\$ -</u>	<u>\$ 12,404,855</u>

**SANDY VALLEY LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

The following is a summary of the future debt service requirements to maturity for the 2006 series general obligation bonds:

Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 100,000	\$ 610,157	\$ 710,157	\$ -	\$ -	\$ -
2008	245,000	514,219	759,219	-	-	-
2009	265,000	505,294	770,294	-	-	-
2010	280,000	495,756	775,756	-	-	-
2011	325,000	485,169	810,169	-	-	-
2012 - 2016	1,070,000	2,254,375	3,324,375	179,985	550,015	730,000
2017 - 2021	2,055,000	1,987,141	4,042,141	-	-	-
2022 - 2026	2,505,000	1,507,546	4,012,546	-	-	-
2027 - 2031	3,135,000	872,109	4,007,109	-	-	-
2032 - 2034	2,240,000	154,125	2,394,125	-	-	-
<b>Total</b>	<b>\$ 12,220,000</b>	<b>\$ 9,385,891</b>	<b>\$ 21,605,891</b>	<b>\$ 179,985</b>	<b>\$ 550,015</b>	<b>\$ 730,000</b>

C. On December 28, 2005, the District issued \$12,400,000 in bond anticipation notes to begin the building project. The notes matured on June 20, 2006. The notes were retired using the proceeds from the District's \$12,399,985 bond issue on March 29, 2006.

D. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	Balance 06/30/05	Additions	Reductions	Balance 06/30/06	Amounts Due in One Year
<b>Governmental Activities</b>					
General obligation bonds	\$ -	\$ 12,404,855	\$ -	\$ 12,404,855	\$ 100,000
Lease purchase agreement	246,417	305,132	(123,208)	428,341	180,176
Compensated absences payable	785,508	104,002	(196,455)	693,055	173,414
Tax anticipation note	190,000	-	(95,000)	95,000	95,000
Bond anticipation note	-	12,400,000	(12,400,000)	-	-
Total governmental activities long-term liabilities	<u>\$ 1,221,925</u>	<u>\$ 25,213,989</u>	<u>\$ (12,814,663)</u>	<u>\$ 13,621,251</u>	<u>\$ 548,590</u>
Add: unamortized premium				225,111	
Total on statement of net assets				<u>\$ 13,846,362</u>	

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

**E. 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.

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

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$178,378 and an unvoted debt margin of \$135,589.

**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, 2006 and reduced to the maximum payment allowed by labor contracts (58 days for classified and 71 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 2006, 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	\$26,845,915	\$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

**SANDY VALLEY LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 12 - RISK MANAGEMENT - (Continued)**

<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Deductible</u>
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.

**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.A.) 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 100% of administrative employee's medical premiums, 90% of all other employee's medical premiums 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.A.). 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.



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

The District 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 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 (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 11.70 percent of annual covered salary was the portion used to fund pension obligations. 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 statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$183,098, \$162,043 and \$132,780, respectively; 44.23% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$102,121 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

**B. State Teachers Retirement System**

The District 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.

**SANDY VALLEY LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 13 - PENSION PLANS - (Continued)**

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$841,203, \$808,547 and \$761,557, respectively; 83.62% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$137,778 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2006 were \$18,152 made by the District and \$21,527 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, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), 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 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 health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$64,708 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)**

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.

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, 2006, employer contributions to fund health care benefits were 2.30 percent of covered payroll, a decrease of 1.13 percent from fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$66,911 to fund health care benefits, including the surcharge.

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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

**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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

	<u>General Fund</u>
Budget basis	\$ (409,987)
Net adjustment for revenue accruals	(260,227)
Net adjustment for expenditure accruals	(2,279)
Net adjustment for other financing sources/(uses)	305,132
Adjustment for encumbrances	137,916
GAAP basis	\$ (229,445)

**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.

**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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 17 - STATUTORY RESERVES - (Continued)**

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ (942,859)	\$ 91,634
Current year set-aside requirement	228,778	228,778
Current year offsets	-	(167,912)
Qualifying disbursements	<u>(319,107)</u>	<u>-</u>
Total	<u>\$ (1,033,188)</u>	<u>\$ 152,500</u>
Balance carried forward to FY 2007	<u>\$ (1,033,188)</u>	<u>\$ 152,500</u>

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, 2006 follows:

Amount restricted for capital acquisition	\$ <u>152,500</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 2006 rental costs on the operating leases were \$97,692.

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

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$ 97,692
2008	92,489
2009	<u>22,609</u>
Total minimum rental payments	<u>\$ 212,790</u>

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**SANDY VALLEY LOCAL SCHOOL DISTRICT  
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	Not Applicable	10.550		\$38,612		\$38,612
Child Nutrition Cluster:						
National School Lunch Program	Not Applicable	10.555	\$175,216		\$175,216	
Breakfast Program	Not Applicable	10.553	39,723		39,723	
Total Child Nutrition Cluster			<u>214,939</u>		<u>214,939</u>	
Total U.S. Department of Agriculture			<u>214,939</u>	<u>38,612</u>	<u>214,939</u>	<u>38,612</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	049940-6BSF-2006	84.027	304,034		282,277	
Total Special Education Grants to State	049940-6BSF-2005		<u>22,931</u>		<u>39,930</u>	
			326,965		322,207	
Title I Grants to Local Educational Agencies	049940-C1S1-2006	84.010	245,537		229,546	
Total Title I Grants to Local Educational Agencies	049940-C1S1-2005		<u>29,040</u>		<u>37,931</u>	
			274,577		267,477	
Improving Teacher Quality State Grants	049940-TRS1-2006	84.367	77,984		72,560	
Total Improving Teacher Quality State Grants	049940-TRS1-2005		<u>3,328</u>		<u>12,319</u>	
			81,312		84,879	
Education Technology State Grants	049940-TJS1-2005	84.318	4751		3866	
	049940-TJS1-2005		<u>(277)</u>		<u>158</u>	
			4,474		4,024	
State Grants for Innovative Programs	049940-C2S1-2006	84.298	4,832		4,832	
	049940-C2S1-2005		<u>4,832</u>		<u>581</u>	
			4,832		5,413	
Advanced Placement Program	049940-AVTF-2004	84.330	468			
Safe and Drug Free Schools and Communities State Grants	049940-DRWS1-2006	84.186	9,617		8,197	
	049940-DRWS1-2005		<u>1,197</u>		<u>3,131</u>	
			10,814		11,328	
Total U.S. Department of Education			<u>703,442</u>		<u>695,328</u>	
<b>TOTAL</b>			<u><u>\$918,381</u></u>	<u><u>\$38,612</u></u>	<u><u>\$910,267</u></u>	<u><u>\$38,612</u></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, 2006**

**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 – FOOD DISTRIBUTION PROGRAM**

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 non-monetary 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, each 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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 8, 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 December 8, 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

December 8, 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, 2006. 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, 2006. 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, 2006, 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, 2006.

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### **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

December 8, 2006

**SANDY VALLEY LOCAL SCHOOL DISTRICT  
STARK COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006**

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

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Title I, CFDA #84.010
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	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  
JANUARY 16, 2007**