

Scioto Valley Local School District

Pike County, Ohio

Single Audit

July 1, 2005 Through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

BALESTRA, HARR & SCHERER, CPAs, Inc.

528 S. WEST STREET, P.O. Box 687
PIKETON, OHIO 45661

TELEPHONE (740) 289-4131

FAX (740) 289-3639

www.bhscpas.com



Mary Taylor, CPA

Auditor of State

Board of Education
Scioto Valley Local School District
P.O. Box 600
Piketon, Ohio 45661

We have reviewed the *Independent Auditor's Report* of the Scioto Valley Local School District, Pike County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Finding For Recovery

Ohio Rev. Code Section 3315.062(B) requires that monies received from a student activity program in excess of fifty dollars per year be paid into an activity fund. The Board of Education is required to adopt regulations governing the establishment and maintenance of such funds, including a system of accounting to separate and verify each transaction and to show the sources from which the fund revenue is received, the amount collected from each source, and the amount expended for each purpose. Expenditures from such funds are subject to the approval of the Board of Education. According to the *Guidelines for Developing Policies for Student Activity Programs*, developed by the Auditor of State in compliance with the Ohio Administrative Code, the duties and responsibilities of the advisors/sponsors are at the direction of the Board of Education and should consist of, among others, supervising the activities of the activity group, including preparation of fund raising potentials, proofs of cash, and other appropriate documentation.

The Junior High Cheerleader student activity program, of which Angela Southworth was the advisor, conducted a Cookie Dough Sale for an ongoing fundraiser throughout the school year. Generally, receipts collected from the fundraising event were deposited with the School District's Treasurer. However, Ms. Southworth's records indicate more was collected from the aforementioned fundraising events than deposited with the School District's Treasurer. The amount posted to the books could not be reconciled to the amount projected to be collected based on cookie dough sales, the car wash, deposits, and the balance owed from cheerleaders. The net effect was a shortage of \$2,394.35 as noted below.

Projection vs. Collection:

Cookie Dough Sales	\$ 8,857.50
Car Wash	218.33
Deposits	750.00
Balance Owed from Cheerleaders	2,400.22
One Cheerleader did not attend Camp	<u>(100.00)</u>
Projected Collections	12,126.05
Less: Actual Collections	<u>9,731.70</u>
	<u><u>\$ 2,394.35</u></u>

No additional support or explanation was received for the variance between the projected and actual amount collected from these activities.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery is hereby issued for monies collected but not accounted for against Angela Southworth, Junior High Cheerleader Advisor, and the Cincinnati Insurance Company, her bonding company, jointly and severally, in the amount of \$2,394.35, in favor of the Junior High Cheerleader Student Activity Fund of the Scioto Valley Local School District.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Scioto Valley Local School District is responsible for compliance with these laws and regulations.



Mary Taylor, CPA
Auditor of State

March 12, 2007

Scioto Valley Local School District
Pike County, Ohio

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BALESTRA, HARR & SCHERER, CPAs, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Scioto Valley Local School District
P.O. Box 600
Piketon, Ohio 45661

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Scioto Valley Local School District (the School District), Pike County, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 remaining fund information of the School District, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable and the respective budgetary comparison for the general fund thereof, 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 November 17, 2006 on our consideration of the School 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. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying Schedule of Federal Awards Expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Scioto Valley Local School District
Pike County
Independent Auditors' Report
Page 2

As described in Note 3, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting & Financial Reporting for Impairment of Capital Assets*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
November 17, 2006

Scioto Valley Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The discussion and analysis of the Scioto Valley Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2006 are as follows:

- Net assets of governmental activities decreased \$1,668,225.
- General revenues accounted for \$10,712,497 in revenue or 73% of all revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$4,018,707 or 27% of total revenues of \$14,731,204.
- The School District had \$16,399,429 in expenses related to governmental activities; only \$4,018,707 of these expenses were offset by program specific charges for services, grants and contributions.

USING THIS ANNUAL FINANCIAL REPORT

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 Scioto Valley Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School 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 as the School District's most significant funds with all other non-major funds presented in total in one column.

Scioto Valley Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

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

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School 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 School 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, all of the School District's programs and services are reported as governmental activities including instruction, support services, operation of non instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 7. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the General Fund.

Governmental Funds Most of the School 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 fiscal 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 that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general governmental 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 financial statements.

Fiduciary Funds The School District's fiduciary funds are agency funds. All of the School District's fiduciary funds are reported in a separate Statement of Fiduciary Assets and Liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature (assets equal liabilities) and do not involved measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

Scioto Valley Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2006 compared to 2005.

Table 1 Net Assets		Table 1 Governmental Activities	
	2006	2005	
Assets			
Current and Other Assets	\$11,649,441	\$11,860,188	
Capital Assets	<u>27,615,350</u>	<u>28,880,959</u>	
Total Assets	<u>39,264,791</u>	<u>40,741,147</u>	
Liabilities			
Long-term Liabilities	1,632,597	1,792,140	
Other Liabilities	<u>4,537,859</u>	<u>4,186,447</u>	
Total Liabilities	<u>6,170,456</u>	<u>5,978,587</u>	
Net Assets			
Invested in Capital Assets, Net of Debt	26,661,268	27,702,054	
Restricted	716,835	795,024	
Unrestricted	<u>5,716,232</u>	<u>6,265,482</u>	
Total Net Assets	<u>\$33,094,335</u>	<u>\$34,762,560</u>	

Total net assets of the District as a whole decreased \$1,668,225. This decrease is due mainly to the decrease in capital assets as a result of current year depreciation expense.

Scioto Valley Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2006 and June 30, 2005.

Table 2
Changes in Net Assets

	Governmental Activities	
	2006	2005
Revenues		
Program Revenues		
Charges for Services and Sales	\$276,844	\$276,806
Operating Grants and Contributions	3,724,583	3,320,287
Capital Grants and Contributions	17,280	300,000
Total Program Revenues	<u>4,018,707</u>	<u>3,897,093</u>
General Revenues		
Property Taxes	2,288,136	2,207,999
Grants and Entitlements	8,074,651	9,538,338
Investment Earnings	316,137	165,931
Miscellaneous	33,573	150,482
Total General Revenues	<u>10,712,497</u>	<u>12,062,750</u>
Total Revenues	<u>14,731,204</u>	<u>15,959,843</u>
Program Expenses		
Instruction:		
Regular	7,134,988	7,716,452
Special	1,845,593	1,624,175
Vocational	0	3,063
Other	1,316	14,272
Support Services:		
Pupil	691,007	589,844
Instructional Staff	763,546	789,767
Board of Education	17,749	14,700
Administration	1,231,892	1,296,656
Fiscal	296,921	295,871
Business	826	413
Operation and Maintenance of Plant	1,894,329	1,950,368
Pupil Transportation	1,186,059	1,350,037
Central	127,962	185,860
Operation of Non-Instructional Services	632,558	605,768
Extracurricular Activities	472,549	504,969
Intergovernmental	59,940	58,544
Interest and Fiscal Charges	42,194	253,284
Total Expenses	<u>16,399,429</u>	<u>17,254,043</u>
Decrease in Net Assets	(1,668,225)	(1,294,200)
Net Assets, Beginning of Year	<u>34,762,560</u>	<u>36,056,760</u>
Net Assets, End of Year	<u>\$ 33,094,335</u>	<u>\$ 34,762,560</u>

The decrease in regular instruction is attributed to the decrease in expenditures for non-capitalized assets during the current year as compared to the prior year. The decrease to unrestricted grants and entitlements is due to a decrease in state funding received by the district as compared to the prior year.

Scioto Valley Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The Statement of Activities shows the cost of program services and the charges for services, grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	<u>2006</u>		<u>2005</u>	
Program Expenses				
Instruction:				
Regular	\$7,134,988	\$6,541,007	\$7,716,452	\$6,952,966
Special	1,845,593	697,846	1,627,238	555,198
Other	1,316	1,316	14,272	14,245
Support Services:				
Pupil	691,007	597,492	589,844	497,604
Instructional Staff	763,546	385,497	789,767	414,938
Board of Education	17,749	17,718	14,700	14,673
Administration	1,231,892	1,211,877	1,296,656	1,276,936
Fiscal	296,921	266,849	295,871	282,009
Business	826	826	413	413
Operation and Maintenance of Plant	1,894,329	1,771,249	1,950,368	1,828,684
Pupil Transportation	1,186,059	561,582	1,350,037	717,837
Central	127,962	93,840	185,860	93,783
Operation of Non-Instructional Services	632,558	(69,603)	605,768	68,712
Extracurricular Activities	472,549	296,488	504,969	415,505
Intergovernmental	59,940	6,738	58,544	5,797
Interest and Fiscal Charges	42,194	0	253,284	217,650
Total	<u>\$16,399,429</u>	<u>\$12,380,722</u>	<u>\$17,254,043</u>	<u>\$13,356,950</u>

THE SCHOOL DISTRICT FUNDS

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$14,844,636 and expenditures and other financing uses of \$15,394,780. As previously discussed, the School District remains financially stable in terms of healthy carryovers, ability to pay bills, and has no current operating levy needs.

The fund balance of the General fund decreased \$535,419. This fund balance decrease is due to a decline in revenues for the current year from the prior year while expenditures remained constant between the two fiscal years.

Scioto Valley Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

General Fund Budgeting Highlights

The School 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 year 2006, the School District amended its General Fund budget.

For the General Fund, final budget basis revenue was \$11,816,266, which was above original estimates of \$11,772,416. These increases were primarily in the areas of property and other local taxes and interest. For the General Fund, final budget basis expenditures were \$12,314,700, which was below original estimates of \$13,367,593. These decreases were primarily in the areas of regular and special instruction, administrative and pupil transportation support services, and capital outlay. This difference is due to over budgeting by the district for capital outlay, regular instruction and pupil transportation.

The School District's ending unobligated General Fund cash balance was \$7,380,060.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006, the School District had \$27,615,350 invested in land, land improvements, buildings and building improvements, furniture and equipment, vehicles, library books and textbooks, and infrastructure. For additional information on capital assets, see Note 9 to the basic financial statements. Table 4 shows fiscal year 2006 balances compared to 2005.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2006	2005
Land and Land Improvements	\$3,712,287	\$3,870,462
Buildings and Improvements	22,487,494	23,338,206
Furniture and Equipment	504,423	533,149
Vehicles	689,077	834,112
Library and Textbooks	78,840	158,814
Infrastructure	143,229	146,216
Totals	\$27,615,350	\$28,880,959

Changes are a result of current year additions and depreciation.

Debt

At June 30, 2006, the School District had general obligation bonds outstanding of \$935,000. The bonds were issued to refund the classroom facilities general obligation bonds for school construction. For additional information on debt, see Note 13 to the basic financial statements.

Scioto Valley Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Megan Williams, Treasurer, at Scioto Valley Local School District, P.O. Box 600, Piketon, Ohio 45661.

Scioto Valley Local School District
Statement of Net Assets
June 30, 2006

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$8,619,166
Cash and Cash Equivalents with Fiscal Agents	20,000
Accrued Interest Receivable	13,525
Accounts Receivable	10,422
Intergovernmental Receivable	130,975
Property Taxes Receivable	2,855,353
Nondepreciable Capital Assets	830,500
Depreciable Capital Assets, Net	26,784,850
<i>Total Assets</i>	39,264,791
Liabilities	
Accounts Payable	163,507
Accrued Wages and Benefits Payable	1,265,472
Accrued Interest Payable	12,482
Matured Bonds and Interest Payable	20,000
Claims Payable	289,000
Deferred Revenue	2,251,468
Intergovernmental Payable	535,930
Long-Term Liabilities:	
Due Within One Year	119,038
Due In More Than One Year	1,513,559
<i>Total Liabilities</i>	6,170,456
Net Assets	
Invested in Capital Assets, Net of Related Debt	26,661,268
Restricted for:	
Capital Projects	6,791
Debt Service	430,936
Other Purposes	279,108
Unrestricted	5,716,232
Total Net Assets	\$33,094,335

See accompanying notes to the basic financial statements

Scioto Valley Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Program Revenues				Net (Expense)
	Expenses	Charges for	Operating Grants	Capital	Revenue and
		Services and Sales	and Contributions	Grants and Contributions	Changes in
					Net Assets
Governmental Activities					Governmental Activities
Instruction:					
Regular	\$7,134,988	\$13,110	\$578,123	\$2,748	(\$6,541,007)
Special	1,845,593	2,934	1,144,813	0	(697,846)
Other	1,316	0	0	0	(1,316)
Support Services:					
Pupil	691,007	1,620	91,895	0	(597,492)
Instructional Staff	763,546	795	377,254	0	(385,497)
Board of Education	17,749	31	0	0	(17,718)
Administration	1,231,892	3,087	16,928	0	(1,211,877)
Fiscal	296,921	703	29,369	0	(266,849)
Business	826	0	0	0	(826)
Operation and Maintenance of Plant	1,894,329	4,584	118,496	0	(1,771,249)
Pupil Transportation	1,186,059	2,689	621,788	0	(561,582)
Central	127,962	244	19,346	14,532	(93,840)
Operation of Non-Instructional					
Services	632,558	160,463	541,698	0	69,603
Extracurricular Activities	472,549	86,584	89,477	0	(296,488)
Intergovernmental	59,940	0	53,202	0	(6,738)
Interest and Fiscal Charges	42,194	0	42,194	0	0
Total Governmental Activities	\$16,399,429	\$276,844	\$3,724,583	\$17,280	(12,380,722)
General Revenues					
Property Taxes Levied for:					
General Purposes					2,097,562
Debt Service					147,079
Classroom Facilities Maintenance					43,495
Grants and Entitlements not Restricted to Specific Programs					8,074,651
Investment Earnings					316,137
Miscellaneous					33,573
Total General Revenues					10,712,497
Change in Net Assets					(1,668,225)
Net Assets Beginning of Year (Restated - See Note 3)					34,762,560
Net Assets End of Year					\$33,094,335

See accompanying notes to the basic financial statements

Scioto Valley Local School District
Balance Sheet
Governmental Funds
June 30,2006

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$7,595,285	\$1,023,881	\$8,619,166
Cash and Cash Equivalents with Fiscal Agents	0	20,000	20,000
Receivables:			
Accrued Interest	13,525	0	13,525
Property Taxes	2,570,041	285,312	2,855,353
Accounts	9,618	804	10,422
Intergovernmental	0	130,975	130,975
<i>Total Assets</i>	<u>\$10,188,469</u>	<u>\$1,460,972</u>	<u>\$11,649,441</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$133,133	\$30,374	\$163,507
Accrued Wages and Benefits Payable	1,008,936	256,536	1,265,472
Matured Bonds and Interest Payable	0	20,000	20,000
Intergovernmental Payable	444,901	91,029	535,930
Deferred Revenue	2,281,636	263,837	2,545,473
<i>Total Liabilities</i>	<u>3,868,606</u>	<u>661,776</u>	<u>4,530,382</u>
Fund Balances			
Reserved for Encumbrances	139,080	19,676	158,756
Reserved for Property Taxes	151,496	10,867	162,363
Unreserved, Undesignated, Reported in:			
General Fund	6,029,287	0	6,029,287
Special Revenue Funds	0	356,405	356,405
Debt Service Funds	0	408,254	408,254
Capital Projects Funds	0	3,994	3,994
<i>Total Fund Balances</i>	<u>6,319,863</u>	<u>799,196</u>	<u>7,119,059</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$10,188,469</u>	<u>\$1,460,972</u>	<u>\$11,649,441</u>

See accompanying notes to the basic financial statements

Scioto Valley Local School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2006*

Total Governmental Fund Balances		\$7,119,059
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		27,615,350
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes		278,689
Intergovernmental		15,316
An internal service fund is used by management to charge the cost of insurance to individuals. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		(289,000)
Long-Term Liabilities, including bonds, capital lease obligations, and the long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
Accrued Interest Payable	(12,482)	
Compensated Absences	(678,515)	
Capital Lease Obligations	(19,082)	
General Obligation Bonds	<u>(935,000)</u>	
Total		<u>(1,645,079)</u>
Net Assets of Governmental Activities		<u><u>\$33,094,335</u></u>

See accompanying notes to the basic financial statements

Scioto Valley Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$2,093,241	\$209,594	\$2,302,835
Intergovernmental	9,272,726	2,554,246	11,826,972
Investment Earnings	315,481	656	316,137
Rent	18,684	0	18,684
Tuition and Fees	11,877	0	11,877
Extracurricular Activities	0	85,820	85,820
Gifts and Donations	225	4,633	4,858
Customer Sales and Services	0	160,463	160,463
Miscellaneous	24,958	8,615	33,573
<i>Total Revenues</i>	<u>11,737,192</u>	<u>3,024,027</u>	<u>14,761,219</u>
Expenditures			
Current:			
Instruction:			
Regular	5,034,430	717,568	5,751,998
Special	1,134,677	706,337	1,841,014
Other	1,316	0	1,316
Support Services:			
Pupil	624,541	64,673	689,214
Instructional Staff	307,987	420,272	728,259
Board of Education	17,749	0	17,749
Administration	1,204,740	18,668	1,223,408
Fiscal	267,017	22,851	289,868
Operation and Maintenance of Plant	1,791,215	84,880	1,876,095
Pupil Transportation	1,040,039	0	1,040,039
Central	98,297	29,665	127,962
Operation of Non-Instructional Services	297,300	607,835	905,135
Extracurricular Activities	282,649	90,644	373,293
Intergovernmental	0	59,940	59,940
Capital Outlay	0	108,556	108,556
Debt Service:			
Principal	74,823	150,000	224,823
Interest and Fiscal Charges	1,914	40,280	42,194
<i>Total Expenditures</i>	<u>12,178,694</u>	<u>3,122,169</u>	<u>15,300,863</u>
<i>Excess of Revenues Over/(Under) Expenditures</i>	<u>(441,502)</u>	<u>(98,142)</u>	<u>(539,644)</u>
Other Financing Sources (Uses)			
Operating Transfers In	0	83,417	83,417
Operating Transfers Out	(93,917)	0	(93,917)
<i>Total Other Financing Sources/(Uses)</i>	<u>(93,917)</u>	<u>83,417</u>	<u>(10,500)</u>
<i>Net Change in Fund Balances</i>	(535,419)	(14,725)	(550,144)
<i>Fund Balances Beginning of Year</i>	<u>6,855,282</u>	<u>813,921</u>	<u>7,669,203</u>
<i>Fund Balances End of Year</i>	<u>\$6,319,863</u>	<u>\$799,196</u>	<u>\$7,119,059</u>

See accompanying notes to the basic financial statements

Scioto Valley Local School District
*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*

Net Change in Fund Balances - Total Governmental Funds (\$550,144)

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

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

Capital Asset Additions	101,325	
Current Year Depreciation	(1,366,934)	
Total	(1,265,609)	(1,265,609)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Taxes	(14,699)	
Intergovernmental	(15,316)	
Total	(30,015)	(30,015)

Repayment of bond principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.

150,000

Repayment of capital leases obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.

74,823

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

18,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Increase in Compensated Absences	(65,280)	
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Total	(65,280)	(65,280)
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Net Change in Net Assets of Governmental Activities (\$1,668,225)

See accompanying notes to the basic financial statements

Scioto Valley Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
(Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget: Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Total Revenues and Other Sources	\$11,772,416	\$11,816,226	\$11,838,414	\$22,188
Total Expenditures and Other Uses	<u>13,367,593</u>	<u>12,314,705</u>	<u>12,314,705</u>	<u>0</u>
Net Change in Fund Balance	(1,595,177)	(498,479)	(476,291)	22,188
Fund Balance, July 1, 2005	7,533,918	7,533,918	7,533,918	0
Prior Year Encumbrances Appropriated	<u>322,433</u>	<u>322,433</u>	<u>322,433</u>	<u>0</u>
Fund Balance, June 30, 2006	<u>\$6,261,174</u>	<u>\$7,357,872</u>	<u>\$7,380,060</u>	<u>\$22,188</u>

See accompanying notes to the basic financial statements

Scioto Valley Local School District
Statement of Fund Net Assets
Governmental Activities - Internal Service Fund
as of June 30, 2006

	Internal Service Fund
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$0
<i>Total Assets</i>	0
LIABILITIES:	
Current Liabilities:	
Claims Payable	289,000
<i>Total Liabilities</i>	289,000
NET ASSETS:	
Unrestricted	(\$289,000)

See accompanying notes to the basic financial statements

Scioto Valley Local School District
*Statement of Revenues, Expenses and
 Changes In Fund Net Assets*
 Governmental Activities - Internal Service Fund
 For the Fiscal Year Ended June 30, 2006

	Internal Service Fund
Operating Revenues:	
Charges for Services	\$2,024,484
<i>Total Operating Revenues</i>	2,024,484
Operating Expenses:	
Purchased Services	299,378
Claims Expense	1,717,606
<i>Total Operating Expenses</i>	2,016,984
Income Before Transfers	7,500
Transfers-In	10,500
Net Change in Net Assets	18,000
Net Assets/(Deficit) at Beginning of Year	(307,000)
Net Assets/(Deficit) at End of Year	(\$289,000)

See accompanying notes to the basic financial statements

Scioto Valley Local School District
Statement of Cash Flows
Governmental Activities - Internal Service Fund
For the Fiscal Year Ended June 30, 2006

	Internal Service Fund
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
<i>Cash Flows from Operating Activities:</i>	
Cash Received from Transaction with Other Funds	\$2,024,484
Cash Payments to Suppliers for Services	(299,378)
Cash Payments for Claims	(1,735,606)
<i>Net Cash Used for Operating Activities</i>	(10,500)
<i>Cash Flows from Non-capital Financing Activities:</i>	
Transfers-In	10,500
Cash and Cash Equivalents at Beginning of Year	0
Cash and Cash Equivalents at End of Year	\$0
<i>Reconciliation of Operating Income to Net Cash Used by Operating Activities</i>	
Operating Income	\$7,500
<i>Changes in Assets and Liabilities:</i>	
Decrease in Claims Payable	(18,000)
<i>Net Cash Used by Operating Activities</i>	(\$10,500)
See accompanying notes to the basic financial statements	

Scioto Valley Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2006

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$19,919</u>
Total Assets	<u><u>19,919</u></u>
Liabilities	
Undistributed Monies	<u>19,919</u>
Total Liabilities	<u><u>\$19,919</u></u>

See accompanying notes to the basic financial statements

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Scioto Valley Local School District (the "School District") operates under a locally-elected Board form of government and provides educational services as authorized by state or federal agencies. This Board controls the School District's four instructional/support facilities staffed by 81 non-certificated employees and 104 certificated full-time teaching personnel who provide services to 1,646 students and other community members.

Scioto Valley Local School District was established in January, 1960 through the consolidation of existing land areas and school districts and is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. Under such laws there is no authority for a school district to have a charter or adopt local laws. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at-large for staggered four year terms. The School District serves an area of approximately 132.54 square miles. It is located in Pike County, including all of the Village of Piketon, Ohio, and portions of Camp Creek, Scioto, Seal, Sunfish, Pee Pee and Newton Townships. The School District is the 347th largest in the State of Ohio (among 612 school districts) in terms of enrollment.

Reporting Entity:

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Scioto Valley Local School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District does not have any component units.

The following entities which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District.

- Village of Piketon
- Parent Teacher Organization
- Ross-Pike County Educational Service District

The School District is associated with two organizations which are defined as a jointly governed organization. These organizations are the South Central Ohio Computer Association and Pilasco-Ross Special Education Regional Resource Center. These organizations are presented in Note 15 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Scioto Valley Local School 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, to its governmental activities and proprietary funds provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis Of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activities of the internal service fund are eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 charges paid by the recipient of the 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 which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements:

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds used by this School District can be classified using three categories, governmental, proprietary, and fiduciary.

Governmental Funds

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

General Fund

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the Scioto Valley Local School District has no Enterprise Funds.

Internal Service Fund

The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Scioto Valley Local School District on a cost reimbursement basis. The School District's only internal service fund accounts for the self-insurance program for employee medical and dental claims.

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. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements. The District has a student activity agency fund which accounts for assets and liabilities generated by student managed activities.

Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The Statement of Activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

Fund Financial Statements - 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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. The fund financial statements are prepared using either the modified accrual basis of accounting for governmental funds or the accrual basis of accounting for proprietary and fiduciary funds. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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. "Measurable" means the amount of the transaction can be determined, and "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 School District, available means expected to be received within 60 days of year-end.

Non-exchange transactions, in which the School 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 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange 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 year-end: property taxes available as an advance, interest, tuition, grants, and fees.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. 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, except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities upon the occurrence of employee resignations and retirements. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

C. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer maintains budgetary information at the fund and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate in effect when final appropriations for the fiscal year were passed.

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

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as Equity in Pooled Cash and Cash Equivalents on the financial statements.

During fiscal year 2006, the School District had investments in federal instrumentalities and a money market account. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited during fiscal year 2006 amounted to \$315,481 to the General Fund and \$656 to the other non-major governmental funds.

For purposes of presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

The School District has \$20,000 in a bank account set aside for matured bonds and interest payable which is recorded as "Cash and Cash Equivalents with Fiscal Agents."

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Capital Assets and Depreciation

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital 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 fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000. The School District did not possess any infrastructure at fiscal year end.

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. Depreciable capital assets are depreciated using the straight-line method over an estimated useful life of 50 years for buildings and improvements, 5 to 15 years for furniture and equipment, 10 to 25 years for land improvements, 5 years for textbooks and library books, 6 to 10 years for vehicles and 5 years for infrastructure.

F. 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. Interfund transfers within governmental activities are eliminated in the statement of activities. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

G. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School 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 includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The School District records a liability for accumulated unused sick leave for all employees after 15 years of current service with the School District.

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

On the 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. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for services to the various funds to cover the costs of the self insurance program. Operating expenses are necessary costs incurred to provide the goods and/or service that is the primary activity of the fund.

Scioto Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. 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 judgements, compensated absences, and special termination benefits 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 in the current year. Bonds are recognized as a liability on the government-wide financial statements when due.

J. Fund Balance Reserves

The School District records reservations for portions of fund balance 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 balance which is available for appropriation in future periods. Fund balance reserves are established for encumbrances and property taxes.

The reserve for property taxes represents taxes recognized as revenue under accounting principles generally accepted in the United States of America but not available for appropriations under State statute.

K. Estimates

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

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes represent balances in special revenue funds for grants whose use is restricted by grant agreements.

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS

For the fiscal year 2006, the School District 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 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year balances.

Restatements: Restatements were made to prior year balances to make corrections to Long Term Debt. The restatements had the following effect on net assets as previously stated:

	Governmental Net Assets
Beginning Balance	\$34,872,560
Restatement	(110,000)
Restated Balance	<u>\$34,762,560</u>

Scioto Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 4 – ACCOUNTABILITY

At June 30, 2006, the Food Service, Title VI-B, Title I, ATIP Non-major Special Revenue Funds, and the Internal Service Fund had fund balance deficits of \$65,203, \$5,299, \$40,420, \$2,377, and \$289,000 respectively which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (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 GAAP (modified accrual) basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis); and

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

	<u>General</u>
GAAP Basis	\$(535,419)
Revenue Accruals	101,222
Expenditure Accruals	159,271
Encumbrances	<u>(201,365)</u>
Budget Basis	<u><u>\$(476,291)</u></u>

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and

Scioto Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's total average portfolio.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits Custodial credit risk is the risk that an event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2006, \$4,957,542 of the District's bank balance of \$5,157,542 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Investments As of June 30, 2006, the District had the following investments:

	Fair Value	Maturity (Yrs.)
Federal Nat'l Mort. Assoc. Notes	\$539,504	< 1 Year
Federal Home Loan Bank Notes	1,230,156	< 1 Year
Money Market	13,881	< 1 Year
Federal Home Loan Mort. Corp. Notes	1,933,167	< 1 Year
Total Investment Portfolio	\$3,716,708	

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the School District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The School District limits their investments to securities issued by federal government agencies or instrumentalities, money market accounts, and Certificates of Deposit. Investments in Federal National Mortgage Association Notes, Federal Home Loan Bank Notes, and Federal Home Loan Mortgage Corporation Notes were rated AAA by Standard & Poor's and Aaa by Moody's. The money market funds were unrated.

Concentration of credit risk – The School District's investment policy allows investments in: United States Treasury Bills, notes, bonds or any other obligations issued by the United States Treasury; Bonds, notes, debentures of any other obligations issued by federal government agencies; Interim Deposits to the extent that they are property insured and collateralized; Bonds and other obligations of the state; No-load money market mutual funds provided that investments in securities are made only through eligible financial institutions; Written Repurchase agreements; Maximum of twenty five percent of the District's interim funds in commercial paper and/or bankers acceptances of banks that are insured by the FDIC; STAR Ohio; and Certificates of Deposit.

Scioto Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

The School District has invested in securities issued by federal government agencies or instrumentalities. More than 5 percent of the School District's investments are in federal government agencies or instrumentalities; Federal National Mortgage Association Notes comprised of 14% of these investments, Federal Home Loan Bank Notes comprised of 33% of these investments, and Federal Home Loan Mortgage Corporation Notes comprised of 52% of the total investments. The remaining amount was invested in Federal Home Loan Money Market accounts.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the School District's securities are either insured and registered in the name of the School District or at least registered in the name of the School District.

The classification of cash and cash equivalents, and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.*

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School 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 located in the School District. Property tax revenue received during calendar 2006 for real and public utility property taxes represents collections of calendar 2005 taxes. Property tax payments received during calendar 2006 for tangible personal property (other than public utility property) are for calendar 2005 taxes. 2006 real property taxes are levied after April 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2006 real property taxes are collected in and intended to finance fiscal year 2007.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after April 1, 2006 and are collected in 2007 with real property taxes. 2006 tangible personal property taxes are levied after April 1, 2006, on the value as of December 31, 2005. Collections are made in 2007. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$57,518,100	58.69%	\$72,798,420	63.41%
Public Utility	14,652,950	14.96%	15,300,740	13.33%
Tangible Personal Property	25,816,988	26.35%	26,708,364	23.26%
Total Assessed Value	<u>\$97,988,038</u>	<u>100.00%</u>	<u>\$114,807,524</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$30.61		\$30.61	

Scioto Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 7 - PROPERTY TAXES (Continued)

The School District receives property taxes from Pike County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became 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 available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

The amount available as an advance at June 30, 2006, was \$151,496 in the General Fund, \$2,797 in the Classroom Facilities Maintenance Nonmajor Special Revenue Fund, and \$8,070 in the Debt Service Major Fund.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2006, consisted of property taxes, accounts, interest, and intergovernmental grants. 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 fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

Fund	Amount
<i>Non-Major Special Revenue Funds:</i>	
Title I	\$50,162
Improving Teacher Quality	12,354
Title VI-B	63,942
Drug Free Grant	17
Misc Federal Grant	4,500
	<hr/>
Total Non-Major Funds	130,975
Total All Funds	<hr/> <u>\$130,975</u>

Scioto Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 9 - CAPITAL ASSETS

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

	Ending Balance 6/30/05	Additions	Deletions	Ending Balance 6/30/06
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$830,500	\$0	\$0	\$830,500
Total Capital Assets, Not Being Depreciated	<u>830,500</u>	<u>0</u>	<u>0</u>	<u>830,500</u>
Capital Assets Being Depreciated				
Land Improvements	3,911,485	25,070	0	3,936,555
Buildings and Improvements	30,793,719	20,297	0	30,814,016
Furniture and Equipment	793,929	55,958	0	849,887
Vehicles	2,236,721	0	0	2,236,721
Library Books and Textbooks	399,872	0	0	399,872
Infrastructure	149,342	0	0	149,342
Total Capital Assets, Being Depreciated	<u>38,285,068</u>	<u>101,325</u>	<u>0</u>	<u>38,386,393</u>
Less Accumulated Depreciation:				
Land Improvements	(871,523)	(183,245)	0	(1,054,768)
Building and Improvements	(7,455,513)	(871,009)	0	(8,326,522)
Furniture and Equipment	(260,780)	(84,684)	0	(345,464)
Vehicles	(1,402,609)	(145,035)	0	(1,547,644)
Library Books and Textbooks	(241,058)	(79,974)	0	(321,032)
Infrastructure	(3,126)	(2,987)	0	(6,113)
Total Accumulated Depreciation	<u>(10,234,609)</u>	<u>(1,366,934)</u>	<u>0</u>	<u>(11,601,543)</u>
Total Capital Assets Being Depreciated, Net	<u>28,050,459</u>	<u>(1,265,609)</u>	<u>0</u>	<u>26,784,850</u>
Governmental Activities Capital Assets, Net	<u>\$28,880,959</u>	<u>\$(1,265,609)</u>	<u>\$0</u>	<u>\$27,615,350</u>

Depreciation expense was charged to government functions as follows:

Instruction:	
Regular	\$1,059,671
Support Services:	
Instructional Staff	34,840
Administration	10,493
Business	826
Operation and Maintenance of Plant	14,940
Pupil Transportation	141,787
Operation of Non-Instructional Services	19,772
Extracurricular Activities	84,605
Total Depreciation Expense	<u>\$1,366,934</u>

Scioto Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted with Harcum Hyre Insurance Company for property and fleet insurance, professional liability insurance and inland marine coverage. Total coverage amounted to \$41,810,961 with a \$1,000 deductible.

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

Medical/surgical and dental insurance is offered to employees through a self-insurance program. The claims liability of \$289,000 reported in the Internal Service Fund at June 30, 2006 is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported.

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

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2005	\$307,000	\$1,717,606	\$1,735,606	\$289,000
2006	307,000	1,717,606	1,735,606	289,000

NOTE 11 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 2006, 11.7% was the portion allocated to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$307,047, \$303,580, and \$146,874, respectively. 59% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$126,470 represents the unpaid contribution for fiscal year 2006.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer defined benefit pension plan. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported in whole or in part, by the state or any political subdivision thereof. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio 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 State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

NOTE 11 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS
(continued)

Plan Options – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio’s public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount.

NOTE 11 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS
(continued)

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$740,213, \$685,561, and \$694,490, respectively; 83% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004. \$126,041 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2006, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid.

D. Postemployment Benefits

The School 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 on a pay-as-you-go basis.

All STRS benefit recipients and sponsored 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. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS 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 School District, this amount equaled \$56,351 for fiscal year 2006.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2006 (the most recent year available) the balance in the Fund was \$3.1 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

Scioto Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 11 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS
(continued)

After the allocation for basic benefits, the remainder of the employer's 14% contribution (2.3%) is allocated to providing health care benefits. 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. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$143,818.

The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 (the most recent year available) were \$178,221,113. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty 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 one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 210 days for all personnel. Upon retirement and after being employed by the School District for three years, payment is made for twenty-five percent for classified employees and twenty-five percent for certified employees of accrued, but unused sick leave credit, up to a maximum of forty-five days.

B. Life Insurance

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Community National Insurance Company.

NOTE 13 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	* Balance Outstanding 6/30/05	Additions	Deductions	Balance Outstanding 6/30/06	Due Within One Year
Refunding Bonds – 2005 – 4.25%	\$975,000	\$0	\$40,000	\$935,000	\$40,000
Classroom Facilities Obligation Bonds – 1998 – 5.30%	110,000	0	110,000	0	0
Capital Lease	93,905	0	74,823	19,082	19,082
Compensated Absences	613,235	678,515	613,235	678,515	59,956
Total Long-Term Obligations	<u>\$1,792,140</u>	<u>\$678,515</u>	<u>\$838,058</u>	<u>\$1,632,597</u>	<u>\$119,038</u>

*Restated—See Note 3

Scioto Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 13 - LONG-TERM OBLIGATIONS (continued)

On June 29, 2005, the Scioto Valley Local School District issued \$975,000 in refunding bonds at an annual interest rate of 4.25%. The bonds were issued for a 16 year period with the final maturity date being December 1, 2021. The bonds will be paid from property tax revenues received in the Classroom Facilities Fund.

On September 1, 1998, the Scioto Valley Local School District issued \$3,377,000 in voted General Obligation Bonds for the purpose of constructing, remodeling, reconstructing and adding to school buildings. The bonds were issued for a 23-year period with the final maturity date being December 1, 2021. These bonds were completely paid in fiscal year 2006 from property tax revenues received in the Classroom Facilities Fund.

Compensated absences will be paid from the fund from which the employees' salaries are paid. The capital lease will be paid from the general fund.

The School District's voted legal debt margin was \$9,397,677 with an unvoted debt margin of \$114,807 at June 30, 2006.

Principal and interest requirements to retire general obligation debt outstanding June 30, 2006, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$40,000	\$38,888	\$78,888
2008	45,000	37,081	82,081
2009	45,000	35,169	80,169
2010	50,000	33,150	83,150
2011	50,000	31,025	81,025
2012-2016	280,000	121,125	401,125
2017-2021	345,000	54,719	399,719
2022	80,000	1,700	81,700
Totals	\$935,000	\$352,857	\$1,287,857

NOTE 14 – CAPITAL LEASES

During a previous fiscal year, the School District entered into a lease for fitness equipment. The lease meets the criteria of a capital lease as defined by *Statement of Financial Accounting Standards 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 have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statement.

Capital assets acquired by the fitness equipment lease was for the amount of \$218,901. These capital assets have not been capitalized in the statement of net assets for governmental activities due to the \$5,000 capital asset threshold of the District. The liability was recorded in the Statement of Net Assets. Principal payments in fiscal year 2006 totaled \$74,823 in the governmental funds.

Scioto Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 14 – CAPITAL LEASES (continued)

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2006.

Fiscal Year Ending June 30,	Amount
2007	\$19,184
Total	19,184
Less: Amount Representing Interest	(102)
Present Value of Net Minimum Lease Payments	\$19,082

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association - The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county, elected by majority vote of all charter member school districts within each county, two treasurers elected by majority vote of all charter school districts, and one representative from the fiscal agent. The School District paid SCOCA \$49,401 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, at P. O. Box 577, 23365 St. Rt. 124, Piketon, Ohio 45661.

Pilasco-Ross Special Education Regional Resource Center - The Pilasco-Ross Special Education Regional Resource Center (SERRC) is a special education service center which represents Lawrence, Pike, Ross and Scioto Counties. The SERRC selects its own governing board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of county boards of MR/DD, Joint Vocational Schools, Pickaway-Ross CTC, Shawnee State University, and Pike, Ross, Lawrence and South Central Ohio Educational Service Centers, whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The fiscal agent for the SERRC is Dawson-Bryant Local School District. Financial information can be obtained by contacting Donald Washburn, Director of Pilasco-Ross, at the South Central Ohio Educational Service Center, 411 Court Street, Portsmouth, Ohio 45663.

Scioto Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 16 - SET-ASIDE CALCULATIONS AND FUND RESERVES

The School 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 or construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and 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 instructional materials, and capital acquisition. Disclosure of this information is required by State statute.

	Textbooks	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2005	\$0	\$0
Current year set-aside requirement	230,003	230,003
Prior Year Carry Over	(504,392)	(3,500,262)
Current year offsets	0	(48,278)
Qualifying disbursements	(330,153)	(372,061)
Set-aside Balance Carried Forward		
To Future Years	(\$604,542)	(\$3,690,598)

The School District had offset and qualifying disbursements during the year that reduced the set-aside amount below zero in the Textbooks and Capital Acquisition Reserves. This extra amount may be carried forward and used to reduce the set-aside requirements of future years.

NOTE 17 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

The School District is party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

Scioto Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 18 – INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the year ended June 30, 2006, were as follows:

<u>Fund</u>	<u>Transfer From</u>	<u>Transfer To</u>
Major Fund:		
General	\$93,917	\$0
Non Major Special Revenue Fund:		
Lunchroom Fund		83,417
Total Non Major Special Revenue Fund	0	83,417
Internal Service Fund	0	10,500
Total All Funds	<u>\$93,917</u>	<u>\$93,917</u>

The transfers were made from the General Fund (a major fund) to other funds to provide support for operating activities of that fund.

NOTE 19 - DEFERRED COMPENSATION

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

NOTE 20 – NET ASSETS RESTRICTED BY ENABLING LEGISLATION

Of the School District's \$716,835 restricted net assets, \$705,877 was restricted by enabling legislation.

Scioto Valley Local School District
Pike County

Schedule of Federal Awards Expenditures
For 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
United States Department of Agriculture						
<i>Passed through Ohio Department of Education</i>						
Food Distribution Program	N/A	10.550	\$0	\$30,663	\$0	\$30,663
<i>Passed through the ODE Nutrition Cluster:</i>						
National School Breakfast Program	05-PU	10.553	107,201	0	107,201	0
National School Lunch Program	LLP4	10.555	256,931	0	256,931	0
Total Nutrition Cluster			<u>364,132</u>	<u>0</u>	<u>364,132</u>	<u>0</u>
Total United States Department of Agriculture			364,132	30,663	364,132	30,663
United States Department of Education						
<i>Passed through Ohio Department of Education</i>						
Special Education - Grants to States	6B-SF	84.027	376,855	0	415,560	0
Title I Grants to Local Education Agencies	C1-S1	84.010	499,361	0	550,720	0
State Grants for Innovative Programs	C2-S1	84.298	5,462	0	5,462	0
Safe & Drug-Free Schools and Communities State Grants	DR-S1	84.186	14,748	0	14,861	0
Improving Teacher Quality State Grants	TR-S1	84.367	120,366	0	126,503	0
Education Technology State Grant	TJ-S1	84.318	9,158	0	9,748	0
Rural Education	RU-S1	84.358	44,586	0	40,254	0
Hurricane Education Recovery	HR-01	84.938	3,000	0	0	0
Total United States Department of Education			<u>1,073,536</u>	<u>0</u>	<u>1,163,108</u>	<u>0</u>
Total Federal Financial Assistance			<u>\$1,437,668</u>	<u>\$30,663</u>	<u>\$1,527,240</u>	<u>\$30,663</u>

N/A - Pass Through Entity Number not available.
See accompanying Notes to the Schedule of Federal Awards Expenditures.

SCIOTO VALLEY LOCAL SCHOOL DISTRICT
Notes to Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B -FOOD DISTRIBUTIONS

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.

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687

Piketon, Ohio 45661

Telephone (740) 289-4131

Fax (740) 289-3639

www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board
Scioto Valley Local School District
P.O. Box 600
Piketon, Ohio 45661

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Scioto Valley Local School District (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 17, 2006 in which we indicated the School District implemented GASB Statements No. 42, 46 and 47. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting 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 misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the School District in a separate letter dated November 17, 2006.

Members of the Board

Scioto Valley Local School District

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Page 2

This report is intended solely for the information and use of the audit committee, management, members of the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

November 17, 2006

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

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

Members of the Board
Scioto Valley Local School District
P.O. Box 600
Piketon, Ohio 45661

Compliance

We have audited the compliance of Scioto Valley Local School District (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The School District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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 obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Members of the Board
Scioto Valley Local School District

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

Internal Control Over Compliance

The management of the School District 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 School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the 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 detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, members of the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.
November 16, 2006

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 SECTION .505**

**SCIOTO VALLEY LOCAL SCHOOL DISTRICT
PIKE COUNTY, OHIO
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505**

**SCIOTO VALLEY LOCAL SCHOOL DISTRICT
PIKE COUNTY, OHIO
JUNE 30, 2006**

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

SCIOTO VALLEY LOCAL SCHOOL DISTRICT

PIKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 27, 2007**