



**Auditor of State
Betty Montgomery**

UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Accountants' Report	1
Managements Discussion and Analysis.....	3
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets – Cash Basis	11
Statement of Activities – Cash Basis.....	12
Fund Financial Statements	
Statement of Cash Basis Assets and Fund Balances Governmental Funds.....	13
Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Basis Fund Balances Governmental Funds.....	14
Statement of Revenues, Expenditures, and Change in Fund Balance - Budget (Non-GAAP Basis) and Actual – General Fund.....	15
Statement of Cash Basis Fiduciary Net Assets	17
Statement of Cash Basis Changes in Fiduciary Net Assets	18
Notes to the Financial Statements	19
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	35
Schedule of Findings	37
Schedule of Prior Audit Findings	38

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Upper Scioto Valley Local School District
Hardin County
P.O. Box 305
McGuffey, Ohio 45859

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Upper Scioto Valley Local School District (the "School District"), as of and for the fiscal year ended June 30, 2004, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

Ohio Administrative Code § 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the School District, as of June 30, 2004, and the respective changes in modified cash financial position and the budgetary comparison for the General Fund thereof for the fiscal year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2005, 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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

April 6, 2005

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The discussion and analysis of Upper Scioto Valley Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004, within the limitations of cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Financial Highlights

Key highlights for fiscal year 2004 are as follows:

In total, net assets decreased \$825,673, or 35 percent, a significant change from the prior fiscal year. The fund most affected by the decrease in cash and cash equivalents was the General Fund, which realized the greatest burden of the increased costs in fiscal year 2004; however, cost increases affected most funds.

The School District's general receipts, those being primarily property taxes and unrestricted state entitlements, were 84 percent of the total cash received during the fiscal year. Dependence on these two revenue sources is significant.

Using this Annual Report

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's cash basis of accounting.

The School District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and the related assets and liabilities. Under the School District's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion with this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

The statement of net assets and the statement of activities provide information about the cash activities of the whole School District.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other non-major funds presented in total in a single column. For Upper Scioto Valley Local School District, the General Fund is the most significant fund.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Reporting the School District as a Whole

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2004, within the limitations of cash basis accounting. The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each function or program of the School District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Factors which contribute to these changes may also 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 activities are presented as governmental activities. All of the School District's programs and services are reported here including instruction, support services, non-instructional services, food services, extracurricular activities, and capital outlay disbursements.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the 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 monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund financial statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2004 compared to fiscal year 2003:

Table 1 Net Assets

	Governmental Activities	
	2004	2003
Assets:		
Cash and Cash Equivalents	\$1,561,748	\$2,387,421
Net Assets:		
Restricted	1,328,151	1,703,585
Unrestricted	233,597	683,836
Total Net Assets	\$1,561,748	\$2,387,421

As mentioned previously, total net assets decreased \$825,673, or 35 percent. The primary reasons contributing to the decreases in cash balances are as follows:

- Our School District has a very experienced teaching staff, and thus higher on the salary scale. Therefore, the increases in salaries and benefits had a greater impact than would have been the case with a less experienced staff.
- Our School District has a higher than average percentage of students with disabilities. As a result, we had greater costs for special education than most school districts our size.
- During fiscal year 2004, the School District made a balloon payment on four school buses.
- Open enrollment has resulted in a large number of students leaving the School District and higher related expenditures made to other school districts.
- Decreases in cash also resulted from monies spent to update athletic facilities and for higher operation and maintenance costs following the completion of the new K-12 facilities.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2004. Since the School District did not prepare financial statements according to this basis of accounting in the prior fiscal year, a comparative analysis of government-wide data has not been presented. In future years, when prior fiscal year information is available, a comparative analysis will be presented.

**Table 2
Change in Net Assets**

	Governmental Activities 2004
<u>Receipts:</u>	
Program Receipts	
Charges for Services and Sales	\$255,760
Operating Grants and Contributions	816,373
Capital Grants and Contributions	32,206
Total Program Receipts	1,104,339
General Receipts	
Property Taxes Levied for General Purposes	1,160,140
Property Taxes Levied for Classroom Maintenance	22,138
Property Taxes Levied for Debt Service	154,297
Income Taxes Levied for General Purposes	267,490
Grants and Entitlements	3,906,690
Interest	13,447
Rent	80,581
Miscellaneous	47,997
Total General Receipts	5,652,780
Total Receipts	6,757,119
<u>Disbursements:</u>	
Instruction:	
Regular	2,985,297
Special	809,931
Vocational	229,105
Support Services:	
Pupils	123,217
Instructional Staff	267,559
Board of Education	56,796
Administration	597,566
Fiscal	226,790
Operation and Maintenance of Plant	641,790
Pupil Transportation	409,161
	(continued)

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

**Table 2
Change in Net Assets
(Continued)**

	Governmental Activities 2004
Support Services:	
Central	94,055
Non-Instructional Services	282
Food Services	279,707
Extracurricular Activities	185,920
Capital Outlay	505,446
Debt Service:	
Principal Retirement	70,000
Interest and Fiscal Charges	100,170
Total Disbursements	7,582,792
Decrease in Net Assets	(\$825,673)

Program receipts only represent 16 percent of total receipts and are primarily represented by restricted intergovernmental receipts, charges for tuition and fees and extracurricular activities, and food service sales.

As stated previously, general receipts represent 84 percent of the School District's total receipts, and of this amount, over 69 percent is the result of unrestricted grants and entitlements, which primarily represents State foundation resources. Property and income taxes basically make up the balance of the School District's general receipts (28 percent). Other receipts, such as interest and rent are very insignificant and somewhat unpredictable revenue sources.

The major program disbursements for governmental activities are for instruction, which accounts for 53 percent of all governmental disbursements. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for approximately 11 percent of governmental disbursements. Maintenance of the School District's facilities also represents a significant expense, 8 percent. Therefore, over 72 percent of the School District's disbursements are related to the primary functions of providing facilities and delivering education.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax receipts and unrestricted state entitlements.

**Table 3
Governmental Activities**

	Total Cost of Services 2004	Net Cost of Services 2004
Instruction:		
Regular	\$2,985,297	\$2,719,855
Special	809,931	349,232
Vocational	229,105	174,469
Support Services:		
Pupils	123,217	123,217
Instructional Staff	267,559	267,559
Board of Education	56,796	56,796
Administration	597,566	597,566
Fiscal	226,790	226,790
Operation and Maintenance of Plant	641,790	641,790
Pupil Transportation	409,161	399,180
Central	94,055	83,055
Non-Instructional Services	282	282
Food Services	279,707	43,949
Extracurricular Activities	185,920	119,097
Capital Outlay	505,446	505,446
Debt Service:		
Principal Retirement	70,000	70,000
Interest and Fiscal Charges	100,170	100,170
Total Disbursements	<u>\$7,582,792</u>	<u>\$6,478,453</u>

The dependence upon tax receipts and unrestricted state entitlements is apparent as over 80 percent of instruction activities are supported through taxes and other general receipts. However, it should be noted that special instruction activities are largely provided for through program receipts, by over 56 percent. This is the result of operating grants and contributions restricted for special instruction purposes.

Over 84 percent of food services were covered by program receipts for fiscal year 2004. This is primarily due to cafeteria sales, and state and federal subsidies and donated commodities for food service. Almost 36 percent of extracurricular activities disbursements are covered by program receipts. This is the result of music and athletic fees, ticket sales, and gate receipts.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

The School District's Funds

The School District's governmental funds are accounted for using the cash basis of accounting. Total governmental funds had receipts of \$6,757,119 and disbursements \$7,582,792. The greatest change within governmental funds occurred within the General Fund as the result of increased costs for salaries and benefits, increased special education costs, the balloon payment on school buses, and partial costs for the renovation of outdoor athletic facilities.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During fiscal year 2004, the School District amended its General Fund budget as needed. Final budgeted receipts, in the amount of \$5,804,371, were only slightly below original budgeted receipts, in the amount of \$5,916,174, a change of less than 2 percent. The change from final budgeted receipts to actual receipts received, \$8,500, was also not significant.

Final disbursements were budgeted at \$6,659,319 while actual disbursements were \$6,307,368. The School District was able to keep spending very close to budgeted amounts as demonstrated by the minor changes which occurred.

Actual General Fund receipts were less than disbursements by \$511,497. While a portion of this difference can be attributed to recording encumbrances as disbursements, this also indicates that the School District is in a deficit spending situation. It was the recommendation of the finance committee and the administration that a reduction in expenditures was a preference over requesting additional funds from the taxpayers. These reductions will not eliminate the need for additional funds in the future. The reductions went into place for the 2004/2005 school year. The most significant savings will be from a cut in instructional and support staff.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the School District had \$20,732,898 in capital assets for governmental activities, an insignificant increase from the prior fiscal year of less than 1 percent. The School District is reflecting capital assets at cost or estimated historical cost. Donated capital assets are reflected at their fair market value as of the date received. For further information regarding the School District's capital assets, refer to Note 6 to the basic financial statements.

Debt

At June 30, 2004, the School District's outstanding debt included general obligation bonds, in the amount of \$2,179,999, issued for improvements to buildings and structures and capital leases, in the amount of \$708,406, for facilities and equipment. For further information regarding the School District's debt, refer to Note 12 to the basic financial statements.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Current Issues

The challenge for all school districts is to provide quality education with fewer monies available to spend. This is even truer for a rural district such as Upper Scioto Valley. We have very little industry to support the School District and must rely on local taxes and state support. Our five-year forecast predicted a deficit for fiscal year 2008; therefore, the finance committee and the administration implemented a strategy to delay the deficit. This plan became effective with the 2004/2005 school year. We reviewed our sources of revenue and increased lab fees in instances where costs were exceeding receipts. We then reviewed the expenditure history of the School District. We reduced the number of field trips for each class. We also reduced instructional and support staffs in areas which we felt would least affect children. All departments were asked to reduce their spending for supplies by 10-20 percent.

The Upper Scioto Valley Local School District was a part of the Ohio School Facilities Commission project to build a new K-12 facility. Although this has presented a very positive environment for the students, it has increased our operating costs.

Not only have we made cuts to the General Fund but we had a cook retire that we did not replace. We have transferred funds to the Cafeteria for many years and hope that our staff can meet the needs of the students with one less employee and help the deficit in that fund.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Bonnie Yale, Treasurer, Upper Scioto Valley Local School District, 510 South Courtright St., McGuffey, Ohio 45959.

UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,561,748</u>
Net Assets:	
Restricted for:	
Capital Projects	571,530
Debt Service	276,206
Set Asides	318,815
Other Purposes	161,600
Unrestricted	<u>233,597</u>
Total Net Assets	<u><u>\$1,561,748</u></u>

The notes to the financial statements are an integral part of this statement.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipt and Change In Net Assets	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental Activities:					
Current:					
Instruction:					
Regular	\$2,985,297	\$24,271	\$224,946	\$16,225	(\$2,719,855)
Special	809,931		460,699		(349,232)
Vocational	229,105		54,636		(174,469)
Support Services:					
Pupils	123,217				(123,217)
Instructional Staff	267,559				(267,559)
Board of Education	56,796				(56,796)
Administration	597,566				(597,566)
Fiscal	226,790				(226,790)
Operation and Maintenance of Plant	641,790				(641,790)
Pupil Transportation	409,161			9,981	(399,180)
Central	94,055		5,000	6,000	(83,055)
Non-Instructional Services	282				(282)
Food Services	279,707	170,376	65,382		(43,949)
Extracurricular Activities	185,920	61,113	5,710		(119,097)
Capital Outlay	505,446				(505,446)
Debt Service:					
Principal Retirement	70,000				(70,000)
Interest and Fiscal Charges	100,170				(100,170)
Total Governmental Activities	\$7,582,792	\$255,760	\$816,373	\$32,206	(6,478,453)

General Receipts:

Property Taxes Levied for:	
General Purposes	1,160,140
Classroom Maintenance	22,138
Debt Service	154,297
Income Taxes Levied for General Purposes	267,490
Grants and Entitlements not Restricted to Specific Program:	3,906,690
Interest	13,447
Rent	80,581
Miscellaneous	47,997
Total General Receipts	5,652,780
Change in Net Assets	(825,673)
Net Assets at Beginning of Year	2,387,421
Net Assets at End of Year	\$1,561,748

The notes to the financial statements are an integral part of this statement.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$233,597	\$1,009,336	\$1,242,933
Restricted Cash and Cash Equivalents	318,815		318,815
Total Assets	<u>552,412</u>	<u>1,009,336</u>	<u>1,561,748</u>
Fund Balances:			
Reserved for Encumbrances	55,699	15,704	71,403
Reserved for Capital Improvements	318,815		318,815
Unreserved, Reported in:			
General Fund	177,898		177,898
Special Revenue Funds		149,121	149,121
Debt Service Fund		276,061	276,061
Capital Projects Funds		568,450	568,450
Total Net Assets	<u>\$552,412</u>	<u>\$1,009,336</u>	<u>\$1,561,748</u>

The notes to the financial statements are an integral part of this statement.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN CASH BASIS FUND BALANCES GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Receipts:			
Property Taxes	\$1,160,140	\$176,435	\$1,336,575
Income Taxes	267,490		267,490
Intergovernmental	4,201,536	408,471	4,610,007
Interest	11,448	1,999	13,447
Tuition and Fees	139,552	24,271	163,823
Extracurricular Activities		66,823	66,823
Charges for Services		170,376	170,376
Rent		80,581	80,581
Miscellaneous	39,898	8,099	47,997
	<hr/>	<hr/>	<hr/>
Total Receipts	5,820,064	937,055	6,757,119
Disbursements:			
Current:			
Instruction:			
Regular	2,848,154	137,143	2,985,297
Special	615,618	194,313	809,931
Vocational	229,105		229,105
Support Services:			
Pupils	121,172	2,045	123,217
Instructional Staff	233,557	34,002	267,559
Board of Education	56,796		56,796
Administration	592,179	5,387	597,566
Fiscal	221,593	5,197	226,790
Operation and Maintenance of Plant	584,498	57,292	641,790
Pupil Transportation	409,007	154	409,161
Central	79,822	14,233	94,055
Non-Instructional Services	282		282
Food Services		279,707	279,707
Extracurricular Activities	112,900	73,020	185,920
Capital Outlay	146,986	358,460	505,446
Debt Service:			
Principal Retirement		70,000	70,000
Interest and Fiscal Charges		100,170	100,170
	<hr/>	<hr/>	<hr/>
Total Disbursements	6,251,669	1,331,123	7,582,792
Receipts Under Disbursements	(431,605)	(394,068)	(825,673)
Other Financing Sources (Uses):			
Advances In		19,000	19,000
Advances Out	(19,000)		(19,000)
Transfers In		28,000	28,000
Transfers Out	(28,000)		(28,000)
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(47,000)	47,000	
Changes in Fund Balances	(478,605)	(347,068)	(825,673)
Fund Balances at Beginning of Year	1,031,017	1,356,404	2,387,421
Fund Balances at End of Year	<hr/> <u>\$552,412</u>	<hr/> <u>\$1,009,336</u>	<hr/> <u>\$1,561,748</u>

The notes to the financial statements are an integral part of this statement.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL-GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
Revenues:				
Property Taxes	\$1,207,887	\$1,163,887	\$1,160,140	(\$3,747)
Income Taxes	267,240	276,740	267,490	(9,250)
Intergovernmental	4,209,654	4,200,376	4,201,536	1,160
Interest	35,000	11,000	11,468	468
Tuition and Fees	125,943	137,143	139,552	2,409
Miscellaneous	70,450	15,225	15,685	460
Total Revenues	5,916,174	5,804,371	5,795,871	(8,500)
Expenditures:				
Current:				
Instruction:				
Regular	2,471,615	2,502,482	2,416,245	86,237
Special	527,998	639,006	616,711	22,295
Vocational	245,013	261,052	241,114	19,938
Other	516,140	496,280	461,613	34,667
Support Services:				
Pupil	142,559	134,818	122,195	12,623
Instructional Staff	231,369	252,755	236,882	15,873
Board of Education	60,964	59,238	56,796	2,442
Administration	576,761	607,722	594,051	13,671
Fiscal	252,009	254,213	221,643	32,570
Operation and Maintenance of Plant	621,025	652,125	590,853	61,272
Pupil Transportation	420,333	429,886	409,275	20,611
Central	79,800	81,410	79,822	1,588
Non-Instructional Services	516	582	282	300
Extracurricular Activities	135,375	127,750	112,900	14,850
Capital Outlay	160,000	160,000	146,986	13,014
Total Expenditures	6,441,477	6,659,319	6,307,368	351,951
Revenues Under Expenditures	(525,303)	(854,948)	(511,497)	343,451
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	12,500	24,379	24,213	(166)
Advances In			20,000	20,000
Advances Out	(20,000)	(19,000)	(39,000)	(20,000)
Transfers In	10,000			
Transfers Out	(85,000)	(31,800)	(28,000)	3,800
Total Other Financing Sources (Uses)	(82,500)	(26,421)	(22,787)	3,634
Change in Fund Balance	(607,803)	(881,369)	(534,284)	347,085
Fund Balances at Beginning of Year	900,914	900,914	900,914	
Prior Year Encumbrances Appropriated	129,775	129,775	129,775	
Fund Balances at End of Year	\$422,886	\$149,320	\$496,405	\$347,085

The notes to the financial statements are an integral part of this statement.

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UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY

STATEMENT OF CASH BASIS FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets:		
Equity in Pooled Cash and Cash Equivalents	<u>\$3,567</u>	<u>\$22,096</u>
Net Assets:		
Held in Trust for Scholarships	<u>\$3,567</u>	
Held for Student Activities		<u>\$22,096</u>

The notes to the financial statements are an integral part of this statement.

UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY

STATEMENT OF CASH BASIS CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
PRIVATE PURPOSE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Private Purpose Trust</u>
Additions:	
Contributions	\$275
Deductions:	
Non-Instructional Services	<u>583</u>
Change in Net Assets	(308)
Net Assets at Beginning of Year	<u>3,875</u>
Net Assets at End of Year	<u><u>\$3,567</u></u>

The notes to the financial statements are an integral part of this statement.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Upper Scioto Valley Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and federal guidelines.

The School District was established during 1929 through the consolidation of existing land areas and school districts. The School District serves an area of approximately ninety-five square miles. It is located in Auglaize, Hardin and Logan Counties and includes all of the Villages of McGuffey and Alger, all of Marion and Roundhead Townships, and portions of Cessna, Lynn and McDonald Townships. The School District is the 532nd largest in the State of Ohio (among 612 school districts) in terms of enrollment. It is staffed by forty-one classified employees, fifty-six certified teaching personnel, and four administrative employees who provide services to seven hundred eighty-two students and other community members. The School District currently operates one instructional building, one administrative building and one garage.

Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For the 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 School District participates in five jointly governed organizations and two insurance pools, and is associated with a related organization. These organizations are the West Central Ohio Special Education Regional Resource Center, Western Ohio Computer Organization, Ohio Hi-Point Joint Vocational School, Hardin County Schools Consortium Local Professional Development Committee, West Central Regional Professional Development Center, Hardin County School Employees' Health and Welfare Benefit Plan and Trust, Ohio School Boards Association Workers' Compensation Group Rating Plan, and Alger Public School District Library. These organizations are presented in Notes 16, 17, and 18 to the basic financial statements.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although Ohio Administrative Code Section 117-2-03 (B) requires the School District's financial report to follow generally accepted accounting principles (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. The School District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

The School District also reports long-term investments as assets, valued at cost.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the government-wide and fund financial statements versus budgetary expenditures result from encumbrances outstanding at the beginning and end of the fiscal year.

B. Basis of Presentation

The School District's basic financial statements consist of government-wide financial 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.

1. Government-Wide Financial Statement

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 statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the School District's general receipts.

2. Fund Financial Statements

During the fiscal 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 governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. 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 of the School District are divided into two categories, governmental and fiduciary.

1. Governmental Funds:

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The School District's only major fund is the General Fund.

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

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

2. Fiduciary Funds

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for various student-managed activities.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of 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 the limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

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

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Budgetary Process (Continued)

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward 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.

E. Cash and Investments

To improve cash management, 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. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2004, investments were limited to STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

Following Ohio Statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 was \$11,448, which included \$4,632 assigned from other School District funds.

Investments of the School District's 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 presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the acquisition and construction of capital improvements.

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

H. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Long-Term Liabilities

Cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

J. Net 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 include activities for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specific purposes.

K. Interfund Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

3. 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 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 amounts.

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

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.

Interim monies may be invested in the following securities:

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rated classifications by at least two nationally recognized rating agencies.

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

At fiscal year end, the School District had \$487 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At fiscal year-end, the carrying amount of the School District's deposits was \$1,229,506 and the bank balance was \$1,348,573. Of the bank balance, \$201,423 was covered by federal depository insurance and \$1,147,150 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

The School District's investments are categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form. At June 30, 2004, the fair value of funds on deposit with STAR Ohio was \$357,418.

The classification of cash and cash equivalents and investments on the financial statements is based on the criteria set forth in GASB Statement No.9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$1,587,411	\$0
Cash on Hand	(487)	0
Investments:		
STAR Ohio	(357,418)	357,418
GASB Statement No. 3	\$1,229,506	\$357,418

4. PROPERTY TAXES

A. Property Taxes

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien on December 31, 2002, were levied after April 1, 2003, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

4. PROPERTY TAXES (Continued)

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts 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. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Auglaize, Hardin and Logan Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$42,622,140	83.26%	\$43,738,990	85.90%
Industrial/Commercial	1,993,310	3.89	2,317,050	4.55
Public Utility Personal Property	4,528,970	8.85	4,175,820	8.20
Tangible Personal Property	2,047,211	4.00	689,446	1.35
Total Assessed Value	\$51,191,631	100.00%	\$50,921,306	100.00%
Tax rate per \$1,000 of assessed valuation	\$35.50		\$35.40	

5. INCOME TAXES

The School District levies a voted income tax of 0.5 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1996, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are recorded in the General Fund.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Balance at 6/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/04</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$758,835			\$758,835
Construction in Progress		\$17,856		17,856
Total Nondepreciable Capital Assets	<u>758,835</u>	<u>17,856</u>		<u>776,691</u>
Depreciable Capital Assets				
Land Improvements	1,443,687			1,443,687
Buildings and Building Improvements	16,706,139	62,932		16,769,071
Furniture, Fixtures, and Equipment	1,208,267	43,302		1,251,569
Vehicles	418,310	73,570		491,880
Total Depreciable Capital Assets	<u>19,776,403</u>	<u>179,804</u>		<u>19,956,207</u>
Governmental Activities Capital Assets	<u>\$20,535,238</u>	<u>\$197,660</u>		<u>\$20,732,898</u>

7. INTERFUND BALANCES

At June 30, 2004, the General Fund had an unpaid interfund cash advance, in the amount of \$19,000, for a short-term loan made to the Food Service special revenue fund.

8. RISK MANAGEMENT

The 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 2004, the District contracted with various companies for the following insurance coverage:

Building and Contents - Replacement Cost	\$23,948,262
Automobile Liability	1,000,000
Commercial Umbrella Liability	3,000,000
Commercial General Liability	
Per occurrence	1,000,000
Aggregate	2,000,000

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

The School District participates in the Hardin County Schools Health Benefit Fund and Trust (the "Trust"), a public entity shared risk pool consisting of six local school districts, the Hardin County Educational Service Center, and the Ada Public Library. The District pays monthly premiums to the Trust for employee medical, dental, life insurance and vision benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

8. RISK MANAGEMENT (Continued)

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool.

The Plan is intended to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan.

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

9. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, OH 43215.

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

A DBP or CP member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP 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.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation 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 contribution for pension obligations for the DBP for the fiscal years ended June 30, 2004, 2003, and 2002 was \$330,484, \$348,326, and \$224,189, respectively; 82 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002. Contributions for the DCP and CP for the fiscal year ended June 30, 2004, were \$639 made by the School District and \$953 made by plan members.

B. 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 administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 was \$67,245, \$66,527, and \$42,003, respectively; 44% percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2004, three of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

10. 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 classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

10. POSTEMPLOYMENT BENEFITS (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was \$25,471.

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

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

For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2004, the minimum pay was established at \$24,500. For the School District, the amount to fund health care benefits, including the surcharge, was \$47,662, for fiscal year 2004.

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

11. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. The superintendent and treasurer earn twenty days of vacation per year. Accumulated unused vacation time is paid to classified employees, the superintendent, and the treasurer upon termination of employment. Teachers do not earn vacation time.

B. Employee Insurance Benefits

The School District provides employee medical, dental, vision, and life insurance benefits through the Hardin County School Employees' Health and Welfare Benefit Plan and Trust (Trust). Depending upon the plan chosen, the employees share the cost of monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

12. LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2004 were as follows:

	<u>Interest Rate</u>	<u>Balance at 6/30/2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/2004</u>	<u>Due Within One Year</u>
<u>General Long-Term Obligations</u>						
General Obligation Bonds						
2002 School Improvement						
Serial and Term	2.10 - 5.25%	\$2,210,000		70,000	\$2,140,000	75,000
Capital Appreciation	16.78	39,999			39,999	
Total General Obligation Bonds		2,249,999		70,000	2,179,999	\$75,000
<u>Other Long-Term Obligations</u>						
Capital Leases Payable		767,462	54,220	113,276	708,406	21,414
Total General Long-Term Obligations		\$3,017,461	\$54,220	\$183,276	\$2,888,405	\$96,414

2002 School Improvement General Obligation Bonds - On May 1, 2002, the School District issued \$2,249,999 in voted general obligation bonds for improvements to buildings and structures. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$1,050,000, \$1,160,000, and \$39,999, respectively. The capital appreciation bonds were issued at a premium of \$85,669. The bonds are being retired from the Bond Retirement debt service fund.

The term bonds maturing on December 1, 2025, are subject to mandatory sinking fund redemption at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, on December 1 in the years and respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2017	\$110,000
2018	115,000
2019	125,000
2020	125,000
2021	130,000
2022	140,000
2023	145,000
2024	155,000

Unless previously redeemed, the remaining principal amount of \$115,000 will mature at stated maturity on December 1, 2025.

The serial bonds maturing after December 1, 2012, are subject to optional redemption, in whole or in part on any interest payment date, in integral multiples of \$5,000, at the option of the School District on or after June 1, 2012, at the redemption prices (expressed as percentages of the principal amount redeemed) plus accrued interest to the redemption date as follows:

<u>Redemption Dates (Dates Inclusive)</u>	<u>Redemption Prices</u>
June 1, 2012 and thereafter	100%

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

12. LONG-TERM OBLIGATIONS (Continued)

The capital appreciation bonds will mature in fiscal years 2012 and 2013 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$200,000.

The School District's overall debt margin was \$2,679,125 with an unvoted debt margin of \$50,921 at June 30, 2004.

Principal and interest requirements to retire, at maturity, general obligation bonds outstanding at June 30, 2004, were as follows:

<u>General Obligation Bonds</u>					
<u>Fiscal Year Ending June 30,</u>	<u>Serial</u>	<u>Term</u>	<u>Capital</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 75,000			\$ 99,435	\$ 174,435
2006	75,000			97,598	172,598
2007	75,000			95,422	170,422
2008	80,000			93,022	173,022
2009	85,000			90,223	175,223
2010 – 2014	285,000		\$39,999	729,130	1,054,129
2015 – 2019	305,000	\$ 225,000		327,537	857,537
2020 – 2024		665,000		178,500	843,500
2025 – 2026		270,000		20,212	290,212
	\$980,000	\$1,160,000	\$39,999	\$1,731,079	\$3,911,078

13. CAPITAL LEASES – LESSEE DISCLOSURE

The School District has entered into capitalized leases for facilities and equipment.

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, 2004.

<u>Fiscal Year Ending June, 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 21,414	\$ 27,102
2006	22,320	26,196
2007	23,264	25,252
2008	9,733	24,267
2009	10,106	23,894
2010-2014	56,647	113,353
2015 – 2019	68,371	101,629
2020 – 2024	82,521	87,479
2025-2029	99,600	70,400
2030-2034	120,213	49,787
2035-2041	194,215	26,785
Present Value of Minimum Lease	\$708,404	\$576,144

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

14. SET ASIDE REQUIREMENTS

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 and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. S.B. 345 eliminated the requirement for budget stabilization, however, the amount set-aside from Bureau of Workers Compensations refunds must be spent in accordance with S.B. 345.

The following cash basis information identifies the changes in the fund balance reserves for textbooks, capital improvements, and budget stabilization during fiscal year 2004.

	Textbooks	Capital Acquisition	Budget Stabilization
Balance June 30, 2003	(\$93,191)	\$323,348	\$2,965
Current Year Set-Aside Requirement	108,453	108,453	0
Qualifying Expenditures	(117,554)	(112,986)	2,965
Amount Carried Forward to Fiscal Year 2005	(102,292)	318,815	0
Set Aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>	<u>\$318,815</u>	<u>\$0</u>

The School District had qualifying expenditures during the fiscal year that reduced the textbooks set aside amount below zero. This amount may be used to reduce the set aside requirement in future fiscal years. The total reserve balance for set asides at the end of the fiscal year was \$318,815.

15. INTERFUND TRANSFERS

During fiscal year 2004, the General Fund transferred \$28,000 to the Food Service special revenue fund to subsidize food service operations.

16. JOINTLY GOVERNED ORGANIZATIONS

A. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center ("SERRC") is a jointly-governed organization formed to initiate, expand, and improve special education programs and services for children with disabilities and their parents. The SERRC is governed by a fifty-two member board consisting of the superintendent from the fifty participating school districts, one representative from a non-public school, and one representative from Wright State University. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 1211 West Lima Street, Suite A, Kenton, Ohio 43326-2385.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. Western Ohio Computer Organization

The School District is a participant in the Western Ohio Computer Organization ("WOCO"). WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami, and Shelby 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 WOCO consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus a representative from the fiscal agent school district. During fiscal year 2004, the School District paid \$33,438 to WOCO for various services. Financial information can be obtained from Sonny Ivey, who serves as Director, 129 East Court Street, Sidney, Ohio 45365.

C. Ohio Hi-Point Joint Vocational School

The Ohio Hi-Point Joint Vocational School ("JVS") is a distinct political subdivision of the State of Ohio which provides vocational education to students. The JVS is operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards. The degree of control exercised by the School District is limited to its representation on the Board. The Board is its own budgeting and taxing authority. Financial information can be obtained from the Ohio Hi-Point Joint Vocational School, Eric Adelsberger, who serves as Treasurer, 2280 State Route 540, Bellefontaine, Ohio 43311.

D. Hardin County Schools Consortium Local Professional Development Committee

The Hardin County Schools Consortium Local Professional Development Committee ("LPDC") was established to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The LPDC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its members. The LPDC is governed by a fifteen member Executive Board. Financial information can be obtained from Krista Hart, Hardin County Educational Service Center, 1211 West Lima Street, Suite A, Kenton, Ohio 43326-2385.

E. West Central Regional Professional Development Center

The West Central Regional Professional Development Center ("Center") is a jointly-governed organization among the school districts in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The organization was formed to establish an articulated regional structure for professional development in which school districts, the business community, higher education, and other groups cooperatively plan and implement effective professional development activities that are tied directly to school improvement, and in particular, to improvements in instructional programs.

The Center is governed by a fifty-two member board made up of representatives from the participating school districts, the business community, and two institutions of higher learning. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from Sandy Knudson, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

**UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

17. INSURANCE POOLS

A. Hardin County School Employees Health and Welfare Benefit Plan and Trust

The Hardin County School Employees' Health and Welfare Benefit Plan and Trust (Trust) is a public entity shared risk pool consisting of six school districts, the Hardin County Educational Service Center, and the Ada Public Library. The Trust is organized as a Voluntary Employee Benefit Association under Section 501 (c)(9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Sky Bank, concerning aspects of the administration of the Trust.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Rick Combs, who serves as Director, 9525 T.R. 50, Dola, Ohio 45835.

B. Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (Plan) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee serves as coordinator of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

18. RELATED ORGANIZATION

The Alger Public School District Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Upper Scioto Valley Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Although the School District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Kathleen Bickel, Clerk, Alger Public School District Library, 100 West Wagner Street, Alger, Ohio 45812.

19. STATE SCHOOL FUNDING DECISION

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

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

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

UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

20. 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 are 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, 2004.

B. Litigation

There are currently no matters in litigation with the School District as defendant.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Upper Scioto Valley Local School District
Hardin County
P.O. Box 305
McGuffey, Ohio 45859

To the Board of Education:

We have audited the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the Upper Scioto Valley Local School District (the "School District") as of and for the fiscal year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated April 6, 2005, wherein, we noted the School District uses a comprehensive basis of accounting other than generally accepted accounting principles. 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.

Compliance

As part of reasonably assuring 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 grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated April 6, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-002.

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the audit committee, management and Board of Education, and is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 6, 2005

UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY

SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

FINDING NUMBER 2004-001

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin. Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School District prepares its financial statements in accordance with another comprehensive basis. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

To help provide the users with more meaningful financial statements, the School District should prepare their financial statements according to generally accepted accounting principles.

FINDING NUMBER 2004-002

Monitoring of Budget Versus Actual Activity

To effectively manage the financial resources of an entity, the governing body should frequently receive and approve financial reports that reflect budget versus actual revenues and expenditures. During fiscal year 2004, budget versus actual revenue and expenditures were only reviewed once by the Board or Audit/Finance Committee.

The Board's ability to monitor its financial objectives and to identify potential violations of budgetary laws is inhibited when they do not receive budget versus actual reports on a regular basis.

The Treasurer should periodically provide the Board and/or Audit/Finance committee with budget versus actual reports for all funds. Evidence of the review and approval of these reports should be documented in the minutes of the School District.

UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT
HARDIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer</u> <u>Valid</u> ; <i>Explain:</i>
2003-001	ORC Sec. 5705.41 (D) – Failure to certify funds for expenditure	No	Repeated in the management letter.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
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800-282-0370
Facsimile 614-466-4490

UPPER SCIOTO VALLEY LOCAL SCHOOL DISTRICT

HARDIN 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
MAY 12, 2005**