



Mary Taylor, CPA  
Auditor of State



SCIOTOVILLE COMMUNITY SCHOOL  
SCIOTO COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets .....	9
Statement of Revenues, Expenses, and Change In Net Assets .....	10
Statement of Cash Flows .....	11
Notes to the Basic Financial Statements .....	13
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i> .....	25

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of the Sciotoville Community School, Scioto County, Ohio (the School), as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sciotoville Community School, Scioto County, Ohio, as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2007 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Sciotoville Community School  
Scioto County  
Independent Accountants' Report  
Page 2

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 "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

February 14, 2007

**SCIOTOVILLE COMMUNITY SCHOOL**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

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

**Financial Highlights**

- Net assets increased \$186,251, which represents a 5.4 percent increase from fiscal year 2005. This increase was due to an increase in students and a related increase in State foundation monies.
- Total assets increased \$240,066, which represents a 6.5 percent increase from fiscal year 2005. This was primarily due to increases in capital assets.
- Liabilities increased \$53,815, which represents a 20.4 percent increase from fiscal year 2005. Accrued wages and benefits increased by \$26,383, primarily due to increases in wage rates. Accounts payable decreased by \$8,452 due to the timing of payments near fiscal year-end.

**Using this Financial Report**

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

**SCIOTOVILLE COMMUNITY SCHOOL**

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

Unaudited

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer the question, "How did we do financially during fiscal year 2006?" These statements are prepared using the economic resources measurement focus. With this measurement focus, all assets and liabilities are reported, both short and long-term. These statements use the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the fiscal year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal year 2006 and fiscal year 2005:

(Table 1)  
**Net Assets**

	2006	2005	Increase (Decrease)
<b>Assets:</b>			
Current Assets	\$1,151,233	\$1,139,749	\$11,484
Land	280,292	123,582	156,710
Depreciable Capital Assets, Net	2,522,831	2,450,959	71,872
Total Assets	<u>3,954,356</u>	<u>3,714,290</u>	<u>240,066</u>
<b>Liabilities:</b>			
Current Liabilities	313,815	258,152	55,663
Non-Current Liabilities	3,734	5,582	(1,848)
Total Liabilities	<u>317,549</u>	<u>263,734</u>	<u>53,815</u>
<b>Net Assets:</b>			
Invested in Capital Assets	2,803,123	2,574,541	228,582
Restricted	132,390	155,040	(22,650)
Unrestricted	701,294	720,975	(19,681)
Total Net Assets	<u>\$3,636,807</u>	<u>\$3,450,556</u>	<u>\$186,251</u>

Total assets increased \$240,066. This increase was primarily due to an increase in land and depreciable capital assets of \$228,582. Net assets increased by \$186,251 primarily due to an increase in students and a related increase in State foundation monies.



**SCIOTOVILLE COMMUNITY SCHOOL**

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

Unaudited

Table 2 shows the changes in net assets for fiscal year 2006 and fiscal year 2005, as well as a listing of revenues and expenses.

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

	2006	2005	Increase (Decrease)
<b>Operating Revenues:</b>			
Extracurricular and Lunchroom Sales	\$136,413	\$118,599	\$17,814
Foundation Payments	2,547,079	2,153,138	393,941
Poverty Based Assistance Aid	13,431	46,035	(32,604)
Charges for Services	1,135	392	743
Other Revenues	3,241	42,626	(39,385)
<b>Non-Operating Revenues:</b>			
Federal Donated Commodities	22,129	14,050	8,079
Federal and State Meals Subsidies	80,739	71,487	9,252
Other Federal and State Grants	384,919	381,419	3,500
Interest	42,839	9,807	33,032
Other	10,916	7,299	3,617
Total Revenues	<u>3,242,841</u>	<u>2,844,852</u>	<u>397,989</u>
<b>Operating Expenses:</b>			
Salaries	1,604,657	1,412,424	192,233
Fringe Benefits	698,175	618,478	79,697
Purchased Services	268,832	225,280	43,552
Materials and Supplies	207,353	121,856	85,497
Cost of Sales	72,303	62,398	9,905
Depreciation	116,734	105,863	10,871
Other Expenses	121,586	88,670	32,916
Total Expenses	<u>3,089,640</u>	<u>2,634,969</u>	<u>454,671</u>
Income Before Contributions	153,201	209,883	(56,682)
Capital Contributions	<u>33,050</u>	<u>3,395</u>	<u>29,655</u>
Change in Net Assets	186,251	213,278	(27,027)
Net Assets Beginning of Year	<u>3,450,556</u>	<u>3,237,278</u>	<u>213,278</u>
Net Assets End of Year	<u>\$3,636,807</u>	<u>\$3,450,556</u>	<u>\$186,251</u>

**SCIOTOVILLE COMMUNITY SCHOOL**

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

Unaudited

Net assets increased by \$186,251 from fiscal year 2005 to fiscal year 2006, and the amount of the change in net assets decreased \$27,027 compared to fiscal year 2005. While there was an increase in expenses of \$454,671, there was also an increase in revenues of \$397,989 from fiscal year 2005 to fiscal year 2006. The increase in revenues was primarily due to an increase in the foundation payments of \$393,941. The increases in these revenues were primarily due to an increased number of students for the fiscal year.

The expense for salaries increased by \$192,233 and employee benefits increased by \$79,697 from fiscal year 2005 due to the School eliminating some part-time teaching positions and replacing them with full-time teachers, as well as increases in salary rates during fiscal year 2006. Materials and supplies expense increased by \$85,497 compared to fiscal year 2005. This increase is due to the purchase of uniforms for several student athletic programs and additional supplies related to the addition of the sixth grade.

**Capital Assets**

At the end of fiscal year 2006 the School had \$2,803,123 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles, which represented an increase of \$228,582 from fiscal year 2005. The majority of the increase consisted of the purchase of land, land improvements to the baseball and football fields, and computer equipment. Table 3 shows fiscal year 2006 and fiscal year 2005:

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

	2006	2005	Increase (Decrease)
Land	\$280,292	\$123,582	\$156,710
Land Improvements	83,971	26,548	57,423
Buildings and Improvements	2,191,140	2,187,624	3,516
Furniture, Fixtures and Equipment	240,395	227,412	12,983
Vehicles	7,325	9,375	(2,050)
Totals	<u>\$2,803,123</u>	<u>\$2,574,541</u>	<u>\$228,582</u>

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

**SCIOTOVILLE COMMUNITY SCHOOL**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited

**Current Financial Issues**

During fiscal 2006, there were 402 students enrolled in the School. The School receives its finances mostly from State aide. Per pupil aide for fiscal year 2006 amounted to \$5,283 per student.

During fiscal year 2007, the School acquired a fifth grade class of 35 students. This increased the number of students and contributed to a related increase in State foundation monies of \$189,105.

In July 2006, the School sold two houses for a total of \$28,000.

At the present time, the School is financially sound and is able to meet all of its financial obligations and the School began the 2007 fiscal year with a very good financial base.

**Contacting the School's Financial Management**

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

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**SCIOTOVILLE COMMUNITY SCHOOL**

Statement of Net Assets

June 30, 2006

**Assets:**

**Current Assets:**

Equity in Pooled Cash and Cash Equivalents	\$1,054,198
Accounts Receivable	2,900
Intergovernmental Receivables	73,066
Inventory Held for Resale	5,059
Materials and Supplies Inventory	14,106
Prepaid Items	1,904
Total Current Assets	<u>1,151,233</u>

**Non-Current Assets:**

Capital Assets:	
Land	280,292
Depreciable Capital Assets, Net	<u>2,522,831</u>
Total Non-Current Assets	<u>2,803,123</u>

*Total Assets* 3,954,356

**Liabilities:**

**Current Liabilities:**

Accounts Payable	2,531
Accrued Wages and Benefits	209,036
Intergovernmental Payable	89,069
Compensated Absences Payable	4,902
Undistributed Monies	8,277
Total Current Liabilities	<u>313,815</u>

**Non-Current Liabilities:**

Compensated Absences Payable	<u>3,734</u>
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*Total Liabilities* 317,549

**Net Assets**

Invested in Capital Assets	2,803,123
Restricted for Other Purposes	132,390
Unrestricted	<u>701,294</u>

*Total Net Assets* \$3,636,807

See accompanying notes to the basic financial statements

**SCIOTOVILLE COMMUNITY SCHOOL**

Statement of Revenues, Expenses and  
Change in Net Assets  
For the Fiscal Year Ended June 30, 2006

<b>Operating Revenues:</b>	
Extracurricular and Lunchroom Sales	\$136,413
Foundation Payments	2,547,079
Poverty Based Assistance Aid	13,431
Charges for Services	1,135
Other Revenues	<u>3,241</u>
<i>Total Operating Revenues</i>	<u>2,701,299</u>
<b>Operating Expenses:</b>	
Salaries	1,604,657
Fringe Benefits	698,175
Purchased Services	268,832
Materials and Supplies	207,353
Cost of Sales	72,303
Depreciation	116,734
Other Expenses	<u>121,586</u>
<i>Total Operating Expenses</i>	<u>3,089,640</u>
<i>Operating Loss</i>	<u>(388,341)</u>
<b>Non-Operating Revenues:</b>	
Federal Donated Commodities	22,129
Federal and State Meals Subsidies	80,739
Other Federal and State Grants	384,919
Interest	42,839
Other	<u>10,916</u>
<i>Total Non-Operating Revenues</i>	<u>541,542</u>
<i>Income Before Contributions</i>	153,201
Capital Contributions	<u>33,050</u>
<i>Change in Net Assets</i>	186,251
<i>Net Assets Beginning of Year</i>	<u>3,450,556</u>
<i>Net Assets End of Year</i>	<u><u>\$3,636,807</u></u>

See accompanying notes to the basic financial statements

**SCIOTOVILLE COMMUNITY SCHOOL**

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2006

***Increase (Decrease) in Cash and Cash Equivalents:***

**Cash Flows from Operating Activities:**

Cash Received from Customers	\$157,589
Cash Received from Others	3,241
Cash Received from Foundation Payments	2,547,079
Cash Received from Poverty Based Assistance Aid	13,431
Cash Payments to Suppliers for Goods and Services	(557,423)
Cash Payments to Employees for Services	(1,580,098)
Cash Payments for Employee Benefits	(705,283)
Cash Payments to Others	<u>(77,695)</u>
Net Cash Used for Operating Activities	<u>(199,159)</u>

**Cash Flows from Noncapital Financing Activities:**

Other Non-Operating Revenues	8,916
Federal and State Subsidies Received	80,739
Operating Grants Received	<u>399,760</u>
Net Cash Provided by Noncapital Financing Activities	<u>489,415</u>

**Cash Flows from Capital and Related Financing Activities:**

Payments for Capital Acquisitions	<u>(312,266)</u>
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**Cash Flows from Investing Activities:**

Interest	<u>42,839</u>
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Net Increase in Cash and Cash Equivalents 20,829

Cash and Cash Equivalents at Beginning of Year 1,033,369

Cash and Cash Equivalents at End of Year \$1,054,198

(continued)

**SCIOTOVILLE COMMUNITY SCHOOL**

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2006

(continued)

***Reconciliation of Operating Loss to Net***

**Cash Used for Operating Activities:**

Operating Loss (\$388,341)

***Adjustments to Reconcile Operating***

**Loss to Net Cash Used for Operating Activities:**

Depreciation 116,734

Donated Commodities Received During the Year 22,129

**Changes in Assets and Liabilities:**

Increase in Accounts Receivable (900)

Increase in Prepaid Items (18)

Increase in Inventory Held for Resale (641)

Increase in Materials and Supplies Inventory (1,937)

Decrease in Accounts Payable (8,452)

Increase in Accrued Wages and Benefits 26,383

Increase in Intergovernmental Payable 33,149

Decrease in Compensated Absences (1,828)

Increase in Undistributed Monies 4,563

Total Adjustments 189,182

Net Cash Used for Operating Activities (\$199,159)

**Non-Cash Transactions:**

During fiscal year 2006, the School received \$22,129 in donated commodities.

During fiscal year 2006, the School traded in an asset with a book value of \$8,410.

During fiscal year 2006, the School received a donated asset with a fair value of \$33,050.

See accompanying notes to the basic financial statements



**SCIOTOVILLE COMMUNITY SCHOOL**

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2006

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**NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

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

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

The School operates under the direction of a seven-member Board of Directors. Four of the Board members are elected by the citizens of the community, one is a student elected by the student body, one is a faculty member elected by the School faculty, and one is the Director of Operations of the School who is automatically on the Board according to the School Charter. The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the School’s one instructional/support facility staffed by 15 non-certified and 34 certificated full-time teaching personnel who provide services to 402 students.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**SCIOTOVILLE COMMUNITY SCHOOL**

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2006

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**A. Basis Of Presentation**

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

During the fiscal year, the School segregates transactions related to certain School functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. For financial reporting, the School uses a single enterprise fund presentation.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

**B. Measurement Focus**

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

**C. Basis of Accounting**

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

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Expenses are recognized at the time they are incurred.

**SCIOTOVILLE COMMUNITY SCHOOL**  
Notes To The Basic Financial Statements  
For The Fiscal Year Ended June 30, 2006

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**D. Budgetary Process**

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

**E. Cash and Cash Equivalents**

The School's Business Manager accounts for all monies received by the School. The School maintains an interest bearing depository account and all funds of the School are maintained in this account. This account is presented on the Statement of Net Assets as "Cash and Cash Equivalents". To improve cash management, all cash received from the State of Ohio is electronically transferred into this account.

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**G. Inventory**

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

**H. Capital Assets**

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

**SCIOTOVILLE COMMUNITY SCHOOL**  
Notes To The Basic Financial Statements  
For The Fiscal Year Ended June 30, 2006

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 20 years
Buildings and Improvements	1 - 50 years
Furniture, Fixtures and Equipment	3 - 20 years
Vehicles	3 - 10 years

**I. Compensated Absences**

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

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

**J. Net Assets**

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

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

The Statement of Net Assets reports \$132,390 of restricted net assets, none of which is restricted by enabling legislation.

**SCIOTOVILLE COMMUNITY SCHOOL**  
Notes To The Basic Financial Statements  
For The Fiscal Year Ended June 30, 2006

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**K. Operating Revenues and Expenses**

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

**L. Contributions of Capital**

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

**M. Estimates**

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

**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2006, the School has implemented *GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,”* and *GASB Statement No. 47, “Accounting for Termination Benefits”*.

GASB Statement No. 42 establishes accounting and financial reporting standards for the impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The implementation of this statement had no effect on the School’s financial statements for fiscal year 2006.

GASB Statement No. 47 establishes accounting and financial reporting standards for termination benefits. This statement clarifies and establishes reporting requirements for those benefits provided by employers to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on the School’s financial statements for fiscal year 2006.

**SCIOTOVILLE COMMUNITY SCHOOL**

Notes To The Basic Financial Statements  
For The Fiscal Year Ended June 30, 2006

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**NOTE 4 - INVESTMENTS**

*Investments:* As of June 30, 2006, the School had the following investments. All investments are in an internal investment pool.

	<u>Fair Value</u>	<u>Maturity Date</u>
Repurchase Agreement	<u>\$979,000</u>	<u>July 3, 2006</u>

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

*Credit Risk:* The underlying securities of the repurchase agreement (Freddie Mac Collateralized Mortgage Obligation and Federal National Mortgage Association) carry a rating of Aaa by Moody's and AAA by Standard and Poor's. The School does not have an investment policy that addresses investment credit risk beyond the requirements in State statute.

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

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2006, consisted of accounts receivable and intergovernmental grants. All intergovernmental receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivable amounts are expected to be received within one year.

**SCIOTOVILLE COMMUNITY SCHOOL**  
Notes To The Basic Financial Statements  
For The Fiscal Year Ended June 30, 2006

**NOTE 5 – RECEIVABLES** (continued)

A summary of the principal items of intergovernmental receivables follows:

	Amounts
Title I Grants to Local Educational Agencies (Title I)	\$29,738
Improving Teacher Quality Grant (Title II-A)	3,258
Education Technology Grant (Title II-D)	402
Safe and Drug Free Schools and Communities Grant (Title IV-A)	3,719
Entry Year Program State Grant	4,000
Special Education Grants to States (Part B-IDEA)	14,202
National School Lunch and Breakfast Programs	17,747
Total Intergovernmental Receivables	\$73,066

**NOTE 6 - CAPITAL ASSETS**

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

	Balance 6/30/05	Additions	Deletions	Balance 6/30/06
Capital Assets Not Being Depreciated:				
Land	\$123,582	\$156,710	\$0	\$280,292
Capital Assets Being Depreciated:				
Land Improvements	27,646	60,786	0	88,432
Buildings and Improvements	2,340,110	51,601	0	2,391,711
Furniture, Fixtures and Equipment	383,392	84,629	(9,344)	458,677
Vehicles	14,500	0	0	14,500
Total Capital Assets				
Being Depreciated	2,765,648	197,016	(9,344)	2,953,320
Less Accumulated Depreciation:				
Land Improvements	(1,098)	(3,363)	0	(4,461)
Buildings and Improvements	(152,486)	(48,085)	0	(200,571)
Furniture, Fixtures and Equipment	(155,980)	(63,236)	934	(218,282)
Vehicles	(5,125)	(2,050)	0	(7,175)
Total Accumulated Depreciation	(314,689)	(116,734)	934	(430,489)
Total Capital Assets				
Being Depreciated, Net	2,450,959	80,282	(8,410)	2,522,831
Capital Assets, Net	\$2,574,541	\$236,992	(\$8,410)	\$2,803,123

**SCIOTOVILLE COMMUNITY SCHOOL**  
Notes To The Basic Financial Statements  
For The Fiscal Year Ended June 30, 2006

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**NOTE 7 - RISK MANAGEMENT**

**A. Property and Liability**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School contracted with Sherman Kricker Insurance Company for general liability and property insurance and Tudor Insurance Company for educational errors and omissions insurance.

Coverages are as follows:

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

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

**B. Workers' Compensation**

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

**NOTE 8 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org).



**SCIOTOVILLE COMMUNITY SCHOOL**

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2006

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**NOTE 8 - DEFINED BENEFIT PENSION PLANS** (continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$33,224, \$30,276, and \$26,196, respectively; 100 percent has been contributed for fiscal years 2006, 2005, and 2004.

**B. State Teachers Retirement System of Ohio**

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

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

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

**SCIOTOVILLE COMMUNITY SCHOOL**  
Notes To The Basic Financial Statements  
For The Fiscal Year Ended June 30, 2006

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**NOTE 8 - DEFINED BENEFIT PENSION PLANS** (continued)

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$158,918, \$154,878, and \$126,817, respectively; 79.93 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$2,445 made by the School and \$5,031 made by the plan members.

**NOTE 9 - POSTEMPLOYMENT BENEFITS**

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$12,224 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

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

**SCIOTOVILLE COMMUNITY SCHOOL**  
Notes To The Basic Financial Statements  
For The Fiscal Year Ended June 30, 2006

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**NOTE 9 - POSTEMPLOYMENT BENEFITS** (continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$15,490.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants eligible to receive health care benefits.

**NOTE 10 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

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

**B. Insurance Benefits**

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

**SCIOTOVILLE COMMUNITY SCHOOL**

Notes To The Basic Financial Statements

For The Fiscal Year Ended June 30, 2006

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**NOTE 10 - EMPLOYEE BENEFITS** (continued)

**C. Deferred Compensation**

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

**NOTE 11 – LONG-TERM OBLIGATIONS**

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

	Principal Outstanding 6/30/05	Additions	Deductions	Principal Outstanding 6/30/06	Current Portion
<u>Long-Term Obligations</u>					
Compensated Absences	\$10,464	\$4,869	\$6,697	\$8,636	\$4,902

**NOTE 12 - CONTINGENCIES**

**A. Grants**

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

**B. State Funding**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The results of this review for fiscal year 2006 resulted in an adjustment in the amount of \$43,891 that will be repaid in fiscal year 2007. This is reflected as a liability on the School’s financial statements.

**C. Litigation**

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on Sciotoville Community School is not presently determinable.



# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Directors:

We have audited the basic financial statements of the Sciotoville Community School, Scioto County, Ohio (the School), as of and for the year ended June 30, 2006, and have issued our report thereon dated February 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated February 14, 2007, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

### **Compliance and Other Matters**

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

Sciotoville Community School  
Scioto County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters Required  
by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management, and the Board of Directors. It is not intended for anyone other than these specified parties.

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

**Mary Taylor, CPA**  
Auditor of State

February 14, 2007



**Mary Taylor, CPA**  
Auditor of State

**SCIOTOVILLE COMMUNITY SCHOOL**

**SCIOTO COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 8, 2007**