



**Auditor of State
Betty Montgomery**

**SCIOTOVILLE COMMUNITY SCHOOL
SCIOTO COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes In Net Assets	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	11
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	23

This page intentionally left blank.



Auditor of State
Betty Montgomery

743 East State Street
Athens Mall Suite B
Athens, Ohio 45701
Telephone 740-594-3300
800-441-1389
Facsimile 740-594-2110
www.auditor.state.oh.us

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying basic financial statements of Sciotoville Community School, Scioto County, Ohio (the School), as of and for the year ended June 30, 2002 as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sciotoville Community School, Scioto County, as of June 30, 2002, and the changes in financial position and the 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 13, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering 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 applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

February 13, 2003

SCIOTOVILLE COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
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, 2002. 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.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of existence for the School and the first year of adoption of the new reporting model, comparative prior year information does not exist. Subsequent reports will include the comparative information.

Financial Highlights

- Net assets totaled \$4,284,546.
- Total assets were \$4,461,924. Capital assets amounted to \$3,652,050 while cash and other assets amounted to \$809,874.
- Liabilities totaled \$177,378. Accrued wages and benefits amounted to \$122,809 while accounts payable and other liabilities amounted to \$54,569.

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.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2002?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

SCIOTOVILLE COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

Table 1 provides a summary of the School's net assets for fiscal year 2002:

(Table 1)
Net Assets

	2002
Assets	
Current Assets	\$809,874
Land	100,130
Capital Assets, Net	3,551,920
Total Assets	4,461,924
 Liabilities	
Current Liabilities	177,378
 Net Assets	
Invested in Capital Assets	3,652,050
Unrestricted	632,496
Total Net Assets	\$4,284,546

Total assets totaled \$4,461,924. Equity in pooled cash and cash equivalents amounted to \$626,071. Intergovernmental Receivables amounted to \$177,625. Capital Assets totaled \$3,652,050.

Table 2, on the following page, shows the changes in net assets for the year ended June 30, 2002, as well as a listing of revenues and expenses.

SCIOTOVILLE COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

(Table 2)
Change in Net Assets

	2002
Operating Revenues:	
Charges for Services and Sales	\$101,162
Foundation Payments	1,717,624
Disadvantaged Pupil Impact Aid	17,724
Other	24,012
Non-Operating Revenues:	
Operating Grants and Contributions	483,370
Interest	3,852
Other	12,352
Total Revenues	2,360,096
Operating Expenses	
Salaries	919,533
Fringe Benefits	399,703
Purchased Services	116,526
Materials and Supplies	130,784
Cost of Sales	44,158
Depreciation	47,198
Other Expenses	30,270
Total Expenses	1,688,172
Income Before Contributions	671,924
Capital Contributions	3,612,622
Increase in Net Assets	\$4,284,546

The School's business-type activities consist of enterprise activity. Community Schools receive no support from taxes.

SCIOTOVILLE COMMUNITY SCHOOL
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

Capital Assets

At the end of fiscal year 2002 the School had \$3,652,050 invested in land, buildings and building improvements, furniture, fixtures, and equipment, and vehicles. Table 3 shows fiscal year 2002:

(Table 3)
Capital Assets at June 30, 2002
(Net of Depreciation)

Land	\$100,130
Building and Building Improvements	3,307,253
Furniture, Fixtures, and Equipment	240,617
Vehicles	4,050
Totals	\$3,652,050

For more information on capital assets see Note 5 to the basic financial statements.

As described in Notes 12 and 14, the School has incurred additional commitments of capital expenditures for a roofing project not to exceed \$89,000 and for the purchase of 50 instructional computers for a cost for \$47,340.

Current Financial Issues

The Sciotoville Community School d.b.a. East High School was formed in 2001 when the City of Portsmouth closed down the building and brought all students into the High School located in the City of Portsmouth. A group of citizens decided to form a community school and petitioned the Ohio Department of Education for a charter. After much work, the charter was issued. During the establishment process, the State of Ohio awarded a \$50,000 startup grant; and, later, the federal government awarded two grants totaling \$150,000. The School officially opened on July 1, 2001, and students began reporting September 4, 2001. The building was leased from Portsmouth City Schools for one year, at the end of which, the building and land was donated to the governing board of the Sciotoville Community School. The governing board of the School is composed of seven members, four of which are elected, one is the director of the School, one is a student of the School, and one is a teacher at the School. During the 2001-2002 school year, there were approximately 337 students enrolled in the School. The School receives its finances mostly from state aide. Per pupil aide for fiscal year 2002 amounted to \$4,818 per student. The average number of years experience for teachers was thirteen years.

Contacting the School's Financial Management

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

SCIOTOVILLE COMMUNITY SCHOOL

Statement of Net Assets

June 30, 2002

Assets

Current Assets:

Equity in Pooled Cash	\$626,071
Inventory Held for Resale	2,768
Materials and Supplies Inventory	2,150
Accounts Receivable	25
Intergovernmental Receivable	177,625
Prepaid Items	1,235
Total Current Assets	<u>809,874</u>

Non-Current Assets:

Capital Assets:

Land	100,130
Depreciable Capital Assets, Net	<u>3,551,920</u>
Total Non-Current Assets	<u>3,652,050</u>

Total Assets 4,461,924

Liabilities

Current Liabilities:

Accounts Payable	3,769
Accrued Wages and Benefits	122,809
Intergovernmental Payable	45,220
Undistributed Monies	5,580
	<u>177,378</u>

Total Liabilities 177,378

Net Assets

Invested in Capital Assets	3,652,050
Unrestricted	<u>632,496</u>

Total Net Assets \$4,284,546

See accompanying notes to the basic financial statements

SCIOTOVILLE COMMUNITY SCHOOL

Statement of Revenues, Expenses and
Changes in Net Assets
Enterprise Fund
For the Fiscal Year Ended June 30, 2002

Operating Revenues	
Extracurricular and Lunchroom Sales	\$101,162
Foundation Payments	1,717,624
Disadvantaged Pupil Impact Aid	17,724
Other Revenues	<u>24,012</u>
<i>Total Operating Revenues</i>	<u>1,860,522</u>
Operating Expenses	
Salaries	919,533
Fringe Benefits	399,703
Purchased Services	116,526
Materials and Supplies	130,784
Cost of Sales	44,158
Depreciation	47,198
Other	<u>30,270</u>
<i>Total Operating Expenses</i>	<u>1,688,172</u>
<i>Operating Income</i>	<u>172,350</u>
Non-Operating Revenues	
Federal Donated Commodities	8,233
Federal and State Meal Subsidies	41,512
Other Federal and State Grants	433,625
Interest	3,852
Other	<u>12,352</u>
<i>Total Non-Operating Revenues</i>	<u>499,574</u>
<i>Income Before Contributions</i>	671,924
Capital Contributions	<u>3,612,622</u>
<i>Change in Net Assets</i>	4,284,546
<i>Net Assets Beginning of Year</i>	<u>0</u>
<i>Net Assets End of Year</i>	<u><u>\$4,284,546</u></u>

See accompanying notes to the basic financial statements

SCIOTOVILLE COMMUNITY SCHOOL

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2002

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from Customers	\$101,318
Cash Received from Others	32,699
Cash Received from Foundation Payments	1,717,624
Cash Received from Disadvantaged Pupil Impact Aid	17,724
Cash Payments to Suppliers for Goods and Services	(284,492)
Cash Payments to Employees for Services	(814,665)
Cash Payments for Employee Benefits	(337,819)
Cash Payments to Others	(34,116)
	<hr/>
Net Cash Provided by Operating Activities	398,273

Cash Flows from Noncapital Financing Activities:

Other Non-Operating Revenues	13,060
Federal and State Subsidies Received	41,512
Grants Received	256,000
	<hr/>
Net Cash Provided by Noncapital Financing Activities	310,572

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(86,626)
-----------------------------------	----------

Cash Flows from Investing Activities:

Interest	3,852
----------	-------

Net Increase in Cash and Cash Equivalents 626,071

Cash at Beginning of Year 0

Cash at End of Year \$626,071

Reconciliation of Operating Income to Net

Cash Provided by Operating Activities:

Operating Income	<u>\$172,350</u>
------------------	------------------

Adjustments to Reconcile Operating

Income to Net Cash Provided by Operating Activities:

Depreciation	47,198
Donated Commodities Received During Year	8,233
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(25)
Increase in Prepaid Items	(1,235)
Increase in Inventory Held for Resale	(2,768)
Increase in Materials and Supplies Inventory	(2,150)
Increase in Accounts Payable	3,769
Increase in Accrued Wages and Benefits	122,809
Increase in Intergovernmental Payable	45,220
Increase in Undistributed Monies	4,872

Total Adjustments 225,923

Net Cash Provided by Operating Activities \$398,273

Non-Cash Transactions:

During fiscal year 2002, the Enterprise Fund received \$8,233 in donated commodities.

During fiscal year 2002, the School received capital contributions in the form of land, a building, and furnitures, fixtures, and equipment valued at \$3,612,622, from the Portsmouth City Schools.

See accompanying notes to the basic financial statements

This page intentionally left blank.

SCIOTOVILLE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Sciotoville Community School of Sciotoville, Inc. (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades seven through twelve. The School, which is part of the State's education program, is independent of any school district 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 has applied for status as an exempt organization under Section 501c (3) of the Internal Revenue Code (See Note 13). Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's pending 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. 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 Trustees. The Board of Trustees 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 Trustees controls the School's one instructional/support facility staffed by 9 non-certified and 22 certificated full time teaching personnel who provide services to 337 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 proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

A. Basis Of Presentation

The School's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

SCIOTOVILLE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting.

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

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

Expenses are recognized at the time they are incurred.

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.

SCIOTOVILLE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, 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.

F. Inventory

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

G. Capital Assets

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

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

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

SCIOTOVILLE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. 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 5 years of current service for all positions (including certified and non-certified staff).

Since this was the first year the School was in existence, no employee was eligible for vacation or sick leave benefits. Therefore, no liability is presented.

I. Net Assets

Net assets represent the difference between assets and liabilities. Assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The School has no debt.

J. 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.

K. Contributions of Capital

Contributions of capital arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. The School's capital contributions consisted of land, building, furniture, fixtures and equipment donated by the Portsmouth City Schools valued at \$3,612,622.

SCIOTOVILLE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. 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 - DEPOSITS

At fiscal year end, the carrying amount of the School's deposits was \$626,071, and the bank balance was \$669,365. Of the bank balance, \$100,000 was covered by federal depository insurance and \$569,365 was collateralized with securities held in a single financial institution collateral pools in the name of the respective depository bank and pledged as a pool of collateral against all the public moneys it holds. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The School had no investments at June 30, 2002, or during the fiscal year.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2002, consisted of accounts and intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Professional Development	\$1,675
Title I	146,353
Title II	3,165
Title IV	3,246
Title VI	1,689
Title VI-B Flow-Thru	19,252
Title VI-R	2,245
Total All Intergovernmental Receivables	<u><u>\$177,625</u></u>

SCIOTOVILLE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002:

	<u>Balance 6/30/01</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/02</u>
Business-Type Activity				
Capital Assets Not Being Depreciated				
Land	\$0	\$100,130	\$0	\$100,130
Capital Assets Being Depreciated				
Buildings and Building Improvements	0	3,340,660	0	3,340,660
Furniture, Fixtures, and Equipment	0	253,958	0	253,958
Vehicles	0	4,500	0	4,500
Total Capital Assets Being Depreciated	<u>0</u>	<u>3,599,118</u>	<u>0</u>	<u>3,599,118</u>
Less Accumulated Depreciation:				
Building and Building Improvements	0	(33,407)	0	(33,407)
Furniture, Fixtures, and Equipment	0	(13,341)	0	(13,341)
Vehicles	0	(450)	0	(450)
Total Accumulated Depreciation	<u>0</u>	<u>(47,198)</u>	<u>0</u>	<u>(47,198)</u>
Total Capital Assets				
Being Depreciated, Net	<u>0</u>	<u>3,551,920</u>	<u>0</u>	<u>3,551,920</u>
Business-Type Activity				
Capital Assets, Net	<u>\$0</u>	<u>\$3,652,050</u>	<u>\$0</u>	<u>\$3,652,050</u>

NOTE 6 - 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 2002, 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 (\$500 deductible)	\$1,000,000
Boiler and Machinery	No Limit
Business Personal Property (\$500 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

SCIOTOVILLE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 6 - RISK MANAGEMENT (continued)

This has been the first year of coverage provided to the School. Settled claims have not exceeded this commercial coverage in the past 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 7 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current 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 2002, 5.46 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 year ended June 30, 2002, was \$9,334. 93.54 percent has been contributed for fiscal year 2002. \$603 represents the unpaid contribution for fiscal year 2002. The balance outstanding is reflected as an intergovernmental payable.

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

SCIOTOVILLE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 7 - DEFINED BENEFIT PENSION PLANS (continued)

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contributions for pension obligations to STRS for the fiscal year ended June 30, 2002, was \$92,967. 76.88 percent has been contributed for fiscal year 2002. \$21,498 represents the unpaid contribution for fiscal year 2002. The balance outstanding is reflected as an intergovernmental payable.

NOTE 8 - POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$44,037 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

SCIOTOVILLE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 8 - 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, 2002, employer contributions to fund health care benefits were 8.54 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 2002, the minimum pay was established at \$12,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$17,726.

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, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 9 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from policies and procedures approved by the Governing Board. Non-certified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to non-certified employees upon termination of employment. Teachers and administrators who are not on a twelve month contract do not earn vacation time.

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

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, 2002

NOTE 9 - 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 10 – 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 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 is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 11 - 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, 2002.

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 of the State, upon which state foundation funding is calculated. The results of this review resulted in the overpayment to the School in the amount of \$2,076. This amount is being deducted from school foundation payments in fiscal year 2003.

SCIOTOVILLE COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 11 – CONTINGENCIES (continued)

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. The effect of this suit, if any, on the School is not presently determinable.

NOTE 12 – SUBSEQUENT EVENTS

A. Property Acquisition

On July 8, 2002, the governing board of the School formally accepted the deed and the associated property to finalize the transfer of property to the School from the Portsmouth City Schools which occurred on June 27, 2002.

B. Roofing Contract

On December 17, 2002, the governing board of the School awarded an emergency contract with Stevens Construction for a roofing project not to exceed \$89,000. The School did not incur debt to pay for this project.

NOTE 13 – FEDERAL EXEMPTION STATUS

The School applied for federal exemption status on July 11, 2002. The School has not yet received this status.

NOTE 14 – CONTRACTUAL COMMITMENT

On June 17, 2002 the governing board of the School awarded a contract in the amount of \$47,340 for the purchase of 50 instructional computers.

This page intentionally left blank.



Auditor of State
Betty Montgomery

743 East State Street
Athens Mall Suite B
Athens, Ohio 45701
Telephone 740-594-3300
800-441-1389
Facsimile 740-594-2110
www.auditor.state.oh.us

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

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

To the Board of Education:

We have audited the accompanying basic financial statements of Sciotoville Community School, Scioto County, Ohio (the School), as of and for the year ended June 30, 2002 and have issued our report thereon dated February 13, 2003. 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 obtaining reasonable assurance about whether the School'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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated February 13, 2003.

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

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

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

Betty Montgomery
Auditor of State

February 13, 2003



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

SCIOTOVILLE COMMUNITY SCHOOL

SCIOTO COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 10, 2003**